

Conference Call Telephone Meeting  
September 11, 2002  
Called To Order 5:02 p.m. EDT

Peter P. McCann, president, presiding. Also attending: Vice presidents Janet Klug, Ann Triggler, Roger Schnell; Secretary Lloyd de Vries; Treasurer Nancy Clark; Directors-at-Large Ron Leshner, Ada Prill, Steve Washburne; Immediate Past President John Hotchner; Executive Director Robert Lamb; Controller Scott Frazier; Project Manager Dennis Gilson; Society Attorney Virginia Eisenstein; representing the American Philatelic Research Library, Trustee Ken Lawrence.

Absent: Director-at-Large Bob Zeigler.

Resolution moved and read by Clark; seconded by Prill:

Whereas the PNC Bank has agreed to provide the American Philatelic Research Library a construction loan in the amount of \$1.5 million for the development of Phase 1 of the American Philatelic Center at 367 Phoenix Avenue, in Bellefonte, Pennsylvania;

Whereas the PNC Bank requires pledged investments in the amount of \$1.5 million as collateral for this loan; and

Whereas it is in the interest of the American Philatelic Society for the project to proceed in an expeditious manner; and

Whereas the American Philatelic Research Library has requested the American Philatelic Society to pledge up to \$1.2 million of its investments as collateral for the loan; and

Whereas the American Philatelic Research Library has agreed to execute a Judgment Note in favor of the American Philatelic Society in that amount to be due and payable in the event of a default of any payment by the American Philatelic Research Library to PNC Bank.

BE IT THEREFORE RESOLVED that the Directors of the American Philatelic Society authorize the Executive Director of the Society to pledge eligible investments up to a maximum of \$1.2 million to PNC Bank as collateral for this loan.

BE IT FURTHER RESOLVED that the Directors of the American Philatelic Society authorize the President of the Board of Directors and the Executive Director of the Society to sign any documents required by the bank in connection with this loan.

BE IT FURTHER RESOLVED, that this authorization is conditioned on the agreement by the American Philatelic Research Library to cause a portion of the American Philatelic Center to be leased to the American Philatelic Society for its headquarters and operations in accordance with previous practice and procedure.

Resolved this Eleventh day of September, 2002 by the Board of Directors of the American Philatelic Society in lawful session.

Lamb: After nearly three years, the APS/APRL are able to move ahead with the Match Factory. The architect has plans drawn up, bid forms have been distributed to 14 construction firms.

The APRL has approved not only its version of the resolution, but also a space commitment to the APS and a judgment note.

PNC Bank has approved the loan, based on the submitted pro forma, but asks that as collateral we pledge a portion of our assets against it.

If the resolution is approved, we can start construction on Phase I in early November and have occupancy by early July 2003.

Lamb cannot imagine a realistic situation for default. The two organizations have combined liquid assets of \$4½ million. A default would mean the Library would fall behind in its monthly payments, which at its highest point is \$6,533 per month. Donations by members for the Match Factory are running twice that. Also, if a default were imminent, there are a number of very generous members who would step in to help.

A more realistic issue is whether Phase I will be profitable. Lamb says yes. By conservative estimates of earnings and general estimates of expenses, it would begin making money by 2005.

In February, Lamb said that the APS/APRL could not afford to develop the property, but the picture has improved since then. The APS/APRL has reduced its exposure in the market substantially and has an operational budget that is once again in balance. This is a sound, affordable plan for developing the project; the APS/APRL now cannot afford not to develop the property.

For example, one civic group is looking for space, and is seriously interested in renting space in the building, but because of the Match Factory delays, is thinking of going elsewhere. It is clear that if the APS/APRL does not move ahead, it will begin to lose its tenant prospects.

The APS directors' fiduciary responsibility is to get going with this project. There is money tied up in it, which needs to be put to work; there are prospective tenants, who would shortly begin looking for alternatives; there are financial institutions that would question whether APS/APRL is a reliable business partner; and there are supporters in Bellefonte who would question the commitment.

There are members who have given generously in the expectation that work would begin soon.

Klug: Objects to telephone meeting on the openness issue, and predicts much heat. It's legal but not ethical.

Asks about half-point origination fee; doesn't see that on the Pro Forma.

Lamb: Yes, there will be a half-point origination fee. Not on Pro Forma because it would come out of the amount of money that would be received from the loan.

Klug: So it's \$1.5 million minus \$75,000?

Lamb: Yes.

Triggle: In the audit report, APRL has more unrestricted funds than APS, three to four times as much. Why does it have to borrow from APS?

Lamb: That's not correct.

Frazier: Much of what is there is equity in the present building. It's not liquid, and those assets are not in investments.

Schnell: Asks when the application for the construction loan was made.

Lamb: About three weeks ago.

Schnell: Why was this resolution not brought up in Atlantic City August 14th? Or even the fact that the APS/APRL was applying for one? It should have been brought up at an open meeting so it could be discussed at that time.

Second, the present building is worth \$2.5 million?

Lamb: It's on the market for over \$3 million; conservatively, could say \$2½ million.

Schnell: Why can't that building be the collateral for the construction loan?

Lamb: Bank said the building was like a national monument; it could not foreclose on the present building without creating ill will among the APS membership. Instead, it wanted something more liquid.

Schnell: So the current building has no value as collateral, even if APS/APRL wants to get a 30-year loan on the site? The same principle would hold up.

His concern is that there will be a shell completed in June of next year, which is not rentable space, does not have any partitions completed: Won't be able to charge rent. Until that's completed, you can have an occupied rentee. APS/APRL is going to give them a shell. They're going to have to pay for the partitions, or the APS/APRL will. You can't rent an empty shell. Partition construction takes 3-4 months.

Gilson: The build-out for the tenants will begin on or about May 1. The build-out will occur in accordance with negotiated leases with the individual tenants. The negotiations on the work will affect the rents charged. Expects that will take about two months. Expects rentable space by July 1.

Schnell: There's evidence that partitions, electricity and water can be installed in two months?

Gilson: All of the electrical and mechanical work, based upon a generic floor plan, will have been done by May 1.

Schnell: Can that building be used as collateral for a 30-year mortgage? How are APS/APRL going to get the \$1.5 million back?

Lamb: The bank says yes, informally. At this point, have not gotten in detail into the permanent financing, concentrating on the first phase and getting tenants by next summer.

Schnell: Your estimate is partitions done and tenants in by August?

Lamb: Occupancy expected as early as July.

Schnell: And the building could be used as collateral?

Lamb: That's what PNC says.

Regarding the earlier question of why not brought up in Atlantic City: In August, the Building Oversight Committee asked the developer to explore funding options. It was only two weeks ago that the developer came back and said this loan arrangement with PNC was the best deal.

Schnell: Most developers develop a project and either lease it back to the owner or sell it.

Lamb: Developers can do a range of services. The APS/APRL wants its developer to find and maintain tenants. Staff does not want to get into the business of managing the tenants, and would look to developer for that, too.

Klug: Asks for explanation of why the Life Membership and Insurance Funds are not involved.

[Hotchner departs]

Lamb: Have been looking at unrestricted fixed investments from the Society. Insurance Fund has \$600,000 of the fixed income total of \$1.6 million. The Life Membership Fund is \$362,000 of that, and the Tiffany Fund is \$51,000, but restricted.

The bank does not require the designation of which funds are being pledged. The pledge is against the total pool of fixed income investments. If in this really, absolutely impossible-to-conceive eventuality of a default, and APS/APRL had to draw down these investments -- and there are a number of other recourses, and touching any of the investments is an absolute last resort -- it could be done so that no Life Membership or Insurance fund money would be touched.

Klug: But they are part of the pot of fixed income money that is being pledged.

Yes, but the total available in fixed income money of the APS is \$2,048,000. It is not accurate to say that Life Membership or Tiffany Endowment Fund money is being pledged.

Klug: But it's still the same pot.

Washburne: It's like a home improvement loan. It's not everything you own.

Klug: Understands that.

McCann: If you subtract the pledged amount, the total available is still more than the Life Membership and Insurance Funds.

Lamb: No, it isn't, but the APS would then transfer \$100,000 to make it so.

McCann: Could you specify what funds would not be touched?

Triggle: Could you specify which funds are eligible?

Lamb: Which funds are eligible isn't the bank's business. That could be a separate motion. Would have to transfer \$100,000 from equities to fixed income, but doesn't want to move the money now in case of a remote eventuality.

Clark: That's a good addendum.

Klug: We just raised dues, but we said that it was not because of the Match Factory, and here we are pledging Life Membership money.

McCann: Not really, but agrees it would be perceived as such.

Lamb: Agrees to an addendum as a subsequent motion.

Triggle asks Clark: Has the Finance Committee made any findings on this?

Clark: It was not presented to them.

Triggle: Why?

Clark: Was talked about in general. Doesn't think Committee will have a problem with it.

Lamb: Finance Committee had detailed discussion of the Pro Forma in the June meeting, and there have only been slight changes since then.

Clark: Thought Triggles was asking about this specific proposal, which the Finance Committee has not seen. They have reviewed the Pro Forma as a possible method and were comfortable with it. There have been few changes in it since then.

Schnell: Concerned because APS puts up \$1.2 million and already loaned APRL \$370,000, and APS has no control of the money. APS has given that control to the Library. The Library has raised the APS' rent by 20% in the present budget. If APS/APRL were all one big happy family, he could understand it, but has misgivings about giving that much money out without retaining control of it.

McCann: APS and APRL are really much more financially intertwined than sometimes is thought.

Lamb: Increase in rent due to increases in the amount of space used by the APS and in maintenance of the present building. As the building gets older, maintenance goes up. Also, in recent years, APS has been taking more space from APRL, which increases the rent for the APS. The Internet Sales Unit and Education Department came entirely out of former Library space. APS subsidizes the Library heavily, giving it lots of control.

McCann asks for other comments.

De Vries calls the question.

Klug: Not really concerned about phase one of Phase I, doesn't really think there's a chance of default, but is concerned about the balloon payment at the end, when APS/APRL still owes \$1.5 million. It doesn't bring us closer to Phase II. Will still be in debt for \$1.5 million, don't know how that's going to be financed or what the collateral will be for Phase II, which is the part everyone really wants. Expects \$300,000 a year more in debt servicing. Where is the money going to come from?

Lamb: Has given thought to next stage, but it's premature to talk about those plans. The developer is working hard on that.

It's not true that this does not get APS/APRL closer to Phase II. Phase I includes all site preparation costs (paving the parking lot, removing fences, landscaping, and security lighting for the entire site), subsidizes main project by a little more than \$500,000. That makes it easier to deal with the next phase.

It also takes \$1.5 million in costs off the entire project, making it much easier to deal with the next phase.

He expects to present to the Board a proposal for Phases II and III in early 2003.

Schnell: Won't outfitting the space require additional money from the APS?

Gilson: Roughly 20% of the \$1.5 million is contingency. Depending on how much space the tenant is taking, its requirements and its ability to pay, the tenant can be required to pay rent in advance or pay different amounts of rent. But it's premature to discuss this until in negotiations with tenants.

Schnell: But the APS may have to come up with additional money other than the \$1.5 million.

Gilson: Doesn't think so.

Lamb: No, a reasonable amount for tenant build-out is included in the plan, so long as the tenant wants a plain-vanilla office.

Schnell: The question is answered. There's enough money in the \$1.5 million so that if the tenant needs help with the partitions, the APS/APRL won't have to borrow more money.

Lamb: Exactly.

Washburne: APS/APRL will need to raise funds to finish the project, and will need to hire a new Director of Development. Is anything happening with that?

Lamb: No. Have had two development directors, neither raised enough to justify an in-house office. Fund-raising is going very well now. He recommends retaining a firm to do it, rather than another individual, but he feels that is premature now. Fund-raising has just begun, and is doing quite well.

Have received \$59,000 for the Match Factory this year as of Stampshow, and expects that amount to grow. Members are stepping forward, and he expects that amount to continue growing.

McCann: Agrees APS/APRL needs professional help on this, but thinks hiring a firm is much more efficient.

Question called again.

Triggle, de Vries, Clark, Prill, Washburne, Leshner in favor; Klug and Schnell, opposed. Motion passes 6-2.

McCann indicates he would have voted yes.

Triggle moves: "In the event that it becomes necessary, neither the Life Membership nor Insurance Funds will be used to satisfy the pledge." (Language as subsequently revised by Eisenstein, Lamb, others.) Seconded by Washburne.

Passed unanimously. McCann indicates he would have voted yes.

Lamb: Mailing this week will include artist's rendering of Phase I that it is a building of which the Society can be proud. Will make sure that Building Oversight Committee (McCann, Clark, Lamb, and Charles Peterson, APRL president) monitors the project progress and that the Board will know quickly if there are any problems.

McCann asks that the results be announced immediately in a press release and on the APS Web site.

Lamb: Tried hard to have proposal ready for Atlantic City.

McCann: Wants to make that clear in the press release. All are in favor of openness, but sometimes need interim telephone meetings. Alternatives would have been a special meeting in State College or waiting for the meeting in Biloxi.

Triggle: Is this meeting a matter of public record?

McCann: Yes. Asks Eisenstein if Board needs to confirm this telephone vote in Biloxi.

Eisenstein: No, this is a duly-constituted meeting.

Lawrence: Should say in the press release the proposal to do this kind of funding was presented at the APRL trustees meeting, but didn't have specifics then. As soon as both Boards got the specifics, it was acted upon.

Klug: Explains why she voted against resolution: Phased development makes it very difficult to plan for future financial requirements of this proposal, and there still isn't an exit strategy. If there is so much confidence that this is going to work, then there would be no need for an exit strategy, so doesn't understand why there is so much resistance to one.

De Vries: Isn't one exit strategy to bail out after Phase I? Since we don't yet have the plans, we're not necessarily going to go on to Phase II. The exit plan is we can get out after Phase I.

Lamb: Agrees, there are different exit points and different exit strategies as the project progresses, and there is an exit strategy any time a majority of the Board says "We want to get out of the project." The Board just tells the staff, and the staff develops the exit strategy.

Washburne: Agrees. Also thinks once this building is completed, it can probably be sold at a profit.

Klug: Then why not a planned exit strategy? In an exit strategy, you plan for things you hope will never happen.

De Vries: Plans change week to week, month to month.

McCann agrees, the strategy would vary. No one on the Board wants something bad to happen to the Society, and if the Board sees that something drastic is going to happen...

Klug: When do we decide something drastic is going to happen? At what point do we allow our financial reserves to dwindle before we realize there's a problem.

McCann: Finance reserves are not dwindling. When they do start to dwindle, there will be a problem and the Board will have to deal with it, but must see where we are when the problems start to happen.

Prill: Finance Committee should be involved in oversight, in addition to the Project Oversight Committee.

Klug agrees.

Prill: Don't need to call it "exit strategy," just that Finance Committee will be monitoring this.

Clark: If we ever do need this "exit strategy," agrees that what Klug wrote in e-mail of September 8 is quite appropriate: "The exit strategy and parameters for same shall be developed jointly by the Finance Committee and Project Oversight Committee in consultation with the APS Executive Director, Controller, and Project Manager to conserve and protect remaining assets if the project falters."

McCann asks that Clark bring up to the Finance Committee the possibility of needing an exit strategy at various stages.

Klug: Formal motion?

McCann: Not needed.

Triggle: Sense of the Board?

McCann: Yes.

Lawrence: Personally believes chance of any sort of "financial earthquake" coming from the APRL is very small. There are other possible problems that could threaten the Society, too. Suppose the federal court in New York accepts Greg Stolow's lawsuit against the APS. There's no "exit strategy" for the Stolow lawsuit, for example, if he were to win a \$10 million judgment. Why do some people keep harping on this issue and not others?

McCann: Notes that Clark has the sense of the board on oversight by the Finance Committee.

Lamb: Have taken very positive step today that will help with all the constituencies – members, tenants, financial institutions. Doesn't want term "exit strategy" used; too negative.

General agreement.

McCann: Board will ask Finance Committee to monitor with periodic review.

No objections.

Washburne to Gilson: Will the eyesores on the other side of the tracks be demolished in Phase I?

Lamb: The Society is already in contact with the Borough about the proper timing for this.

Clark moves to adjourn, Klug seconds, passes unanimously, 6:08 p.m. EDT.