

A letter from National Arts Club President Dianne Bernhard to NAC members:

Dear Members:

I hope that this letter finds you all well. As you know, the 2011-2012 season of The National Arts Club is in its final few months and I could not be more proud as it has been a remarkable season to date. In spite of the ongoing legal battles and sensational coverage in the news media, it has been an exciting and energetic time here at our Club. I have met and spent time with many of you in these past months and when doing so, I am reminded why we are all working so hard. Our programming continues to be top-notch and our Committee Chairs and all of you deserve our gratitude for remaining so committed.

I wanted to take some time to give you a thorough update on some of the things going on since my last communication with you that are less visible. Much has happened, and you, our Members, should remain informed.

Improvements Continue at The National Arts Club

First, I hope that you have had a chance to meet our ever-present new General Manager, John Eramo. John brings us abundant experience as he has managed at a number of city clubs and has already proven to be an absolutely invaluable addition to the NAC team, having an immediate impact on almost every facet of the Club, the Clubhouse and the Studio House. In addition to his day-to-day responsibilities, John is working hard on strategic planning for the Club's future and has brought in a full-time controller, William Reader, to employ a best practices approach to the accounting and finance operations, with the appropriate objectivity, financial controls and good business judgment. Mr. Reader has over 20 years of experience in financial management at some of the most prestigious clubs in New York City and has an impeccable reputation. Needless to say, our responsibility to maintain sound fiscal order remains a priority.

With John and Bill on board, I, along with the Executive Committee, the Board of Governors and our Committee Chairs will have much more opportunity to focus on the Club's mission of educating the American public in the fine arts, making certain that we address the needs of our Membership and initiate necessary development and fundraising initiatives that will insure the future stability of our Club.

We are also focused on providing the Club's Staff with a pleasant

working environment and benefits they work so hard to earn and absolutely deserve. In this regard, I'm particularly proud to announce that in February the Board voted for, and made available, for the first time in the Club's history, significantly-subsidized health care insurance to all of the Club's employees as of March 15th. We are also now exploring the establishment of a 401(k) plan for the Club's employees. This is a very low-cost but important benefit that we feel should be strongly considered. We will continue to take the steps necessary to demonstrate commitment to our loyal and talented staff by making employment at The National Arts Club highly desirable and competitive with our peer group.

An Update on Litigation

Sadly, I must tell you our Club is still spending significant time and resources dealing with law enforcement investigations focused on the operation of the Club in past years. In the last several months, many of our employees, and some Members, have received subpoenas from the Attorney General's Office. They have all testified under oath about what transpired at the Club under the former administration. The District Attorney's Office has also stepped up its requests and activity. While responding to the Attorney General and the District Attorney is time consuming, costly and tough on the morale of the staff, we feel that this increase in activity does mean that an outcome to these investigations is not too far away, and that is a good thing.

Additionally, the Board of Governors, following the Club's Constitution as well as detailed orders of New York State Supreme Court Justice Carol Edmead, conducted an internal hearing to determine whether or not Aldon James, John James and Steven Leitner (The James Group) violated Club rules and did damage to the Club. Justice Edmead's involvement was unprecedented, and she insisted on a disciplinary process that was well beyond any process required by the NAC Constitution, or the Constitution of any other club we know of. While we disagreed with many of Justice Edmead's rulings, we felt it best not to appeal them, because it seemed that the simplest and most cost-effective way to proceed was to allow Justice Edmead to oversee this process rather intensify the litigation as we have always believed that whatever process is required, the facts will remain the same.

After a number of court ordered delays, the hearing was finally conducted in January. A Board sub-committee heard a full day of testimony by ten eyewitnesses, and examined many Club documents. After deliberating on the evidence, the sub-committee found The James Group had indeed violated Club rules by misappropriating Club assets and funds, by harassing members and staff, and by acts of violence

against Club members, including the mistreatment of one of the Club's elderly tenants, among other transgressions and malfeasance. I think it is important for you to know that, after delaying the hearing several times over many months, often citing the need for additional time to prepare for the hearing and scheduling conflicts, The James Group chose not to attend the hearing or offer any testimony on their own behalf. Despite this, the Board continued to "take the high road," and agreed to consider documents that were provided by The James Group after the hearing record was closed when it decided the allegations stated in the Statement of Charges.

As required by the Constitution and By-Laws of our Club, the sub-committee presented its findings to the Board in February. The Board Members who were eligible to vote on the charges carefully and thoroughly considered the evidence presented to them and, after thoughtful deliberations and discussions, found that the appropriate discipline for The James Group's actions should be expulsion from the Club for all three members, by a consistent vote of 13 Board members in favor of expulsion and 2 abstaining -- there were no votes opposed to expulsion.

The NAC Constitution Under Fire

Regrettably, we were dealt a serious setback in our ability to self-govern on Thursday March 22. In spite of our best efforts to follow the directions of the New York State Supreme Court, in spite of the fact that we believe (and the law supports) that a private club should be allowed to govern itself, Justice Edmead ruled that the Board was biased in its findings and should not be allowed to govern the Club in accordance with its own Constitution. She based her ruling entirely on the fact that, during the ongoing litigation brought by The James Group against our Club, the Board authorized the filing of counterclaims in response to one of the lawsuits brought by The James Group. You should know that the Board has an affirmative and fiduciary obligation to protect the assets of the Club. It must do everything in its power to recover any monetary damages that resulted from the wrongdoing of The James Group, provided there is enough evidence to suggest that those damages were caused by The James Group. Justice Edmead has reasoned that the Board's decision to protect the Club's assets, while also moving to discipline The James Group for their actions, indicated some form of institutional bias on the Board.

Where We Are Today

So, where does this leave us? On March 27, the Club filed an appeal of Justice Edmead's decision and also filed a motion asking her to

reconsider her decision after reading the full transcript of the hearing to see just how thoughtful, objective and fair the hearing process was. And, if Justice Edmead will not reconsider her decision, we have asked her to stay her decision until our appeal is ruled on, because we strongly believe that relief will be granted based on the merits of our appeal. Finally, in an effort to wrap this matter up as expeditiously as possible, we have also agreed, as required by Justice Edmead's latest order, to do the entire hearing over again in front of a neutral arbiter during the third week of April, if necessary. We are quite confident that our Board acted appropriately, that the facts will not change even if the venue does, and that a neutral arbiter will see them in the same light as that of the Board.

Fellow Members, I say this with the utmost sincerity - I am so sorry that you to have had to bear this burden -- this is not what our Club should be about, nor is it. However, in the interest of complete transparency, I must tell you that the threat posed by The James Group to our Club is very real. The ongoing expense of unnecessary litigation and fear amongst Members and residents of the Club's apartments are damaging our institution. I can report that since Justice Edmead's decision, the harassment of our staff by members of The James Group has increased, and certain tenants and Members feel the need to carry cell phones at all times in fear of personal harm. Finally, while the Club was able to recover two apartments formerly in control of The James Group, they continue to hold leases on four apartments; leases on those apartments will expire over the next nine months.

The Club Needs Your Attention & Action

Now more than ever, your interest in the Club's governance is absolutely critical. To that end, I strongly encourage you to come to the Club's administrative office and read the record of the hearing to see for yourself what has been presented as evidence and how very serious it is. Additionally, Justice Edmead's March 22, 2012 decision and our motion asking her to reconsider her ruling will be made available. If you would like to review the hearing record, or the most recent proceedings before Justice Edmead, please call the Club at (212) 475-3424 and make an arrangement with our General Manager, John Eramo. You will be asked to sign a confidentiality agreement as this is proprietary Club business and should not be discussed outside of the Membership. However, this is your Club and you have the right to this for your own informed decision making. Additionally, I encourage you to take a look at the Minutes of this season's Board meetings, which will also be available for your perusal.

Your Vote Is Critical!

Of equal concern is our upcoming Annual Meeting of Members on Tuesday, May 1st. If you have not done so already, please put this meeting on your calendar and, please fill out your proxy and return it as soon as possible. We must have a quorum, made up by members attending in person or by receipt of their proxy. The agenda for this meeting, including the election of a slate of new Governors and other appropriate business, has never been more important. The process of reform that began last year will continue at the Annual Meeting this year, provided we all exercise our democratic rights and participate in the Annual Meeting and election in person or by proxy.

And while we welcome constructive discourse, you should be aware that there may be a small minority of people who try to disrupt the Meeting, run an alternate slate of Governors and/or propose amendments to our Constitution under the guise of doing what is in the "best interest" of the The National Arts Club. I can assure you that the individuals behind this behavior do not have the best interest of our Club in mind.

Communications you may receive are likely to be from the same people who have advocated vehemently on behalf of The James Group over the course of this season. These individuals, some of whom have served on the Board and gone on record as supporters and admirers of the past administration, care only about continuing this conflict, distracting us from our mission and clouding the truth about the past, all which ultimately inhibit our Club from healing itself.

I encourage all of you to see the situation of the Club for what it is -- more reform has taken place at The National Arts Club in the last year than has occurred in the prior twenty. As a testament to this, the Concerned Artists of The National Arts Club, a group that was formed over a decade ago to advocate for reform - only to receive the wrath of the prior administration - has disbanded, because its members believe that the current administration is managing the Club with a true belief in fiduciary responsibility and putting the institution before individuals.

With that, I leave you with my sincerest thanks for your membership, your support and your trust, as I serve at your pleasure. This has been one of the most difficult years in our Club's history, and at times very painful for me personally. But the rewards are well worth our angst and hard work. We will continue the process of reform together and for what we have accomplished thus far, and what we will continue to accomplish, I am most grateful. We can all be very proud of the work we have done this season.

Sincerely,

Dianne Bernhard

President