

October 28, 1948

To the Membership of Rochester Yacht Club:

Questions which vitally affect the future of Rochester Yacht Club will be discussed at the special meeting of the membership on November 3rd, and you are urged to attend this meeting and there express your independent judgment.

This letter in effect is a minority report by the undersigned officers and director who believe that the decision of the majority of the Executive Committee to exchange certain assets of the Club for stock of Claverhouse Corporation was made without sufficient investigation of facts and without due consideration of the effect of such action upon both the present and future financial outlook for the Club.

In 1877 Rochester Yacht Club, a membership corporation, was organized to further the sport of yachting. That is your present club. In 1902 five of the then members of the Club formed a stock corporation, Rochester Yacht Club Company, whose duration was limited to 30 years and whose purposes were "to purchase, lease, sell, own and improve real estate \* \* \* and to construct and erect buildings for club or other purposes, and to furnish and equip the same, and to lease or sell such buildings." This stock company purchased part of the present property in 1907, thereafter erected the club house and made other improvements, and in 1929 purchased the balance of the property from New York Central Railroad. During its 30 years of existence ending in 1932 the Company from time to time sold about \$50,000. of its stock to members of the Club to pay for the property and its improvements.

During this 25 year period the Club occupied the property as an informal tenant, paying the taxes and the interest on the bonds and the mortgages of the Company and the cost of repairs to the property. These carrying expenses were paid from the dues and boat charges collected by the Club from its members.

When the stock Company ceased to exist in 1932 most of its \$50,000. of outstanding stock was owned by active members of your Club. Therefore it is quite understandable why the required legal steps then were not taken to liquidate the expired Company and either to distribute its assets among the stockholders or sell the property to the Club or to a new holding corporation. For the past 16 years the title to the property has been suspended, and subject to liquidation proceedings. The Club has continued to occupy the property and pay its carrying charges.

In addition, both before and after 1932, the Club expended thousands of dollars of its members' money upon permanent or semi-permanent improvements to the property.

Of the old Company stockholders many now are dead and many others have dropped their club membership, so that the unity of interest which existed between stockholders and members 16 years ago is rapidly disappearing.

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Your Club in effect is a squatter on property which it does not own. Is it good business or sound judgment to continue to invest thousands of dollars for capital improvements on property which you do not own? Obviously it is not, provided the Club can afford and is willing to raise the money required to buy the property of the expired Company in liquidation proceedings.

Whether the Club can secure the title to this present property in an economical fashion depends on important questions of law, fact and procedure, some of which are listed further on in this letter.

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But you are being told that the only question is whether the Club should acquire the Boat Works property now owned by Claverhouse Corporation.

Unfortunately that is not so, for two important reasons:

a) Regardless of the desirability of the Boat Works property the Club hardly is justified in paying \$25,000. or \$15,000. for it until the Club is assured of ownership of the present yacht club property through the liquidation of the old Company.

b) The proposed method of acquiring the Boat Works property commits the Club to a specific plan for the liquidation of the old Company, a plan which has not been approved by the Executive Committee nor submitted to you.

The proposed method of acquiring the Boat Works property is not by a simple, straight-forward contract of purchase from Claverhouse Corporation at a definite price upon explicit terms of payment. On the contrary the Club is asked to invest in Claverhouse Corporation so that as principal stockholder of that corporation the Club will control (but not own) the Boat Works property.

While everyone can agree with the general proposition that it would be desirable for the Club to own the Boat Works property some of us question whether the expected benefits from such ownership are sufficient to justify the continued drain on the Club treasury which seems to us inevitable. The experience of the Club with its present properties clearly shows that no profit can be realized from the operation of yacht club property if the capital investment necessary to produce income is written off on a businesslike basis. No estimates have been submitted of the cost of improvements on the Boat Works property which must be made before there is any possibility of a net income. Nor has any suggestion been made as to how the money will be raised for such capital improvements.

For several years past the Club has about broken even on its annual operations, after raising dues and charges and collecting a special \$4,000. assessment. We are definitely faced with some \$8,000. of extraordinary repairs for next year on the present properties, and a deficit well may result unless dues and charges again are increased. If the Club decides to take over the Boat Works property it seems clear that our annual expenditures will be increased at least \$2,000. to carry and pay for that property.

If, with a clear understanding of our financial needs, the Club decides to take the Boat Works property, then we urge that the Club buy the property directly from Claverhouse Corporation rather than make an investment in the stock of that corporation.

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The specific plan for the liquidation of Rochester Yacht Club Company, presented to the Executive Committee last August is based upon the use of Claverhouse Corporation as a new holding company. The details of that plan are too involved for such a report as this. But its general scheme is to ask the stockholders of the old Company to surrender their stock for shares of Claverhouse Corporation, and after a substantial majority of such old stock may be surrendered,

then to explore the possibilities and requirements of a liquidation proceeding for the expired Company and of a settlement with the old stockholders who have not voluntarily made the exchange for Claverhouse stock.

Many of us are convinced that this Claverhouse liquidation plan would greatly increase the existing confusion and that it might even make impossible the liquidation of the old Company on any economical basis. Such opinion is supported by independent counsel whose advice the Executive Committee requested. Furthermore this plan would not eliminate the formal liquidation proceeding required by statute, but merely postpones the time when such proceeding would be taken.

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Before we or the membership can make a proper decision as to whether the liquidation of the old Company can be done economically to the Club the following questions must be answered as accurately as possible:

1. Can the liquidation legally be completed in a fashion which will be economical to the Club and which also will relieve the Directors of the old Company from all liability?
2. Will the Directors of the old Company co-operate in attempting to effect a liquidation economical to the Club?
3. To what extent and in what manner will the old stockholders cooperate with the Club in transferring their interests to the Club?
4. What are the nature and amount of the permanent and semi-permanent improvements which the Club has put into the properties during the past 41 years, and how large an amount may the Club put forward as an offset to the claims in liquidation of such of the old stockholders as may be unwilling to cooperate?

No attempt has been made to investigate or give the answers to these questions. Neither the Executive Committee nor you now are able to form a considered and unbiased judgment on the paramount question: Can the liquidation of the old Company be accomplished within the means of the Club?

The good faith and generous spirit of the members who put up \$14,000. to secure the Boat Works property is unquestioned. They and we all are wholeheartedly working for the best interests of the Club.

On December 2nd you will elect new officers and directors and your newly constituted Executive Committee will take over the management of the Club for the ensuing year. Those officers, whoever they may be, will have your confidence because you are about to elect them. They certainly will have the responsibility of executing whatever plans may be adopted respecting the liquidation of Rochester Yacht Club Company.

You will agree, we believe, that an investigation and weighing of the important and pertinent questions outlined above must be made before undertaking any action involving such important consequences to the Club. Therefore we suggest that you authorize your new Executive Committee to proceed promptly with the investigation of facts and possibilities, and that final commitment on any of the questions presented to you at the special meeting on November 3rd be postponed until such facts and possibilities shall be ascertained and reported to you with such plan or plans as the new Executive Committee may suggest.

JAMES G. DALE, Vice-Commodore

VINCENT J. MULVEY, Treasurer

JAMES A. McCONNELL, Secretary

HENRY T. MALJGREN, a Director