

October 11, 2011

Dear Fellow Members:

I am happy to provide you with another update on our Club, but saddened and frustrated that its subject must be the continued, costly actions taken against all of us by Aldon James, John James and Steven Leitner (the James Group). Regrettably, I cannot report to you that the situation has gotten better. To the contrary, the James Group has opened up another front in the legal battle they continue to wage against our Club.

Ongoing Litigation to Invalidate the NAC Constitutional Direction for Disciplinary Action

As a result of the government investigations and our own internal investigation, there appears to be a long pattern of misfeasance, malfeasance, harassment, abuse of power and misappropriation of Club assets by all three members of the James Group. Additionally, certain Members of the Club have filed internal charges against the James Group and the NAC Constitution clearly specifies that the Board should hear these charges to determine what, if any, discipline should be imposed upon them as members. The Board has gone far beyond what our Constitution prescribes in order to hear these charges and took additional care to actually set up procedures that call for the equivalent of an internal hearing, allowing the James Group to mount a full defense. Because of a lawsuit filed by the James Group, the New York State Supreme Court asked that we expand this due process (a decision that we fully support), and agreed that our internal hearing will proceed once these procedures are finalized. A hearing to accomplish this is scheduled for October 26 in front of Justice Carol Edmead and I encourage all of you to attend if you are able. *(Further details are provided at the end of this letter.)*

Ongoing Litigation to Block Entrance to Apartments Held by the James Group

In my last letter, I referenced almost 20 apartments and units that the James Group originally controlled. We have managed to successfully recover all but six of these units, which include their three respective residences. To date, full access to these six units has been blocked by the James Group, resulting in considerable legal costs to the NAC. As we believe significant Club assets are being improperly held in the apartments, it is our fiduciary responsibility to gain entry to these units to, at a minimum, assert the NAC's ownership -- these assets may include hundreds of thousands of dollars in donated art, furniture and objects and other Club property. With regard to the three units in question that are leased by Aldon James, John James and Steven Leitner as their residences, in 2006, the then Board approved below market leases for Aldon James and John James in consideration of benefits they believed the Club would receive from having them as tenants. These leases expire in 2012 and renewal of them is dependent on Aldon, John and Steven being members in good standing of the Club and the Board reapproving them. *At no time has the NAC attempted to evict Aldon James, John James or Steven Leitner from their residences.*

Another apartment has a lease that was entered into between Aldon James and his brother, John James, on January 1, 2011 for two years without the knowledge of the Board or anyone else for that matter (with the potential exception of Steven Leitner as House Committee Chair) –

essentially under a cloak of secrecy. This apartment's approximate \$2,200 per month lease is made in the name of *Decorative Arts and Planned Giving* and was signed and fully pre-paid for by John James. The remaining two apartments in control of the James Group have no leases on them at all. The James Group claims that they are entitled to them because their other three residences are uninhabitable due to water damage that occurred many years ago, during Aldon's administration, and were never repaired. Aldon and Steven, as President and House Committee chair, respectively, were the only people authorized to make these repairs and they chose to do nothing, which as we have now learned, was their typical treatment of the physical plant.

After twice attempting a fair and reasonable negotiation to recover the non-leased apartments, the James Group walked away from negotiation and the Club was forced to engage Landlord/Tenant counsel to begin eviction proceedings rather than choosing the self-help option and locking the James Group out of these two units, in which they are effectively squatters. Not surprisingly, the James Group is aggressively fighting our attempts to repatriate these two non-leased units and while this drags on, we do remain concerned about the sanitary and safety conditions of these units given what we discovered in others under the Group's control.

New Litigation to Invalidate the Club's Annual Meeting

The James Group's latest strategy to "take back the Club," as Aldon publically stated as their intention, is a new lawsuit against the Club claiming the 2011 Annual Meeting did not have a quorum present and as such, the results of that Board election are invalid. This is particularly troubling as the meeting was conducted in the same fashion as it had been in years prior, except that we went to the additional step of hiring a well-regarded election attorney to count the votes instead of allowing John James to perform that task on his own, as had been past practice. Additionally, the slate of governors that was on the ballot during that meeting ran unopposed, and was elected by an almost unanimous majority of the Members who submitted proxies or attended the meeting. In fact, Aldon James, John James and Steven Leitner themselves voted for the governors who ran for election at the 2011 Annual Meeting. The NAC, being forced to respond to this complaint, is filing its answer later this week and we believe that that the court will find for the NAC based on the case law, but this answer requires significant effort and expense.

In fact, each of the lawsuits filed by the James Group results in significant costs to our Club. Since the Attorney General and District Attorney commenced their investigations, the Club has incurred over \$500,000 in legal fees, most of it attributable to responding to allegations of misfeasance during the James Group's reign, or to responding to their lawsuits against the Club. At this point, there does not appear to be an end in sight, given all of the complaints the James Group continues to file in an attempt to challenge the NAC's Constitutional due process at every turn.

Since Aldon James stepped aside as President, the Club has attempted to negotiate agreements with the James Group to vacate the Club on two distinct occasions with two different lawyers representing the James Group. In the first instance, after we had arrived at an agreement, the James Group changed their minds without explanation. In the second instance, terms suggested by the James Group were so sweeping, they were proverbial non-starters.

For those Members who suggest that we should forgive Aldon, John and Steven for their alleged wrongdoings, because of all that they have done for the Club in the past -- and the Board of Governors agrees that Aldon did contribute to the fabric of this institution -- the answer is simply that *we cannot*. Given the scrutiny the governance of this institution is under by law enforcement, we are unable to neglect our responsibility to the NAC Members and the public by ignoring the charges filed against them or the results of our internal investigation. If we do anything short of fulfilling these obligations, we will have breached our fiduciary responsibility to you, the Members, and the public that we serve. Further, most assuredly, law enforcement will intervene and the future of this Club will become very much in jeopardy.

So I ask you, as fellow Members, to consider these facts and the enormous amount of pressure we are all under. Additionally, I encourage you to attend the next hearing on *October 26 at 10:00 a.m. in Room 438 of the New York Supreme Court, 60 Centre Street, in Manhattan*, so you can see for yourself what we are all party to, firsthand.

I cannot express enough how important this situation is to every Member and the need for us to band together to save our Club and assure it is both healthy for all of us to enjoy today and strong and relevant for those to whom we will pass it on tomorrow. The institution must always be larger than any individual. On behalf of the Board, thank you for your ongoing support.

Sincerely,

Dianne Bernhard
President