

Repeating False Witness Concerning SCP Bankruptcy

A Response to Norman Geisler and Ron Rhodes' Defense of the "Open Letter" and Critique of the Christian Research Journal's Reassessment of the Local Churches

In an article attacking the Christian Research Institute's reassessment of the teachings of Witness Lee and the local churches, Norman Geisler and Ron Rhodes make the following statement:

It is a fact that the litigations [sic¹] of the LC drove a major countercult movement called Spiritual Counterfeits Project (SCP) into bankruptcy.²

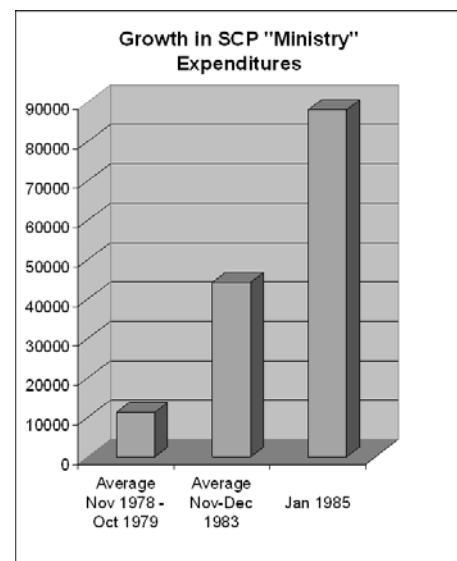
Although this version of events has been long accepted and promoted by those in the tightly knit circle of the countercult community, the facts do not support this claim. SCP claimed they were unable to proceed to trial because their litigation attorney, Michael J. Woodruff, withdrew on the eve of the trial over unpaid bills, and they could not afford the trial costs. In fact, a review of the available data casts substantial doubt on this claim.

SCP's general operating budget increased substantially during the litigation, and only a small amount of their income was used to pay legal expenses. This raises questions as to whether some of the money given to support SCP's legal needs was used to grow SCP's operating budget. Support for this hypothesis can be found in correspondence between Neil Duddy, author of *The God-Men*, and SCP. A review of the available evidence, which Geisler and Rhodes have clearly not done, suggests that if SCP and its legal counsel had desired to proceed to trial, there should have been adequate financial resources available to do so.

The Facts Concerning SCP's Income and Expenses

Throughout the course of the litigation over *The God-Men*, SCP maintained separate accounts for their "ministry" and their legal costs.³ During the litigation, SCP made frequent appeals for funds for its legal defense.⁴ During the period of time in which they repeatedly stated that they were short of funds to defend themselves, their operating budget increased at least fourfold. Consider the following:

1. In their September-November 1979 *Newsletter*, which was published prior to the litigation, SCP stated that their average monthly expenditure for the previous year had been slightly more than \$11,300.⁵
2. In their March-April 1984 *Newsletter*, SCP said that their expenditures from the "ministry" funds for the preceding November and December had averaged over \$44,300 per month,⁶ nearly four times SCP's average monthly expenditures from 1979, just over four years earlier. That would represent a 40% annualized growth rate. This is consistent with other available financial data from SCP.⁷ At the same time SCP claimed its resources were being drained by



The God-Men litigation, it had increased its “ministry” expenditures fourfold.

3. A financial statement for January 1985 showed SCP spent \$88,000 for “ministry” expenses.⁸

Financial statements from the same period show that SCP’s legal expenses were consistently small in comparison with their overall budget. For example:

1. SCP’s legal expenses from March 1, 1984, through the end of 1984 averaged a little over \$9,000 per month or approximately 1/5 of their monthly ministry budget.⁹
2. In January 1985, SCP spent slightly more than \$18,200 on legal expenses as compared with \$88,000 for “ministry” expenses.¹⁰ Thus, even as the trial date approached, SCP was still spending less than 20% of its budget on legal expenses. As noted previously, SCP’s operating budget for the same month was double what it had been just over one year earlier. This is especially significant as it followed several seemingly desperate appeals for financial support to defray their legal costs and preceded their bankruptcy declaration by just one month.

The substantial increases in SCP’s operating budget and the disparity between that growth and the amounts spent on legal expenses during a time of repeated appeals for donations to their legal defense fund suggest that SCP may have used some of the increased contributions they received as the result of litigation-related appeals to grow their “ministry” and not to defray their legal expenses.¹¹ It appears that unless contributions that were specifically designated for SCP’s legal defense fund, they were put into SCP’s general fund. Such inferences, which SCP’s own financial statements seem to support, are reinforced by contemporaneous correspondence between one of the principals in *The God-Men* case and SCP.

Neil Duddy’s Accusations of Financial Mismanagement

Neil Duddy, the primary author of *The God-Men*, charged SCP with redirecting funds specifically given for legal defense. On June 6, 1982, Duddy wrote to an SCP employee who had complained about SCP mismanagement, saying:

SCP directors broke SCP by-laws, mismanaged funds, broke the law by using monies from the local church legal fund (any contributor to that fund could sue and win hands down in the next six years) to cover other expenditures and enriched themselves while ignoring the needs of other staff.¹²

On July 15, 1982, having not received a satisfactory response to concerns he had raised in 1981,¹³ Duddy wrote a 17-page letter to David Brooks, president of SCP’s Board of Trustees, and Michael Woodruff, SCP’s counsel for *The God-Men* litigation, detailing his complaints. In that letter he said:

There are three grounds of concern that make our relation to the SCP thread thin. First, SCP bylaws have been broken by the SCP directors. Second, biblical ethics have been ignored. Third, business standards as supported by the laws governing the SCP corporation have been broken.¹⁴

Duddy alleged that \$6,000 from an early contribution to SCP’s legal defense fund from Americans United for the Separation of Church and State had been used to pay for a remodeling

overrun. He also indicated that the practice of redirecting funds designated for legal defense to instead pay for salaries and operating expenses was ongoing:

Second, in violation of the state law and the language of the ad soliciting funds for the Local Church defense, [name deleted] used large amounts of money from that fund to cover operating expenses for the SCP. Even in October, after I had informed [name deleted] that such borrowing was illegal (as had Woodruff), he still approached the bookkeeper for money from that fund to pay operating expenses...¹⁵

In a letter dated February 9, 1983, Duddy wrote that *The God-Men* was an “exercise in hypocrisy” on the part of SCP based on what he felt was SCP’s own financial mismanagement.¹⁶

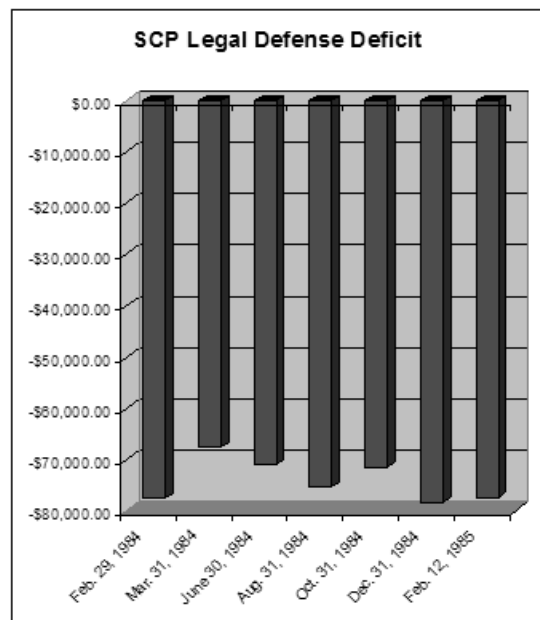
On May 31, 1983, a full ten and a half months after Duddy’s letter to him dated July 15, 1982, David Brooks testified that although he had no reason to doubt Duddy’s truthfulness, no one on the Board of Trustees or within SCP had investigated whether Duddy’s charges were true, and the Board of Trustees had taken no action on them.¹⁷ If Duddy’s account is trustworthy, then SCP was not crippled by an inability to pay for its legal defense but had instead misappropriated funds given for that defense.

In a statement dated June 29, 1983, the first day of Duddy’s deposition in *The God-Men* case, Duddy stated that six other SCP staff members, a majority of SCP’s staff, had supported his concerns about SCP’s financial mismanagement, but that those concerns had been “brushed aside.” He also stated that SCP’s directors had initially adopted his proposal requesting a reconciliation process involving “examining and correcting the direction of SCP leadership.” However, SCP management subsequently cancelled that agreement and “forced the resignation of SCP staff who supported my memo asking for an arbitrated reconciliation and precipitated the resignation of other staff who also supported my perspective.”¹⁸

The Facts Concerning SCP’s Unpaid Legal Defense Bills

SCP told both the media and the bankruptcy court that it was forced into bankruptcy because its lead attorney, Michael Woodruff, withdrew over unpaid legal bills mere days before the trial was scheduled to begin. In addition to the observations already made, this claim is suspect for the following reasons:

1. SCP’s deficit in its legal defense fund was essentially unchanged for the entire year prior to their bankruptcy declaration. It was over \$77,500 on February 29, 1984¹⁹ and \$73,000 as of February 12, 1985.²⁰ Thus, SCP’s deficit in its legal defense fund was not increasing.²¹ In a letter dated April 1984, Bill Squires, SCP’s Director of Special Projects (including their legal defense) told supporters that “through your sustained giving, our Legal Fund is surviving financially.”²²
2. SCP’s operating budget in January 1985 was double the average for March-April 1984,²³ an increase of \$44,000. Had these additional



funds been applied to pay their legal bills, the outstanding balance would have been reduced by almost 60%. Instead, as the trial date approached, SCP chose to spend these funds on their “ministry” rather than on their legal defense.

3. Michael Woodruff stated to the bankruptcy court that he would have been willing to proceed if SCP could come up with \$50,000 to finance the defense of the case.²⁴ The \$44,000 cited above represents almost 90% of that total. Two weeks before the trial date SCP also told supporters that they needed \$50,000 to go to trial.²⁵ This was actually less than SCP’s projected cost of \$50,000 to \$100,000 to implement its proposed bankruptcy reorganization plan²⁶ and was substantially the same as the amount SCP offered for settlement of the case.²⁷
4. In their March 18, 1985, financial statement filed with the bankruptcy court, SCP indicated that they had already paid their bankruptcy lawyers \$15,000, money that also could have gone toward paying down what they owed their litigation counsel had they desired to do so.²⁸
5. Michael Woodruff had a longstanding relationship with SCP that extended beyond merely providing professional services for hire and was an active participant in the countercult movement.²⁹ It strains credulity to believe that he unilaterally withdrew, leaving SCP high and dry on the eve of the trial that they had recently promised would be a great victory.
6. Had SCP won the case in court, they could have sought to recover legal expenses, which would have more than compensated Woodruff for staying the course. That SCP understood this fact is evident from a statement by Bill Squires in SCP’s *Legal Update* dated January 18, 1985:

What will happen if we win? Will SCP get any of this money back from the plaintiffs? Many of you have asked us this question.

The answer is “Yes!”

We believe we are going to win this case. And if we do, the three plaintiffs... will be required by law to repay SCP (at minimum) a substantial portion of our expenses.³⁰

The fact that they ultimately chose not to proceed to trial indicates that Woodruff and SCP knew they were going to lose the case despite their public bravado to the contrary.

It is also significant that the last deposition taken in the course of *The God-Men* litigation was demanded by SCP and conducted on February 25, 1985, a mere week before the scheduled trial date. On the same day SCP submitted a list of expert witnesses through Michael Woodruff, giving every indication that both SCP and Woodruff intended to proceed to trial. On February 26, a settlement conference failed when SCP made a monetary offer similar to its previous one. SCP later blamed the representatives of the local churches for not being willing to set a dollar figure,³¹ but the sticking point was actually that SCP refused to discuss language concerning retracting accusations of impropriety made in the book. On March 1, SCP’s Board of Trustees voted to declare bankruptcy.³² The bankruptcy papers were filed on March 4, the day the trial court was to convene to schedule the trial. If SCP had desired to continue to pursue their legal defense, they could have sought a delay of the trial date to enable them to raise more funds.

What the Facts Mean

The available evidence does not support the contention that Geisler and Rhodes declare as fact. What can be said is this: During *The God-Men* litigation, SCP's defense became a *cause célèbre* in Christian countercult circles. Their revenues increased substantially over the course of the lawsuit. However, most of the increase in their revenues did not go toward the legal defense; it went to a several-fold increase of their "ministry" budget, which included salaries and operating expenses.

As the trial date approached, SCP was faced with the daunting prospect of a major embarrassment—losing a highly visible libel suit that exposed the recklessness of their publication. Given the evidence from the depositions (including their own) that was used to support the judge's decision when the libel action was adjudicated, this is clearly the case.³³ SCP had repeatedly appealed to supporters for money to fight the case; losing in court would have irreparably damaged their credibility, which would in turn have undermined their financial viability in the long term. Rather than run that risk, they declared preemptory bankruptcy. This conclusion is in line with the statement of SCP's bankruptcy attorney Iain Macdonald:

Spiritual Counterfeits Project, Inc. commenced a voluntary chapter 11 bankruptcy proceeding in the United States Bankruptcy Court located in Oakland, California on March 4, 1985. The case was filed shortly before the matter of Witness Lee et al v. SCP et al was scheduled to do [sic, s/b go] to trial, and **was filed for the purpose of preventing the trial from going forward.**³⁴ [emphasis added]

The entire tone of the article by Geisler and Rhodes betrays an "us vs. them" mentality rather than a concern for truth. Both men have strong ties to strident countercult ministries, a fact which Geisler and Rhodes do not disclose to their readers,³⁵ and it appears that these ties may have predisposed them to uncritically accept SCP's version of events. Geisler and Rhodes certainly provided no factual basis from the available financial statements, court documents, or bankruptcy filings for their claim of "fact."

Furthermore, Geisler and Rhodes completely ignore what led to the litigation—SCP's reckless and baseless charges of pathological social behaviors and financial malfeasance combined with their intransigence in response to appeals for dialogue. Geisler and Rhodes seem to feel that countercultists should have free license to spread rumors without verifying them as factual and without regard to the impact their words have on people's lives. We cannot agree.

¹ There was only one litigation between any of the local churches and SCP, and only one local church was a party to that litigation.

² Norman Geisler and Ron Rhodes, "A Response to the Christian Research Journal's Recent Defense of the 'Local Church' Movement," posted with the "Open Letter" at open-letter.org.

³ See e.g., *SCP Newsletter*, vol. 10, no. 2, March-April 1984, p. 4.

⁴ For example, *SCP Legal Case Update*, April 1983; *Witness Lee vs. SCP*, May 5, 1983; *Legal Update*, No. 2, June 16, 1983; *Legal Update*, No. 3, July 31, 1983; *SCP Newsletter*, Vol. 9, No. 5, November-December 1983; *Legal Update*, No. 5, December 1983; *SCP Letter*, January 27, 1984; *SCP Newsletter*, Vol. 10, No. 2, March-April 1984; *Legal Update*, No. 6, March 1984; *Legal Update*, No. 8, June 1984; *Legal Update*, No. 9, August 10, 1984; *Legal Update*, No. 10, September 20, 1984; *Legal Update*, November 21, 1984; *Legal Update*, January 18, 1985; *SCP Letter*, February 20, 1985.

⁵ *SCP Newsletter*, vol. 5, no. 6, September-November 1979, p. 2. SCP's fiscal year ran from November 1 to October 31.

⁶ *SCP Newsletter*, vol. 10, no. 2, March-April 1984, p. 4.

⁷ SCP's Schedule of Current Income and Expenditures dated March 18, 1985, showed that in the previous six months, SCP had an average monthly income of \$48,981.21 and average monthly expenditures of \$49,709.10. Of those expenditures only an average of \$7,077.28 per month went to legal expenses, less than one-seventh of the total. Thus, during this period SCP's operating expenditures were equivalent to over \$500,000 on an annual basis.

⁸ All figures from Spiritual Counterfeits Project, Monthly Operating Report for Period Ending March 31, 1985.

⁹ Based on a comparison for *SCP Legal Update*, March 1984, p. 3 (reporting expenditures as of February 29, 1984), and *SCP Legal Update*, January 18, 1985, p. 4 (reporting expenditures as of December 31, 1984).

¹⁰ All figures from Spiritual Counterfeits Project, Monthly Operating Report for Period Ending March 31, 1985.

¹¹ On May 20, 1983, the Executive Director of SCP informed the Board of Trustees that SCP received \$21,000 in one week in response to an appeal for legal defense funds. Of that amount 60% was designated to legal defense. While this sampling is too small to draw definitive conclusions, it is in line with the hypothesis that a substantial share of the donations to SCP during the course of the litigation was intended for its legal defense, in particular following their appeals for such funds.

¹² Letter from Neil Duddy to Stanley Dokupil, June 6, 1982. On October 17, 1981, Duddy had written a memo to SCP's executive committee in which he expressed concerns about SCP's financial management practices. On the same day, five other SCP employees, including Dokupil, signed a letter to the executive committee which referenced Duddy's memo and stated similar concerns with leadership and decision-making practices within SCP.

¹³ See note 12.

¹⁴ Letter from Neil Duddy to David Brooks, Chairman of the Board of Trustees of SCP, and Michael Woodruff, SCP Counsel, July 15, 1982.

¹⁵ *Ibid.*

¹⁶ Letter from Neil Duddy to Charles Morgan, February 9, 1983.

¹⁷ Deposition of David Brooks, Witness Lee et al v. Neil T. Duddy et al, May 31, 1983, pp. 32, 34.

¹⁸ Neil Duddy, Deposition Statement, June 29, 1983, p. 8.

¹⁹ *SCP Legal Update*, March 1984, p. 3.

²⁰ *SCP News Release*, February 12, 1985, p. 2.

²¹ This is further attested by a comparison of figures in the SCP Legal Updates of March 1984 (p. 3) and January 19, 1985 (p. 4), which shows that in the last ten months of 1984, SCP received over \$95,500 in contributions to its legal defense fund while amassing just over \$92,000 in expenses.

²² Bill Squires, Letter addressed to "Dear Friends of SCP," April 1984.

²³ See numbers 2 and 3 in the section entitled "The Facts Concerning SCP's Income and Expenses."

²⁴ Declaration of Michael J. Woodruff in Support of SCP's Opposition to Motion for Relief from Stay, April 16, 1985.

²⁵ "March 3 Prayer & Fasting," SCP letter to supporters, February 20, 1985.

²⁶ Spiritual Counterfeits Project, Disclosure Statement, April 1, 1985, p. 13.

²⁷ Defendant's Written Offer to Compromise on Pending Action (CCP §998), October 16, 1984, filed by Michael Woodruff.

²⁸ Statement of Financial Affairs for Debtor Engaged in Business, March 18, 1985, Attachment 7, p. 2.

²⁹ According to a letter to the editor from David Brooks, President of SCP's Board of Trustees, which was printed on page 21 of the June 14, 1985, issue of *Christianity Today*, Woodruff had been providing legal services to SCP for more than 10 years. Woodruff was SCP's attorney in a legal case that gave SCP a national reputation for opposing the teaching of Transcendental Meditation in public schools. (Since SCP built its following by filing a lawsuit, it seems hypocritical for them to have complained so bitterly when they were sued.) According to "Malnak v. Yogi: The New Age and the New Law," by Sarah Barringer Gordon in *Law & Religion*, ed. by Leslie C. Griffin (New York: Aspen Publishers, 2010), p. 14:

[Brooks] Alexander and his fellow SCP activists promised the Malnaks [the lead plaintiffs in the case] they would come to New Jersey to assist with the brewing conflict there. As the Malnaks put it, “three guys came and lived in our house for months.” In addition to Alexander, they were Michael (Mike) Woodruff and Bill (Billy) Squires.

Woodruff’s name appears, along with nine SCP staff members, on a list of participants in a conference hosted by SCP in Berkeley on November 2-4, 1979, concerning how to effectively oppose cults on college campuses. He was a featured speaker on the subject of cults and the law on this and other occasions (e.g., at the University of Notre Dame in April 1981; to the Christian Legal Society in 1981; at California State University-Fullerton on October 27, 1982; at Trinity Episcopal School for the Ministry on April 14, 1986). He authored articles on the subject of “new religions” (e.g., in *International Review of Mission*, October 1978; in *The Cult Observer* on September 1984). He served on the Christian Legal Society Board of Directors. He vetted the pre-publication edition of the second English edition of *The God-Men* for InterVarsity Press. Perhaps most tellingly, in the conflict between Neil Duddy and SCP, Duddy “asked both Dr. Enroth and Woodruff that Woodruff not be the mediator of reconciliation because there were too many friendships involved” (Letter from Neil Duddy to David Brooks and Michael Woodruff, July 15, 1982). Read in this light, Brooks’ letter to the editor in *Christianity Today* appears to be an effort to mitigate the blame that had been placed on Woodruff for withdrawing from the case just before the trial was to begin.

³⁰ Bill Squires, *Spiritual Counterfeits Project Legal Update*, January 18, 1985, p. 2. The three plaintiffs in the case were Witness Lee, William Freeman, and the church in Anaheim.

³¹ “Declaration of Michael J. Woodruff in Opposition to Motion for Relief from Stay,” April 18, 1985, p. 4: “I question whether the plaintiffs truly exercised good faith efforts to negotiate settlement with SCP because they refused on February 26, 1985 to disclose what amount of money it would take to settle the case since they wanted to be sure they had a retraction statement in a form agreeable to them first.” What Woodruff’s statement actually shows is that the plaintiffs were not interested in a mere financial settlement that allowed SCP to continue to make the same kind of libelous accusations they had in *The God-Men*. Rather the plaintiffs were seeking a proper admission that the allegations in the book were false.

³² Spiritual Counterfeits Project, Corporate Resolution, March 1, 1985.

³³ The complete text of the judge’s decision with links to the supporting documentation cited in that decision is available at <http://www.contendingforthefaith.org/libel-litigations/god-men/decision/completeText.html>.

³⁴ Karen Hoyt, “Letter to ‘Friends of SCP,’” April, 10, 1985, p. 3.

³⁵ For example, Rhodes was a Contributing Editor to the *SCP Journal* for approximately two years, and Geisler has contributed over 100 articles to John Ankerberg’s Web site and is on the advisory boards of several countercult organizations, some of which are known for their intemperance.