

In nuclear denial in Pakistan and India

Both countries say they would never use their atomic weapons, but are quick to point out scenarios in which it could happen.

By CELIA W. DUGGER
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NEW DELHI, India — As India and Pakistan, fledgling nuclear powers, edge closer to war, the rest of the world looks on aghast at a possible nuclear exchange that could kill millions of people. British and American envoys are rushing to the region in last-ditch efforts to avert catastrophe. On Friday, the U.S. government urged tens of thousands of Americans living in India to leave.

But in India's capital — a plausible bull's-eye — there has been no panic. The sweltering city moves to its usual sonnet summer rhythm. At a recent seminar titled "Preparing to Survive," the subject was earthquakes and cyclones, not nuclear firestorms and radiation sickness.

And that is in large measure because India's ruling elite and many of its leading strategic thinkers are in nuclear denial.

Though Pakistan's leaders have spoken openly over the years and in recent days and weeks about the possibility of using the country's nuclear weapons, India has seen this "loose talk," as a spokeswoman for India called it Thursday, as evidence of Pakistan's bluffing and blackmail.

K. Santhanam, a physicist who helped organize India's 1998 nuclear tests and now heads the government-financed Institute for Defense Studies and Analyses, said the risk of nuclear war is "overdramatized."

"The probability of occurrence is very low, extremely low, vanishingly low," he said.

Pakistan's leaders and thinkers, too, are living their own form of nuclear denial — that of the smaller, militarily weaker nation. They believe Pakistan's conventional military prowess, combined with its credible nuclear threat, will deter the region's dominant power, India, from daring to attack Pakistan. They also expect that it will force the United States to pressure India to give ground on Kashmir, the land India and Pakistan have fought over for a half century.

Please see **NUCLEAR 14A**

The CEO and his church

HOW BRYAN ZWAN AND FELLOW SCIENTOLOGISTS SHAPED DIGITAL LIGHTWAVE



Bryan Zwan designed some of the architectural features in Digital Lightwave's \$19-million headquarters. A big player in fiber-optic testing, the company has a 36 percent market share in the United States.



Bryan Zwan founded Digital Lightwave and is now its chairman, CEO and president. He has donated millions of dollars to Scientology but says the church has no connections to the company.

It was New Year's Eve 1997 when Digital Lightwave's chief, Bryan Zwan, made his biggest deal: a \$9-million contract for his signature product, a 10-pound device that tests telephone lines.

At 5:30 p.m., Zwan phoned his production staff and gave them a tall order: Ship the 308 units right away. It would help prop up dismal sales numbers.

But his overzealous workers — they had put in 100-hour weeks during the holidays — didn't have enough time or materials.

As the night wore on, the crew sent incomplete and unassembled units to a shipping warehouse, giving the impression the order was filled. Digital had done this before. The company even had shipped units to salesmen's homes for storage and booked them as sales.

A manufacturing manager named Chuck Anderson became fed up. Most company whistleblowers typically alert the Securities

and Exchange Commission to possible wrongdoing. But Anderson reported the trouble to his own higher authority: the Church of Scientology.

He wrote a "knowledge report," addressed to church leaders, warning that the New Year's Eve shipments were the latest in a troubling pattern in Digital that could create a "huge potential flap" for Scientology.

"What happens if someone goes to the newspapers, the investors, the SEC?" Anderson, a Scientologist, wrote in his report.

"Not to mention putting Scientology and Scientologists at risk." Zwan, a longtime Scientologist who has given millions to the church, had moved his high-tech startup company from Santa Monica, Calif., to downtown Clearwater two years earlier, locating it just two blocks from the church's international spiritual headquarters.

He has long insisted that Digital has no connection to the contro-

versal church. Zwan said he never hired people because they are Scientologists and never sought church advice on company matters.

"We are a public company," Zwan said. "We have nothing to do with the Church of Scientology. It has no role in this company."

But a four-month review by the *St. Petersburg Times*, drawing on thousands of pages of court documents and dozens of interviews, makes it clear that the fortunes and the misfortunes of Digital Lightwave have been profoundly affected by influential Scientologists with close ties to the church. Zwan's stewardship of Digital has been tumultuous, marked by wild success that made the Bellair physicist one of America's richest men, and by a debacle that badly wounded the company.

Other local companies are run by Scientologists with little scrutiny.

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STORY BY DEBORAH O'NEIL AND JEFF HARRINGTON ■ OF THE TIMES STAFF

Singing Bono's praises

Not just another shiny rock star, U2's frontman has earned unlikely allies in Washington with intensive research on his issues.

By MARY JACOBY
Times Staff Writer

WASHINGTON — It's an odd partnership, the pundits say. The world famous rock singer teamed with conservative Republicans to find solutions to African poverty.

Perhaps a music critic can explain it to them.

As lead singer of the Grammy-winning Irish band U2, the performer known as Bono writes songs that blend the political and the spiritual, much like the approach to governing of some of his strongest boosters in Washington, evangelical Republicans.

And so when Bono comes to Washington armed with facts to support his moral arguments, lawmakers pay more attention than they do to most celebrity activists.

"He knows the international financial system. That's a fairly arcane thing. People are not used to celebrities who learn the details of things," said Bobby Shriver, the Kennedy family member who is assisting Bono's efforts.

Among Bono's most influential supporters is Sen. Jesse Helms, the North Carolina Republican and religious conservative who has come to symbolize the political enemy for liberals.

After several years of lobbying



Bono and Treasury Secretary Paul O'Neill, shown here in traditional outfits in Ghana, sparred some on their trip through Africa, but in the end, each found wisdom in the other's point of view. Others have found that side of Bono, too.

Washington to forgive African debt, Bono helped persuade Helms a lifelong opponent of foreign aid, that wealthy countries have a moral obligation to help Africa.

"Sen. Helms thinks very highly of Bono's opinions on public policy issues, and finds him to be a very convincing advocate. It's based on values that they

both hold — religious values, Christian values — that reach across the normal lines," said Les Munson, a Helms spokesman.

The Senate is slated to consider a Helms amendment this week to send \$500-million in U.S. money to fight AIDS in Africa, an initiative partly inspired by

Please see **BONO 17A**

Mother lode: blue jade as big as a bus

A Rhode Island-sized area in Guatemala that is littered with gemstone boulders may have been the source for ancient civilizations.

© New York Times

For half a century, scholars have searched in vain for the source of the jade that the early civilizations of the Americas prized above all else and fashioned into precious objects of worship, trade and adornment.

The searchers found some clues to where the Olmecs and Mayas might have obtained their jadeite, as the precious rock is known. But no lost mines came to light.

Now, scientists exploring the wilds of Guatemala say they have found the mother lode — a mountainous region roughly the size of Rhode Island strewn with huge jade boulders, other rocky treasures and signs of ancient mining. It was discovered after a hurricane tore through the landscape and exposed the veins of jade, some of which turned up in stores, arousing the curiosity of scientists.

The find includes large outcroppings of blue jade, the gemstone of the Olmecs, the mysterious people who created the first complex culture in pre-Columbian Mesoamerica, the region that encompasses much of Mexico and Central America. It also includes an ancient mile-high road of stone that runs for miles through the densely forested region.

Please see **JADE 15A**

THE TIMES TODAY

TIMES 50

TECH BUST SHAKES UP LIST

The shooting stars of years past are the shut-up stars of this year's *Times* ranking of the bay area's public companies. Last year's No. 1 tumbled all the way to No. 25. The new leader: insurance agency Brown & Brown Inc.

IN BUSINESS, 1H

NEW BONITA SPRINGS

A city that once was not much more than pasture and tomato fields is attracting millionaire residents at a blistering pace, but the modest residents who make it all happen can't find housing.

IN LOCAL, 1B

COOL OFF WITH CABLE

It's the Season of Reruns for the big networks, which means it's cable's turn to shine. From HBO's ambitious *The Wire* to Comedy Central's low-brow *Crank Yankers*, you'll still have something new to beat the heat.

IN SUNDAY ARTS, 10F



THE DEMON'S GRIP

"Nobody wants to be raped." That's the message from Roger Girard, the leader of a local group therapy session for men who have been sexually abused. The clinic is one of just a few in the whole country.

IN FLORIDIAN, 1F

TRAVEL TRANSFORMED

As the summer vacation season begins, many have a vastly altered attitude toward travel. So, consider traveling for its deeper rewards: the lure of the exotic, the chance to learn about others and the romance of really understanding a change of place.

IN TRAVEL, 1E



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The CEO and his church

THE PRODUCT



Digital Lightwave makes Network Information Computers, or NICs. The portable devices are used by technicians in the field to test and monitor fiber-optic networks. Digital's first model, dubbed the ASA 312, was very popular because of its light weight and its ease of use.

THE CHURCH

Scientology, which means "knowing about knowing," is an applied religious philosophy developed by science fiction writer L. Ron Hubbard, who died in 1986. The first Church of Scientology was founded in 1954 in Los Angeles. Scientology teaches that a person is a spiritual being called a thetan, which inhabits a body and lives on when that body dies. Scientologists also believe a thetan's mind has a "reactive" or subconscious side that stores mental images and is not under a person's control. Through spiritual counseling called "auditing," Scientologists believe they can solve personal problems by locating these images and addressing them.



THE LINKS



Fort Harrison Hotel
In Clearwater, Scientology's spiritual headquarters, is where in 1993 Digital Lightwave founder Bryan Zwan met then-Scientologist Brian Haney, who would later invest millions in the company.



The Church of Scientology
of Central Ohio in Columbus was the scene of serious business talks in 1993 between Digital founder Bryan Zwan and Brian Haney, the investor who at the time worked as deputy executive director at the Scientology facility.



David Miscavige
of Los Angeles is the worldwide leader of the Church of Scientology. As chairman of Scientology's Religious Technology Center, his job is to "preserve, maintain and protect" Scientology. His twin sister, Denise Licciardi, worked at Digital two years, playing a key role in the company.



Greta Van Susteren
a prominent Scientologist and Fox News Channel commentator, was the go-to person in 1998 when Digital Lightwave found itself under investigation by the SEC. Licciardi spoke to Van Susteren, who recommended the company call a Washington lawyer and "say we are friends of Greta Van Susteren's."



The Super Power building
under construction in downtown Clearwater has benefited from Zwan's success. He and his wife have donated at least \$5-million to the \$50-million religious center, expected to open in 2003.

Continues from Page 1A

But Digital's high profile as a publicly traded company subject to federal regulation yields a rare look at how Scientology factors into the workplace when the CEO is a church follower and major contributor.

Digital's inside story is one of Scientologists emerging at critical points to play key roles. A Scientologist helped Zwan develop Digital's fiber-optic technology. Scientology facilities, including the landmark Fort Harrison Hotel in Clearwater, were backdrops for important company negotiations. Zwan tapped Scientologists for his early management team. And fellow Scientologists were Zwan's early backers, many reaping riches from Digital's run on Wall Street.

To further understand Scientology's tie to Digital Lightwave, consider that Zwan hired as one of his top executives Denise Licciardi, the twin sister of Scientology's worldwide leader, David Miscavige.

Quickly promoted and given a six-figure salary, Licciardi was widely regarded as Zwan's right hand at Digital. She urged him to run day-to-day operations by following Scientology founder L. Ron Hubbard's business practices known as "LRH Tech."

Digital could "become a showcase of LRH Tech," Licciardi wrote in one memo to Zwan. "This was what you communicated to each of us was your dream."

But when federal regulators investigated Digital in the late 1990s for allegedly inflating its sales, Licciardi escaped blame. Her central role remained under wraps for years. The church was spared the "huge flap" feared in the knowledge report.

Scientology's leaders insist the church neither acted on the knowledge report nor protected Licciardi. They emphatically say they play no part in Digital Lightwave and never have.

"The church doesn't get involved in managing their business," said Marty Rathbun, a high-ranking church leader based in Los Angeles.

But Zwan's interest in and devotion to Scientology was front and center in his creation of Digital Lightwave. One of his earliest investors, onetime Scientologist Brian Haney, recalls Zwan's cut-throat pitch to join him in building the company.

"We were going to keep some for ourselves and live like kings, of course," Haney said. "The main amount of money was going to end up in Scientology's hands."

Inside the light

As a boy in East Texas, Bryan Zwan surprised his parents by buying a secondhand, 40-foot radio tower and erecting it in his back yard. In high school, the future physicist impressed his friends by hooking up a ham radio in his car to contact people halfway around the world.

Zwan, 54, earned his doctorate at Rice University in the same field of science that once interested Scientology founder L. Ron Hubbard. The Scientology patriarch used physics to design an experiment with sound waves that led to one of his first conclusions about the mind. Zwan used physics to design an instrument that led to one of the hottest lightwave products on the digital market.

Fiber optics — high-speed, hair-thin lines that use light waves to transmit data — were emerging as the technology of the future in 1990. Zwan and a co-developer came up with a portable, lightweight device for technicians in the field to test fiber-optic lines.

Phone companies, cable companies and Internet providers all soon would look to fiber-optic lines to handle burgeoning voice and data traffic.

Zwan coined the name "Digital Lightwave" and created a logo of multicolored rectangles seemingly in motion. "Pretty cool, huh? I came up with that," Zwan said with a dimpled grin.

Gushing about Digital's technology, Zwan goes from CEO to professor. It uses logic. Algebra is involved. And voltages and polarities.

It's "40 colors of light pulsing at 24-billion times a second in one little fiber the size of a human hair," Zwan says, tugging on an arm hair.

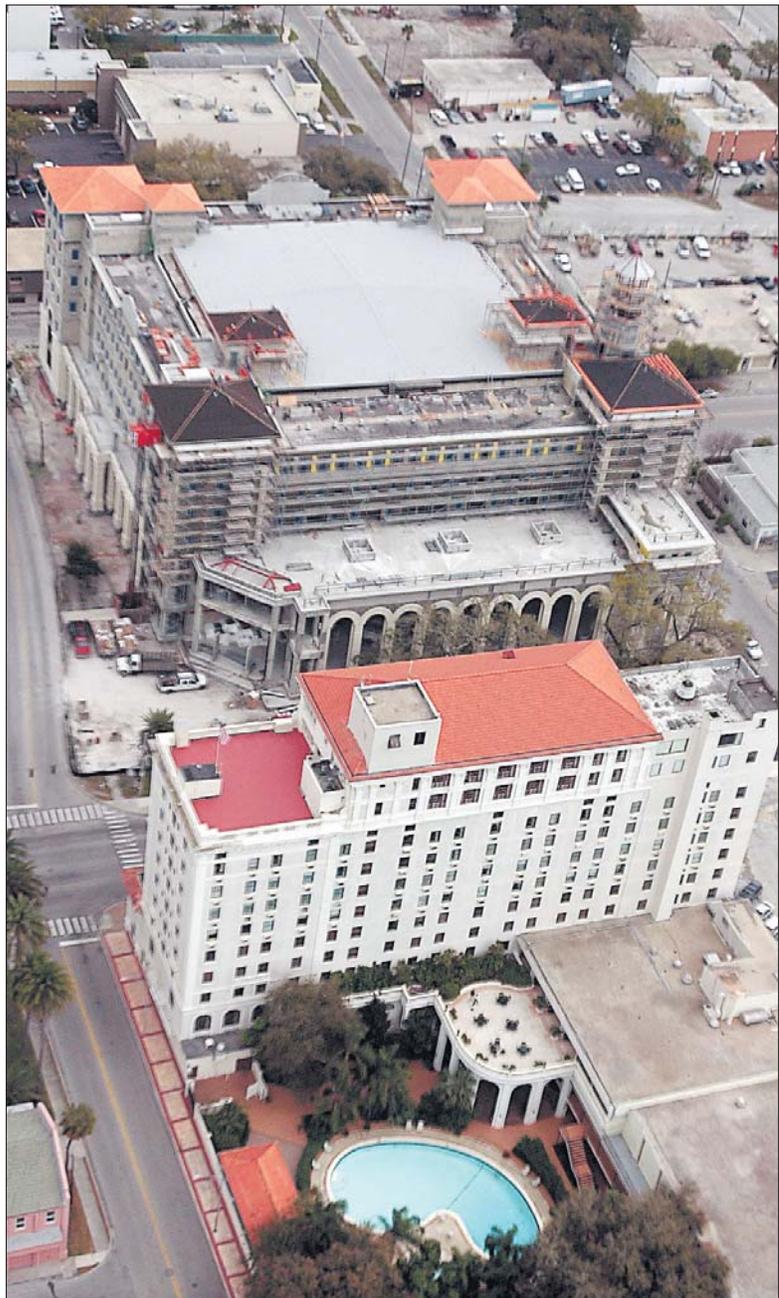
Digital's technology can reach in, pick one of those colors and separate it out for inspection. Or as Zwan puts it, "This is technology to reach inside the light."

Super Power — worldwide

In 1993, Zwan needed investors to take Digital Lightwave out of the incubator. He found a wealthy business partner while visiting Scientology's international spiritual retreat, the Fort Harrison Hotel in Clearwater.

One day over lunch in the hotel's Hibiscus room, a Scientology staff member introduced Zwan to Brian Haney, a fellow entrepreneur visiting from Columbus, Ohio. Haney had become a millionaire in his 20s selling toys through his Great American Fun Corp.

Digital Lightwave was no more than a startup then, fueled by Zwan's enthusiasm and vision. He had yet to manufacture a product and had just a handful of employees. Haney was intrigued.



Times photo — JIM DAMASKE

Scientology's \$50-million Super Power building, top, in downtown Clearwater is under construction across the street from the church's Fort Harrison Hotel. Digital Lightwave's Bryan Zwan and his wife, June, have donated at least \$5-million to the Super Power building, which will contain a museum to L. Ron Hubbard, theaters, classrooms and counseling rooms.

More knowledge reports

With Haney's millions, Zwan moved his small company to Clearwater in 1995, renting space in the green glass Atrium Building on Cleveland Street near Scientology headquarters.

The move, Zwan said, had nothing to do with the church. The Tampa Bay area topped an 11-city survey because it was near water and in a state with no income tax.

Haney believes otherwise: "One of his reasons for moving the company to Florida was ... he could hire Scientologists. It was a given that all Scientologist employees were superior to all non-Scientologist employees."

By late 1995, Digital was ready to debut its flagship optic tester; the ASA 312.

The relationship between Haney and Zwan had frayed, though. Haney and his wife, Linda, had grown disillusioned with Scientology and left the church. The church labeled Mrs. Haney a "suppressive person," a name given to people the church believes are working against it. Church members are not to associate with a suppressive person.

Haney said Zwan summoned him to a meeting at the Fort Harrison with church staff member Mary Voegeding Shaw, now president of FLAC, Scientology's spiritual retreat in Clearwater. Haney recalled the conversation: "Mary Voegeding says to me because my wife is a declared (suppressive) person I cannot be a partner in business with Bryan Zwan and that I only have two choices: I have to either divorce my wife or stop being Bryan Zwan's partner."

Haney looked at Zwan. "That's right," Zwan said to Haney. "Those are the two choices."

Haney thought: "I'm in a room with crazy people."

Church officials bristle at Haney's account, describing it as "completely fabricated" and "out

there." They say he has no credibility. His funding of anti-Scientology efforts in recent years is evidence he targets Scientology to "drag it through the mud," Rathbun said.

Haney says Zwan told him that the company's future was rocky and that he should get out while he could. Haney agreed.

Needing money to buy out Haney, Zwan turned to Scientologists Leon Meeckoms and Gerald Ellenburg, both real estate investors. The two agreed to help raise the cash. But within a few months, they were complaining Zwan had not repaid investors and had not followed through on other promises.

Ellenburg and Meeckoms detailed their complaints in March 1996 in two knowledge reports addressed to high-ranking church officials.

Ellenburg requested an immediate review by the church. He warned that while he, Zwan and Meeckoms were "bound" to settle their disputes through "church channels," other investors were not. Those "not bound by the rules of our church" could go to court, he noted.

A church ethics officer told Ellenburg and Zwan to settle their dispute themselves.

Taking it To The Street

Despite the friction among investors, Digital started selling its product, recording \$6-million in sales in 1996. Zwan decided to sell stock to the public, a bold move to generate cash so his young company could grow faster.

To help navigate the expansion, Zwan recruited Seth Joseph, a 41-year-old securities lawyer from Miami, as his No. 2. One of the few non-Scientologists in Digital management, Joseph was given a \$250,000 salary and up to 656,666 stock options, potentially worth millions.

Another executive came aboard then, too: Denise Licciardi, a 36-year-old Scientologist and

A wild ride

Digital Lightwave had a remarkable run on Wall Street, surging with other tech stocks and then plummeting during the dot-com bust. The company's inside story is one of a workplace marked by tension, infighting and the peculiar atmospherics created by the Scientologists who worked there.



Digital Lightwave corporate headquarters

The players



Bryan Zwan, 54, founder, chairman, chief executive and majority owner of Clearwater-based Digital Lightwave.



Brian Haney, 43, wealthy Ohio businessman, former Scientologist and early investor in Digital Lightwave. He sued Zwan, alleging he was tricked into selling back his stake in the company before the company went public.



Seth Joseph, 47, former executive vice president at Digital. He argued in an arbitration hearing that he was fired in 1998 because he pushed for a deeper probe of accounting irregularities in the company.

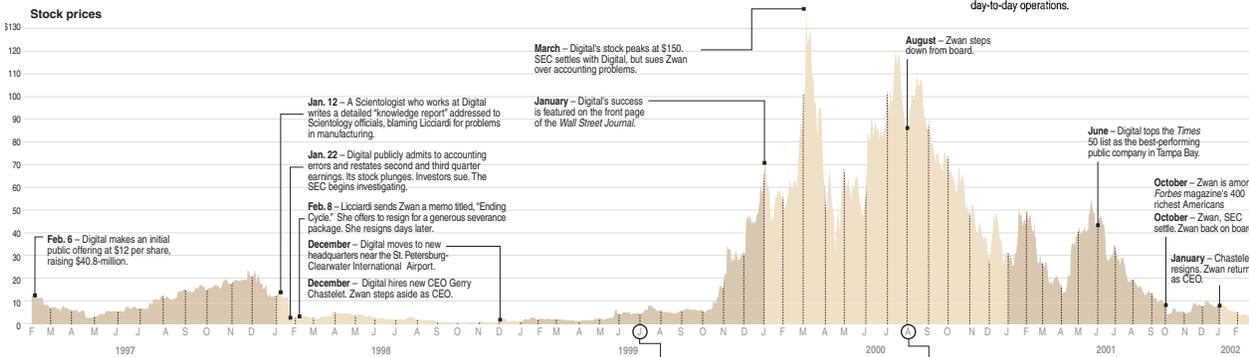


Stanley Bailey, 66, a Miami lawyer and arbitrator in Joseph's case against Digital. He ordered Digital to pay Joseph \$3.8-million.



Gerry Chastlet, 55, professional manager hired to run Digital Lightwave from late 1998 to early 2002. He was wary of any Scientology influence in the company and resigned amid complaints Zwan was becoming more active in day-to-day operations.

Denise Licciardi, 42, onetime associate at Digital Lightwave and twin sister of Scientologist worldwide leader David Miscogio. She resigned in 1998 after being implicated in a scheme to pass off partially-filled boxes as completed goods.



Times art — JEFF GOERTZEN
Sources: Times research, SEC filings



Times photo (2001) — BILL SERPINE

Digital Lightwave worker Phanhsy Kounnavong, foreground, upgrades one of the company's fiber-optic testing products from an OC 12 to an OC 48.

sister of the church's leader, Miscogio. While she had no formal education beyond high school, Licciardi was a go-getter with administrative experience at other companies, including a New Hampshire firm run by Scientologists who followed L. Ron Hubbard business principles. Zwan soon promoted Licciardi to vice president of administration, paid her a \$125,000 salary and gave her 60,000 stock options. Her authority bothered Joseph, who questioned her qualifications. "She was very, very close to Bryan beyond what her skills would warrant," he said. "It was because of her relationship with Bryan in Scientology."

Zwan said he "didn't know her" (she wasn't a friend). Licciardi applied for the job after hearing about it from her mother, who lives in Clearwater.

With Zwan's management team in place, the once-tiny private company had grown to 90 employees and was about to become a Wall Street player. But first, a personnel matter needed tidying up before the company could go public. Digital's investment banker asked company brass if it was true that executive vice president Elizabeth Weigand was, indeed, a felon. She was. In 1980, Weigand was convicted of trying to extort money from her uncle, former U.S. Sen. Thomas Eagleton, D-Mo., who said at the time that he believed his niece intended to give the money to Scientology. She resigned from Digital.

On Feb. 6, 1997, Digital Lightwave staged a successful initial public offering, trading at \$12 a share. For Zwan, that meant his 20-million shares were suddenly worth \$240-million. After Zwan, the biggest stakeholder was Norton Karnio, L. Ron Hubbard's former personal attorney, whose shares jumped to more than \$7-million in value.

Also hitting the jackpot was Scientologist Doug Dohring, who served as Digital's cashed out his stock options in late 1997, long after leaving the company, he made more than \$1-million.

Left out of the millionaire's jubilee was Haney, the early investor who had left Scientology. Saying he had been tricked into selling back his shares, Haney later sued Zwan, claiming his stock would eventually have been worth \$235-million.

Not visible to Wall Street were the atmospherics at Digital Lightwave. Just months after coming aboard, a frustrated Licciardi wanted more of Hubbard's "Admin tech" in the workplace. She wrote Zwan a nine-page memo reminding him that in recruiting her and other Scientologists, he had promised to use the Scientology methods.

"We left our lives behind for a reasonable salary (and) a small amount of stock to help you attain your goal," she wrote. "Here all we are trying to do is get to be a billion-dollar company in the telecom industry. Why don't we just apply the tech?"

Though Hubbard's practices were not formally adopted, the aura of Scientology was present at Digital. The company's organizational chart closely resembled Scientology's "org boards," where departments are referred to as divisions. Former controller Mike Tinsley said he didn't understand the company's structure until he visited a Clearwater drugstore run by a Scientologist. "They had the exact same org chart on their wall as we had in our company," Tinsley said.

Gossiping and joking about Scientology even got workers in trouble. Tinsley said he was instructed to fire an accounting clerk who mentioned to a co-worker that she had seen

credit card statements detailing how much some Scientologists had donated to the church.

Technical writer Sean Ward was fired as a contractor after emailing three Digital employees and saying about Scientology: "Can you believe people in your company really believe this?"

'Scientology ... at risk'

In early 1997, the newly public Digital was being directed by Zwan from his Clearwater "war room." Employees said he set unrealistic goals: Double sales every quarter; quadruple sales by the end of the year.

The aggressive efforts came after first quarter sales missed the targets and the stock tumbled as low as \$3 a share.

In the following months, Digital reported overblown sales numbers. Salesmen loaned to clients demonstration units that were counted as sales. Units were stored at employees' homes, but counted as sold goods.

Documents obtained by the Times detail another messy episode not revealed to investors. At the center: Zwan's fellow Scientologist, Licciardi.

It was December 1997, and Digital was racing to fill orders before the year-end closing of the books.

Customers were returning Digital's product. Manufacturing employees were working late, filling orders that had already been booked as sales in the previous quarter. Without a big contract, the company might have to declare fourth-quarter "negative sales" — a nearly unheard-of admission that more product was returned than sold.

Then that big contract arrived, literally at the last moment: New Year's Eve. Pac Pacific of California ordered \$9-million worth of Digital's testing units.

Zwan turned to Licciardi to get the shipment out ASAP.

Company records suggested all the units were assembled and shipped New Year's Eve. In fact, only 71 of the 308 units were finished despite the scrambling.

Some workers labored until 3 a.m., then grudgingly came back in later on New Year's

Day. One was Chuck Anderson. His wife was five months pregnant and fed up with his over-time. Moreover, Anderson was tired of Licciardi's bossy ways. He just had to tell somebody.

So days later, he did. He wrote an 11-page, single-spaced knowledge report to Scientology leaders and Zwan, detailing all he had seen the last few months.

Anderson wrote that Licciardi was out of control. She was hurting morale by screaming, cursing and pushing people too far, he said. She was bypassing the chain of command. It was Licciardi, he wrote, who came up with the idea of putting half-built, half-tested units into boxes to give the impression production was done.

Digital Lightwave was "vulnerable" because too many people knew what was happening, he wrote, and bad publicity could put "Scientology and Scientologists at risk given the local scene."

The "local scene" in January 1998 was the rancorous controversy over the death of Scientologist Lisa McPherson. A month before, police had taken the unprecedented step of recommending criminal charges in connection with her death while in the care of fellow Scientologists. The case was making headlines around the world.

Anderson also reminded church officials of a Scientology-related business scandal: "Look what happened with TradeNet."

A Dunedin company owned and run by Scientologists, TradeNet was investigated by state regulators as a possible pyramid scheme. State records showed that Scientologists at TradeNet also were keeping the church in the loop. One communication said church officials were "s----- bricks" over the company's bad press.

Zwan said he relayed Anderson's report to Licciardi without reading it. Later, he ordered Anderson to shred it.

In a recent interview, Zwan said he never has written any knowledge reports to the church about company business and he found the fact Anderson did "extremely odd."

"It's never been done before, never done since," he said.

Church officials say there is no record they ever received Anderson's report. "We could spend hours and hours and hours going and

checking this to say with absolute certainty that nobody ever got any copy of that," said Scientology official Mike Rinder. "We can't guarantee that there may not be a person out there that may have seen something."

As it turned out, all the commotion on that memorable New Year's Eve ended in a whimper. Digital's board of directors refused Zwan's plea to count the Pac Pacific sale as revenue.

But the overblown sales had caught up to Digital. Three weeks after the New Year's Eve episode, the company issued a "restatement" of its earnings to investors, publicly acknowledging earlier financial reports were not accurate.

Nearly half the sales Digital reported in the second quarter of 1997 involved deals that either never happened or were not closed. A stunning 79 percent of third quarter sales were wiped off the books.

The restatement triggered SEC and Nasdaq investigations, and more than 20 shareholder lawsuits. And as the company was reeling from the bad publicity, it was facing another crisis internally.

Licciardi told higher-ups that on New Year's Eve she had shipped out a couple of dozen partly filled boxes to be counted as sales. And co-workers said she had done it before. The company's top brass was astounded.

"It was clear she had to go," said Joseph, the lawyer who served as Zwan's No. 2. "She had committed criminal conduct. She admitted to it. ... It was devastating."

A fateful Monday

Tensions came to a head on Jan. 26, an overcast Monday just four days after the restatement.

Scientologists and non-Scientologists turned on each other as the company's top two financial officers, Joseph and Steve Grant, called for Zwan to fire Licciardi.

A group of Scientologists in the company went to Zwan to rally support for Licciardi.

That morning, some said they saw Scientologists in distinctive naval uniforms in the corridors. Others said it was hired security.

Continues on Page 12A

Ethics Section FSO
Cc: Denise Licciardi
Cc: Bryan Zwan
Cc: RTC Flag
Cc: OSA PR Flag
Cc: Solo NOTS C/S for Eligibility
Chuck Anderson

January 12, 1998

KNOWLEDGE REPORT DENISE LICCIARDI

The solution that Denise came up with for the problem was something called Ship in Place. The half-built, half-tested products were put into boxes and stored in a warehouse to give the impression that the production was done.

There are too many people who know about it and this makes Digital Lightwave, Inc. very vulnerable. What happens if someone goes to the newspapers, the investors, the SEC (Securities and Exchange Commission)? Not to mention putting Scientology and Scientologists at risk...

These excerpts are from a "knowledge report" that Digital Lightwave worker Chuck Anderson wrote to Scientology leaders and Bryan Zwan, detailing problems he had seen with company vice president of administration Denise Licciardi, a Scientologist who is the sister of the church's leader.

Continues from Page 11A

But the effect was the same, particularly on Grant, the company's chief financial officer. Grant, who is not a Scientologist, feared retribution if a prominent Scientologist like Licciardi was asked to leave. He removed photos of his family from his desk.

"There were some very, very angry shareholders (because of the restatement) and now there were some very, very angry Scientologists," Grant said.

The skittish financial officer even arranged for a security guard at his home. Grant wasn't the only one taking precautions. Zwan signed off on a \$1,500 request for an electronic sweep for eavesdropping devices in Digital's offices.

Licciardi said she was shocked when Zwan started pointing fingers at her. She felt "like I'm in the f----- twilight zone," Licciardi would later tell SEC investigators. "Suddenly he was making it seem like I was running wild over the organization unbeknownst to him."

But Licciardi saw Zwan soften, and by day's end she was helping him coordinate a legal strategy to combat the SEC investigation. For help, she contacted widely known broadcaster and fellow Scientologist Greta Van Susteren, who recommended a former SEC attorney.

"She said we should say we are friends of Greta Van Susteren's," Licciardi wrote in an e-mail to Zwan.

Joseph said he received the unexpected news that Licciardi was still part of the team from Zwan himself. Zwan reminded him "whose sister she is" and said it would be "excruciating" to try to terminate her, Joseph said. Zwan won't discuss his conversations with Joseph and Licciardi.

Three days later, it was non-Scientologist Joseph who was forced out. Zwan said Joseph's firing was part of a companywide restructuring. Joseph cried foul, filing an arbitration complaint to recoup thousands of stock options. An arbitrator later sided with Joseph, ordering Digital to pay him \$3.8-million.

Joseph's attorney accused Zwan of orchestrating a "coverup" in which "the person who wouldn't go along with it was terminated and the people who went along get enriched."

But Licciardi didn't survive either. In two weeks, she was gone too. Yet her departure was largely on her own financial terms, which she spelled out in an e-mail to Zwan titled "Ending Cycle," a Scientology term. She told Zwan she was "without a doubt guilty of executing on orders without question."

Licciardi wrote she applied "Simon Bolivar to a T," a Scientology phrase referring to loyalty. She promised Zwan she would not bail on him. "For you," she added, "I will take the fall."

Other than receiving one year's salary instead of three, Licciardi received the severance package she demanded: vesting of her 70,000 stock options; forgiveness of a \$71,000 Digital loan; three cell phones; and a laptop computer.

She also successfully pleaded with Zwan not to publicly mention her departure or connect her with wrongdoing. Her fear: "In the public eye, I will take the heat for the mistakes made at Digital Lightwave Inc. and due to my familial connections, will pay for this worthy on my road to spiritual freedom," she wrote.

With Joseph and Licciardi gone, Digital's board zeroed in on Zwan, worried the company was faltering under his stewardship.

Board member Bill Seifert, a Boston-area venture capitalist, said he urged Zwan to turn Digital over to a professional manager or "his baby would die."

Jeff Marshall, another director at the time, called Zwan "incompetent."

"He was a big shareholder and I wish we had had the guts to fire him right then and there," he said, "but we didn't."

New leader, big bucks

Digital's stock continued its slump through



Photo by JEFF ADKINS

Bryan Haney was an early investor in Digital Lightwave. He left the Church of Scientology and became a critic of the church; he said he was tricked into selling back his shares. The terms of the settlement of his suit against Bryan Zwan are confidential.

1998. By year's end, the shares traded at \$2.31 a share, an 83 percent annual decline. Sales were up, but so were losses. The board's dissatisfaction mounted.

That December, Zwan stepped aside as CEO, and the board found a replacement with no ties to Scientology.

Gerry Chastelet, CEO of Wandel & Goltermann Technologies in North Carolina, arrived on a self-described mission to build up Digital's reputation with customers and play down ties to Scientology.

With Digital's stock hovering around \$2 a share, Chastelet believed he could pump up the stock tenfold.

Raised on a farm in Niagara Falls, Ontario, Chastelet wasn't averse to hard work. As a youth, he spent summers stacking 100-pound bags of flour in a mill and sweating inside a steaming-hot nickel refinery.

Digital was moving into new headquarters, a \$19-million building at the south end of the Bayside Bridge. Yet, old ghosts lingered.

Tension between Scientologists and non-Scientologists was still palpable. Employees complained their e-mails were being read, although Chastelet never found proof.

"There was a general mistrust between certain factions about what other factions may be thinking, saying or doing," Chastelet recalled. "Some felt every action they did was being watched."

Seeking to defuse tension, he held a company-wide briefing to declare any infringements on privacy would not be tolerated. He ordered an electronic sweep looking for bugs. Nothing was found, he said.

He told his human resources director to remove and destroy any Scientology-related documents in personnel files. The purge included some "statistics reports," a Scientology business tool used to track employee productivity.

Scientology-based organizational charts

were used when he arrived, Chastelet said, but not for long. "Divisions" such as sales and manufacturing were renamed "departments." The treasury division under Zwan became the finance department under Chastelet.

Chastelet brought analysts and customers to Digital's new offices for PowerPoint briefings. He thought: "If we do a good job... all of the chattering about Scientology will no longer absorb the Internet pages," Chastelet said. "And people will start to recognize the company for what it is."

In May 1999, Digital landed Lucent as a customer; a month later, Cisco placed its first order. Then came Nextel and Level3.

By July, Digital showed signs of weathering the restatement fiasco, recording a profit amid the dot-com bull market.

Sales continued to surge, and by January 2000, Digital shares were trading at a lofty \$27.75. The company was profiled as a poster child of overpriced tech stocks in a front-page article in the *Wall Street Journal*.

Two months later, Digital's stock reached \$150 a share, giving it a remarkable value of \$4-billion. The Clearwater enterprise, with about 200 workers and \$50-million in annual sales, was valued more at the time than today's market value for Toys "R" Us, an international company with 60,000 employees and more than \$1-billion in sales.

So impressive was Digital's growth, the company topped the *St. Petersburg Times* list of the 50 best-performing public companies in the Tampa Bay area for its 2000 results.

Digital got more good news in March: The SEC settled its case against Digital and various company officers. But there was bad news for Zwan. The SEC sued him separately, singling him out as the one principally responsible for false filings in an "earnings management scheme" in 1997.

But while facing that action, Zwan, even from the sidelines, became a very rich man. He

The CEO and his church

cashied out about \$430-million in stock between 1999 and the fall of 2001 while still retaining majority ownership in the company. *Forbes* estimated Zwan's net worth at \$600-million in elevating him to the magazine's 2001 list of the 400 wealthiest Americans.

The wealth creation spurred by Digital was hardly restricted to Scientologists. Several top executives with no connection to the church made millions, notably Chastelet, who cashed out more than \$19-million in stock options in one year alone.

The party lasted longer than expected. Even when tech companies were retrenching in early 2001, Digital was hiring engineers and expanding overseas. To build morale, Chastelet arranged to give away three white, 2001 Volkswagen Beetles to workers whose names were drawn at random.

But there were growing hints Chastelet wouldn't stay in the driver's seat for long.

Zwan still was the company's biggest shareholder and was exerting control behind the scenes, putting allies on the board. "Bryan wants to control the board, control the company, control the CEO," Chastelet said, "and in a public company, that's pretty difficult to do."

Bill Seifert, an exiting board member, noted: "This was a founder who was not going to go anywhere and was accustomed to and insisted on calling certain shots."

On Oct. 24, the SEC settled its lawsuit with Zwan, paving the way for his comeback. Two days later, he rejoined Digital's board of directors.

In January, frustrated by Zwan's growing involvement in day-to-day operations, Chastelet resigned.

"I don't think we ever anticipated it would work out in the long run," Chastelet said.

Epilogue

Today, Digital still is a big player in fiber-optic testing, with a 36 percent market share in the United States and specific strategies to push its international sales.

It has 110 employees, and this year contracted with Jabil Circuit of St. Petersburg to manufacture all its units. Digital's stock price closed Friday at \$3.10. The company ranks 25th on this year's *Times* list of top-performing public companies.

Digital also has put in place new accounting practices that, Zwan says, will prevent past problems from recurring.

"The facts and circumstances... associated with that era have all been dealt with quite completely," Zwan said. "We're really a different company than we were four years ago."

As for the turbulent last four years: "The SEC imposed a \$10,000 fine on Zwan in settling its case last fall. There was no admission of wrongdoing.

To one former SEC attorney, Zwan's penalty seems benign. "If one assumes that 50 percent or even 25 percent of what is alleged is true, a \$10,000 settlement to me sounds like a gift," said New York lawyer Jeffrey Plotkin, who reviewed Zwan's deal at the request of the *Times*. "It sounds to me... that the SEC, when it got its feet put to the fire, couldn't come up with the goods."

The SEC had hoped to develop Licciardi as a

witness against Zwan. The agency interviewed her in 1999 but could not find her as it prepared for trial.

■ The *Times* likewise could not find Licciardi. A *Times* reporter visited several times a residence listed on Licciardi's driver's license, mailed her letters and sought interviews through her mother and Gerald Gentile, whom she married after leaving Digital. Reporters also left an interview request at a Scientology Mission in Belleair Bluffs, where she is said to work.

■ Chastelet lives in St. Petersburg and sits on the boards of several technology companies.

■ Joseph, who declined to be interviewed for this story, works at a Miami law firm. Digital has not paid him the \$3.8-million award, and is appealing.

His case, though, resulted in a strong rebuke from Miami lawyer Stanley Beley, the arbitrator who heard Joseph's complaint.

Digital shareholders should have been told, Beley wrote, that "our management knew that Denise Licciardi admitted to significant inventory falsifications and yet rewarded her by permitting her to resign, rather than firing her."

■ Brian Haney sold his toy company and is a venture capitalist. He also runs a Christian charity organization out of his home in Columbus. Haney and Zwan settled their suit in 2000. Terms are confidential.

■ Zwan, now Digital's chairman, CEO and president, recently upped his stake in the company to 60 percent. He insists Scientology plays no part in Digital's operations. He says no more than three Scientologists work there today.

His grand plan for the future: introduce a "worldwide incredible product" by year's end.

"Digital Lightwave," Zwan promises, "has embarked on a whole new reinvention of itself."

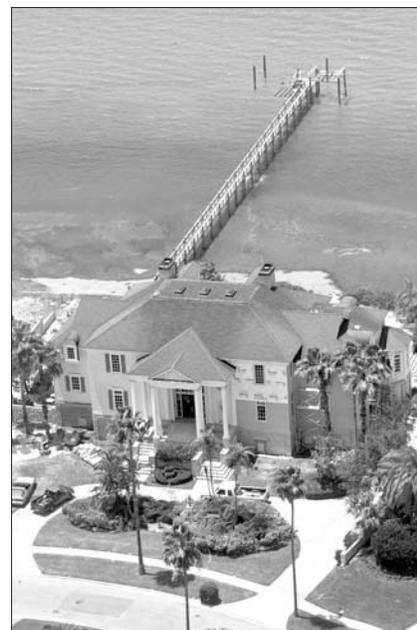
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About this story

This story was based on dozens of interviews and thousands of pages of court records contained in two cases. Seth Joseph's arbitration complaint against Digital Lightwave is a multivolume file in Pinellas-Pasco Circuit Court. Testimony from several Digital principals was used in this report. Brian Haney's suit against Zwan and Digital Lightwave is filed in federal court in Columbus, Ohio. Knowledge reports written by investors Gerald Elenburg and Leon Meekoms are part of that case.

Denise Licciardi's comments are taken from a nearly 400-page interview she gave in 1999 to SEC investigators and from e-mails and internal memos filed in the Joseph case.

Digital CEO Brian Zwan was interviewed twice, a total of nearly four hours, with two of his attorneys present. Church of Scientology leaders from Los Angeles and Clearwater also were interviewed at length.



Times photo - DOUGLAS R. CLIFFORD

Zwan is remodeling his Belleair home on Belleview Island. *Forbes* magazine ranks Zwan among the 400 richest Americans.

Separating belief and business

Home is a pair of waterfront mansions valued at \$3.8-million on a gated Belleair island.

His ride to work is a sleek Mercedes S600. Retail: \$100,000.

He has a \$6-million getaway in Aspen, Colo. He's refurbishing two New York City office buildings he bought for \$41-million.

Bryan Zwan has become wealthy since founding Digital Lightwave 12 years ago. Last fall, he joined Bill Gates and Warren Buffett on the *Forbes* list of the 400 richest Americans.

Zwan, 54, exudes the friendliness, self-confidence and power that Scientology prides itself in developing. He credits his 29 years in Scientology for contributing to his success, even as he tries to distance his church from his company.

Scientology's celebrities Tom Cruise, John Travolta and Kirstie Alley are ambassadors for the church. So, too, are local Scientologists like Bennetta Slaughter, who praised Scientology founder L. Ron Hubbard last year when her private company was named Clearwater business of the year.

It's not that easy for Zwan.

"For a private company, it's one thing," Zwan said. "If you're a celebrity that's quite a different matter. You take a CEO running a public company, it's more difficult. There is maybe a perception, and in this case, a wrong perception, that your religious beliefs are embedded in your public enterprise."

Yet away from the company, Zwan proudly talks about being a Scientol-



Times photo - SCOTT KEELER

Bryan Zwan, Digital Lightwave chairman, CEO and president, stands in the boardroom with products the company has developed.

ogist. He invited *Times* reporters to join him for lunch at the Fort Harrison Hotel and tour a church exhibit on Hubbard's life.

As for controversy about his church, Zwan says, "Look at the first 50 years of any religion..."

"Most of the situation is all about its newness and the period of time when they're becoming integrated into the social fabric," he said. "It's all

about misunderstanding and beliefs that aren't quite shared, but misunderstood."

Zwan and his wife, June, have donated at least \$5-million to the church's new Super Power building in Clearwater. That puts them among elite donors called "Legion of OT," referring to the Scientology term "operating thetan," one with full awareness, memory and ability.

The Zwans described their donation in a 2001 church booklet: "The night we made the decision to become Legion of OT's was magic. In a matter of seconds a group of OTs gathered and postulated into existence a new level of donation by blowing off any consideration concerning energy and time... It felt like pure art."

— DEBORAH O'NEIL