

Minutes of the American Philatelic Society
Board of Directors Conference Call Telephone Meeting

December 7, 2002

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Present: Peter McCann, Janet Klug, Ann Triggler, Lloyd de Vries, Nancy Clark, Ron Leshner, Ada Prill, Steve Washburne, Bob Zeigler; Bob Lamb, Scott Frazier, Dennis Gilson.

Absent: Roger Schnell, John Hotchner

Convened 10:10 a.m. EST.

Lamb: Loan documents finally worked out. Very difficult, very bureaucratic. APS would work out details with PNC and the details would change. Finally, the PNC loan officer in State College resigned two weeks ago and the process moved faster.

Construction contract: Architects have sent out a rebid contract. It's due December 16, and the contract will be awarded December 17, with construction to start in January. Early August occupancy is expected.

No contracts for tenants signed, but 3 fairly firm. Water authority gave up. Another insurance agency is interested. Block warehouse about half rented with fairly firm commitments. To have one half before the construction begins is not really bad.

Contract negotiations with developer George Lulos are underway.

Donations are coming in rapidly. By mid-November, \$200,000 had been collected, \$135,000 for Project One. Usual contributions in December are \$50,000.

De Vries: What was rest of the money for?

Lamb: Tiffany Fund, Youth, etc.

Member has offered to donate all structural and decorative steel for the project. Not sure how much money that is. The member suggested APS find uses for steel. APS may add wrought iron fence.

There are two offers on the present building, both from well-established and respected local businessmen. Have to respond to one by Monday. \$2.8195 million offer, with 7% commission and 1% tax, settle by June 15, then rent it back to APS. Vacate by March 15, 2004. Would yield \$2,372,065.

There are conditions attached: \$10,000 refundable deposit by purchaser for 30 days. Option for two more months for due diligence, would pay \$5,000 per month.

A second offer was received on Wednesday, for a net of \$2.5 million, after taxes, fees, rent. He is more flexible on the timing. Will give \$5,000 deposit, refundable 30 days and review by the planning commission.

Both would actually settle in May or June.

If APRL is likely to accept, Lamb would start the architects on Phase II so work could start immediately.

Could be in Match Factory (Phase II) by April or May 2004.

Cost? Not all of Phase II, just Buildings 1, 2, 11, 5,000 square feet of 18, 3's ground floor for work space and storage, cafeteria on loading dock. That would be more space than now, 5-6,000 square feet, cost about \$2.1 million. If APS keeps it below the proceeds from the present building's sale, it could move into the Match Factory without debt.

Block warehouse rent would cover its debt and also yield a profit.

Triggle: How much working space does APS/APRL have now?

Lamb: 25,000 gross square feet, 19,000 net working space. Would get 31,000 gross square feet and 25,000 net square feet.

Zeigler: Where would the Library be?

Lamb: Buildings 1 and 3. Ground floor of 3 for work space storage, 1 equals the Library's space today.

McCann: Would 3 be heated?

Lamb: Yes, plus air conditioning and lighting.

Klug: Why is APRL only continuing to pay half?

Lamb: APRL still paying all the money due APS on mortgage. But not appropriate to charge all of the mortgage expenses to the block warehouse.

Klug: But not \$43,000 per year?

Lamb: Yes, \$43,000 per year.

Klug: APRL again is raising APS' rent.

Frazier: Six per cent rent increase every year. Also, APS is increasing its useable space.

Zeigler: Questions on what APS would be paying rent to APRL.

Lamb: It's not all Building 3.

Lamb: Not going to do second floor of Building 3 at this time.

Gilson: It's about 6,500 square feet.

Lamb: If APS/APRL uses the second floor, it raises access and interface problems.

Zeigler: Goes over what space is where.

Frazier: APS is now using 9-10,000 of 25,000 square feet. It will be going to 12,000.

Clark: APRL is not on the pro forma.

Frazier: No, it doesn't charge rent to itself.

Klug: How will APS pay for the rent increase? Dues increase?

Lamb: Doesn't think so.

Klug: It seems like it.

Washburne: Whether the Match Factory is developed or not, APS has agreed to increase its rent to the APRL by 6% per year.

Klug: When did the APS do that?

Frazier: That's how the rent is allocated. Going to pay more rent in present building, too.

McCann: How do the amounts of space at present and in Match Factory compare?

Lamb: Cost per square feet is cheaper at the Match Factory, but APS has to pay more rent for more space because it is using more space.

Zeigler: Sees 7,500 square feet allocated in Building 1 for APRL's space.

Lamb: APS will have most of 2, all of 11, almost all of unleased space in 18 and 40% of 3.

Gilson: Common areas are used by both.

Lamb: Mail room, too. Believes it's adequate space for both.

Prill: Move some operations later?

Lamb: Yes, but no hard construction that would need to be changed later.

Triggle: Thought \$365,000 to APRL was being repaid by APRL from the proceeds.

Lamb: Has considered that, not sure it makes sense. It's good to have as many cooperative arrangements as possible. Has to check with accountants, but the 3.25% rate is so good APS may want to hold onto it.

Washburne agrees.

De Vries: What annual percentage increase in rent is there now?

Frazier: Same, but much more costly renovations are needed in present building.

De Vries: No second floor of Building 3 ever?

Frazier: No, that's in Phase III.

Klug: Not as in Vitetta drawing?

Fraser: Yes, in Phase III.

Klug: Moving the Library twice?

Frazier: Yes.

Klug: How much will that cost?

Gilson: The second move is intra-building and not as expensive. No high-density shelving will be constructed at this point.

Klug: Do we know the cost?

Frazier: No, but United Van Lines is coming to give an estimate. It's early, but he'd like an estimate now.

Klug: Estimate for remainder?

Gilson: Yes, same as Vitetta projected.

Lamb: Would like to do Building 3 sooner, but it needs more elevators, shoring.

Klug: Outlines Phase III; that's about \$4 million.

Gilson: Yes.

Lamb: Building 4 will be more expensive.

Clark: Asks about fund-raising.

Lamb: Plans to announce a campaign early 2003 for four years, \$1 million; believes it will be achievable.

Prill: Starting in January?

Lamb: Wants to work out timing with McCann and APRL president Charles Peterson, to find the right occasion for the kick-off.

McCann: Campaign to be presented with very specific timelines and goals. Giving has increased over the past year, but the problem is it has still been very fuzzy about exactly what the APS/APRL is going to do with the Match Factory and when. The more specific a fund-raising campaign, the more money it brings in.

Clark: Agrees.

Triggle: Looking for \$4 million, not \$1 million, right?

Clark: No, it's \$3 million.

Lamb: Won't announce a \$4 million campaign. A \$1 million campaign would fire imaginations and is achievable. In fact, the project is being done on a sound financial basis. Phases I and II will be self-sustaining, maybe Phase III also. It's just a good solid business venture at this point.

Klug: Have experts on the Finance Committee been consulted about this?

Lamb: Has talked at length with committee member Nick Carter about it, and he is quite supportive. He has not talked to other members of the finance committee, other than Nancy.

Clark: Would like to see the fund-raising proposal go out to the committee members when it's more firm.

McCann: Agrees. Suggests Lamb create a one-page summary of the space allocation, because there was a lot of misunderstanding. Zeigler's questions about the distribution were quite reasonable.

Lamb: Agrees.

Zeigler: Still is not completely clear. Understood the reason for the move was to alleviate the space crunch in the library, but if he understands correctly, the Library was currently using about 15,000 square feet, total, in the present building, perhaps 12,500?

Frazier: Thinks Zeigler is still including the common areas.

Gilson: The current library is about 7,500 square feet.

Zeigler: Board was told the library was taking up 15,000 square feet, and was told in another meeting that the Library would pick up several thousand square feet.

Gilson: That can't be correct, because two-thirds of the basement is currently occupied by the Internet Sales Unit, the insurance office has space in the Library, the Education Department has space in the Library. He did a measurement, and the conservative measurement, for current use, not including off-site storage, is 7,500 square feet. The Society has encroached upon the Library substantially in the last several years.

Frazier: It may be the difference between what the APS is paying rent for and the total square footage in the building of 25,000 square feet.

Zeigler: Still wondering if there's space for the Library, because if the whole Library is scrunching into 7,500 square feet, we haven't gained a foot.

Lamb: That's only the building 1 space.

Zeigler: Understands that there's storage in Building 3, and that that's substantial, maybe 6,500 square feet, and that the Library may also employ storage space in another location. However, it seems that if the Library is to function in 7,500 square feet, that's a pretty thin diet for the Library.

McCann: Asks Gilson how much space in the current building is the Library using?

Gilson: 7,500 square feet.

McCann: And how much square footage in Phase II floor space would the Library have?

Gilson: 7,500 in Building 1, plus about 4,000 in Building 3.

McCann: So the net gain in moving to the Match Factory immediately for the Library would be about 4,000 square feet.

Zeigler: How much of that 4,000 is taken up by material that is off-site storage now?

Gilson: Not very much. There are two shelf units in Building 1 right now with Library materials in them. The majority of the material that is stored out in the Match Factory today, in Building 1, is Society material: Records for administration, complaints, expertizing, donations, stamp show stuff. The Library is actually taking up very little of the storage space currently in the Match Factory.

There is a whole bunch of stuff in August Hall and in the Library proper right now that needs a place to go to, and will go out there. APS/APRL is going to utilize that extra space.

McCann: That extra space is not going to go into that 4,000 square feet in Building 3, that space, that storage stuff will—

Gilson: Yes, it will. Building 3 will be a working area. It will contain that portion of the Library which does not need to have daily access. We'll maximize the space that we have in Building 1 for the materials that need to be accessed on a routine or regular basis. Librarian Gini Horn and Gilson have been working with the architect on the Library portion of this phase for about a month.

Zeigler: Does the \$2.122 million loan include money to develop Building 3 to a useable condition?

Gilson: Yes.

Leshner: It was mentioned that one thing Building 3 would need to use the space above the first floor was the strengthening of the supports. Is that included in what has been presented today?

Lamb: No, that would be Phase III. No plans to do anything on the second floor.

Gilson: There's some misunderstanding here. There is no problem with the column support and floor system of the second floor of Building 3. What is being talked about is the roof support system, that is the extension of the columns, the rafter system, and the roof itself of Building 3. There is already an estimate from the architect: If there is a decision to go ahead and do that portion of the project under Phase II, to facilitate the later renovation and construction, it would only cost about \$180,000 to take care of the roof support system and put a new roof on Building 3. That's an option if the money is available to do it.

Washburne: Thought that the roofs had to be entirely redone on all the buildings that are going to be renovated. The roof of Building 3 would not be done under Phase II?

Gilson: That's an option.

Lamb: Yes, all the roofs will have to be redone, except Building 18, but the plan at this stage is re-do the roofs on 1, 2, 11 and if the money is available, 3, but actually 3's roof is in pretty good shape right now. However, in the final renovation, it would be put into better shape than it is today.

McCann: If the roof of Building 3 is not done, it's not going to be a structural problem.

Lamb: It would not be a problem. Trying at every stage to get ahead, to make progress into the next stage. That was so in Phase I, doing some of the grounds work. The next part would be to work on the roof of the whole complex. If there is enough money after the sale [of the present building] to do the roof on Building 3, depending on what other demands there are for that money, he would be inclined to do it.

Triggle: Thinks if there is much material stored in Building 3, it would be a good idea to check that roof thoroughly.

Lamb: It's known what shape it is in, and it is satisfactory for this purpose. There's no question about that. If there were any chance it would endanger the stored materials, it would be fixed.

Gilson: We're talking about the superstructure of the roof, not the surface, per se. Minor surface repairs can be done as necessary to ensure that there's no water intrusion. Eventually, when we want to use the second floor of that building, the current roof structure system has to be replaced. The architects feel that there's no imminent danger for at least 5 years.

Washburne: Understands roof on the current building is not in great shape, either.

Lamb: Right, we have leaks.

Frazier: We have a lot of band-aids on it.

Lamb: There are buckets as you walk around the building.

Leshner: Would hope that two things would be sent to the Board after this meeting: A hard-copy of the pro forma, and a breakdown of the total amount of space in all the buildings that are in Phase II, and the allocation to APS and APRL.

Lamb: Agrees, apologizes for the lack of a hard copy, but the late second offer meant re-doing the pro forma, and it was sent to the Board as soon as it came off Frazier's computer.

De Vries: About the offers, it seems as if the second offer is much more attractive.

Frazier: It seems that way to staff, too.

Lamb: Agrees. Has had several discussions with both the agent and the man who's making the offer. We have to clarify in writing exactly what "net" means and how he plans to handle the rent. APRL wants earnest money, non-refundable money, from him when his 30 days are up, and clarification of the rent-back arrangements.

De Vries: Can you get all that by Monday, when you have answer to the first offer?

Lamb: Will go back to the first offer and tell him there is a better offer. Maybe he'll raise his offer. Then will send a letter back to the second offer, telling him that APS/APRL is interested but before signing, APS/APRL needs clarification on those points.

De Vries: So no decision is likely Monday?

Lamb: Probably a decision to accept the second offer, provided these things can be resolved, and provided the oral understanding can be written down to everyone's satisfaction.

Klug: When does the APRL vote on this?

Lamb: Monday.

Klug: Two years ago, the Board was told the Oakwood Avenue property was worth \$3.9 million, and she believes it was even advertised for sale in the local paper for \$3.9 million.

Lamb: It was never appraised at \$3.9 million. It was advertised for sale at \$3.9 million, knocked down to \$3.5 million. He thinks that \$3.1 million is really quite good for this property, and so do the real estate people. One thought the first offer, for \$2.819 million, was a good offer that could be accepted.

Zeigler: Lamb said the loan with PNC has been pretty much finalized. Asks for a description of terms.

Lamb: Putting up \$1.5 million total to guarantee the loan. It's \$2,500 loan origination fee, and a 3.25% construction loan for two years. For the first two years, APS/APRL can, if it wants, only pay interest, and at that point it would have to go to permanent financing. In the pro forma, APS/APRL is planning to pay the full amount earlier than that.

Zeigler: Depending on whether you think it's advantageous, right? Frazier: Exactly.

Triggle: Will the APS Board hear on Monday whether in fact the APRL voted to sell?

Lamb: Yes.

McCann: Lamb will recommend to the APRL Board that it accept the second offer?

Lamb: Yes, if the rent arrangements and what "net" means can be nailed down firmly.

Triggle: Would the first offer be prepared to take an additional day if asked?

Lamb: This would be the third extension on the first offer. Initially, they wanted the response in 48 hours, which wasn't possible. A second extension was requested when a board meeting couldn't be set up that quickly. He thinks a response must be delivered Monday.

This is a small community, and he is going to know that there's another offer on the table. He'll probably have a pretty good idea what it is. Lamb believes it's in the APS/APRL interest to tell him there's another offer and what he would have to do to beat it.

Zeigler: Is it certain that both these people making the offers are substantial and will carry through?

Lamb: Yes, they're both very well-established local businessmen.

Prill: Is there still a possibility of an increased offer?

Lamb: Doesn't think so, but wants to give them the option. There was a rumor of a third businessman interested, but he has not made an offer. Lamb told his agent that he needed something this week, but it didn't arrive. However, the \$2.5 million net is a good offer and he would be inclined to accept it rather than try to raise it.

McCann: The net is \$2.5 million but the actual sales price is \$3.1million?

Lamb: You have to back into the sales price, because he's offering \$2.5 million net. Lamb's estimate, adjusting for fees, is about \$3.1 million.

McCann: APRL is the organization that has to formally approve the sale, but the APS Board is really still the senior organization, and if it doesn't want to do it, the APRL can't do it by itself. This is an informational meeting, not a voting meeting, but he personally feels comfortable that APS is moving in

the right direction. There's still some risk; there's always going to be risk. Is there any violent opposition on the Board? Acknowledges that several people have voted against various stages in the past.

Klug: Makes suggestion: Can APS minimize its risk by having a hold-harmless agreement so that if something happens we can protect our remaining assets?

McCann: Doesn't know.

Klug: Probably more a legal question.

Zeigler: Hold harmless as to what?

Klug: So that APS assets cannot be taken away from the APS. This would happen if the APRL became insolvent. The APS has pledged \$1.2 million of its collateral; that would be attached immediately. What about other assets, if there were more debt than \$1.2 million?

Lamb: Would have to talk to APS attorney Eisenstein about it. Truth is, these two organizations are so inter-linked that the risk is minimal in any case, but it would be very hard to get much more protection than there is now.

Klug: Worries that if something terrible happens, the bank would not be interested in the Match Factory as an asset, because it would be a very difficult sell and not very liquid, particularly because it won't be completed. Therefore the bank would come after APS assets.

McCann: Agrees that in an extreme case, that would probably happen, but the two organizations are so intertwined....

Triggle: Asks if Klug is talking about whether individual APS Directors would be liable?

Klug: Doesn't know the answer to that question, but that probably should be investigated, too. What she is concerned about is protecting the APS' assets.

McCann: Should look into it.

Lamb: Agrees.

Lamb: Has an early prognosis on finances. APS' income is always erratic, and December is one of the most erratic months, so it's risky to predict in December, but it appears that APS will have a balanced budget this year, by at least as much as in the budget, which was a minimal amount of \$2,000, but at least it will be balanced. Kudos to Clark and Frazier.

The investments are hard to read. On earned income, APS is \$2,000 ahead for the year, and that's counting the trading losses before the stocks were sold in April. That counts the dividend income on the fixed income investments for three quarters. With the fourth quarter, it may go up. On the unrealized investments, it appears there will be a small loss, but it's not clear how much, because December is usually a good month for the stock market. APS is down about \$49,000 in the General Fund, but may pick some of that up before the end of the year. The \$49,000 is an extrapolated number, if the stock market is down 10% for the year and APS/APRL stocks perform as the market performs.

It won't be nearly as bad as the two previous years.

Washburne: The S&P 500 is down about 20% for the year, not 10%. The Dow is down about 11%, but he feels our stocks are more like the S&P 500.

Lamb: It's risky to predict the stock market.

Frazier: It's very hard to make any kind of a judgment on the effect of the dues increase at this point. APS has collected about 50% of its dues so far. The dues notices were mailed out about two weeks early, and it appears that many people who pay their dues do it at the end of the month. There was a big flurry of dues coming at the beginning of November, and not as many coming in after Thanksgiving as normal, but he believes those in early November are those who paid at the end of October.

Looking at the resignations, hasn't noticed any great increase in people saying they're resigning because it's too expensive. Getting the normal amount of people resigning because of health or they sold their collections, but not in people saying "You're too costly." Of course, the easiest way to resign is to do nothing, so there won't be an indication of what the dues increase has cost the APS until the cycle is over.

Zeigler: Believes APS is still too leveraged, have too much debt and not a lot of "wiggle room," and he hopes this works out the way others think it will. This is a very risky proposition, and he still maintains his opposition.

De Vries: Regarding the Match Factory?

Zeigler: Getting to point now where if this hits the wall, it will be a salvage operation. If these assumptions are correct, that's great, but there hasn't been an assumption yet that's held up. This has been a continuous moving target.

Gilson: Disagrees. Went out to bid on Phase I of the project, got bids from 11 firms and the low bid came in \$250,000 below the architect's estimate. Have now issued a re-solicitation, which included some of the fit-up work as well as the prep work for Phase II. In every case so far, it appears that the cost estimates from the architect are at the high end, and APS has been able to realize gains in actuality, and he doesn't expect that to cease. Attributes that to the selection of a good firm that has been working very diligently and very soundly. The engineers have been involved from the very beginning, contractors have been involved from the very beginning, and he believes there is much less uncertainty about what has to be done and how much it's going to cost than might be expected. This has been true since Chicago.

Zeigler: Hopes APS stays lucky.

McCann: Asks Lamb to inform Board of what happens at the APRL meeting Monday.

Lamb: Agrees.

Zeigler: Still feels that APS is very unwise to proceed without the written tax opinion on the income stream for this project. It's just a simple matter of due diligence, something that's in the Guidebook for Non-Profit Organizations from the American Bar Association. It is very simple, should not cost several thousand dollars, but should have an opinion in writing that states the tax parameters. Should get somebody that's reputable, down on paper, that the APS can point to if things go badly with the IRS. Not a useless expense. It's very unwise to proceed without it.

McCann: Asks Lamb if there's any reason that can't be done.

Lamb: Has not found a single attorney who has said there is a problem. Lamb has called Tom Mazza, one of the people Zeigler said had said it was a problem, and Mazza did not think it is a problem. He had some questions about the property tax implications of commercial properties. There was a question about whether there would be a tax liability on debt-financed development for a non-profit. Lamb said these are issues that have to be worked out with the APS' accountants, but the expense has been factored into the pro formas. There was a lengthy discussion in Chicago about the unrelated business income implications of the project. Lamb also called Tom Allen for a long conversation. Lamb hasn't found anyone that thinks this jeopardizes the non-profit status. Zeigler obviously has reservations about this, but he has also been particularly critical about the amount of money spent on studies. Lamb would hate to spend several thousand dollars on a study that no one thinks is needed, except Zeigler.

McCann: Would Mazza and Allen be willing to give an opinion in writing on this?

Lamb: Doesn't think that's worth much. It's essentially a tax issue. He would much rather go to the APS/APRL's accountant in State College and get something in writing from them.

Zeigler: Isn't saying it's going to jeopardize the tax-exempt status and never has, but does think it is reasonable to get an opinion letter from a reasonable tax authority before proceeding on a project like this.

Lamb: What precisely is it that Zeigler wants the letter to address? Property tax?

McCann: Asks Zeigler to put in writing and send to Lamb a memo specifying what is needed, and then the Board will ask Lamb to price that. McCann doesn't think that is unreasonable.

Zeigler: Agrees.

Clark: The number of hours that the entire staff has put in on the project is substantial and they are to be commended.

McCann: Agrees. Realizes late second offer made extra work, but agrees with Leshler's comment earlier that he would like to see the figures in writing.

Lamb: Agrees. There was a time deadline for this meeting.

Meeting ends. (Since it is not an official meeting, no move to adjourn was necessary.)