

# USCF EXECUTIVE DIRECTOR'S REPORT



by Frank A. Niro

There have been many changes affecting the United States Chess Federation during the past year. Time will tell whether the changes are for the better, but I remain optimistic that we have made the right decisions. While we haven't quite turned the corner there is no doubt that we have changed direction. I would like to utilize my report to highlight some of the most significant changes. These are presented in relation to the following operational areas:

1. Re-establishment of a viable Books & Equipment operation
2. Analysis of relocation options for USCF headquarters
3. Improved Cash Flow and reduced Accounts Payable
4. Membership trends
5. Ratings & MSA
6. Office Staffing & Customer Service

## FOLLOWING IS A SUMMARY OF NET SALES REVENUE BY MONTH DURING THE PAST FOUR YEARS:

MONTH	FISCAL 2003	FISCAL 2002	FISCAL 2001	FISCAL 2000
June	\$164,681	\$155,847	\$171,753	\$247,242
July	182,549	124,617	144,598	211,411
August	191,196	160,226	200,567	228,869
September	189,289	106,349	161,853	208,888
October	226,663	136,261	226,471	265,582
November	270,274	134,102	264,651	370,100
December	351,494	150,409	337,444	323,491
January	189,839	171,310	179,638	182,359
February	164,387	110,898	175,940	290,961
March	225,887	173,436	252,202	282,641
April	210,138	203,577	269,281	177,769
May	263,267	235,924	149,939	211,484
<b>ANNUAL TOTALS</b>	<b>2,629,664</b>	<b>1,862,956</b>	<b>2,534,374</b>	<b>3,000,797</b>
<b>CHANGE FROM LAST FISCAL YEAR</b>	<b>+41.2%</b>	<b>-26.5%</b>	<b>-15.5%</b>	<b>-11.5%</b>

## 1. BOOKS & EQUIPMENT

Last year I presented a plan for revitalizing our books & equipment operation. The main goal was to determine the demand for our products without incurring a major incremental investment in inventory. In order to accomplish that goal, our strategy included expanding the range of products in our catalog, development of strategic partnerships with others, bolstering of concession sales at our national tournaments including the use of bar coding and state-of-the-art cash registers, reassignment of duties within the USCF office, expansion of telephone 'hot line' hours, improvement in our web store appearance and functionality, reduction in back orders, good credit and payment terms with all suppliers, minimization of losses due to inventory obsolescence, and enhanced automation of our transaction processing systems. I am pleased to report substantial progress with respect to all but the last of these. I anticipate that we will tackle the automated systems problems head-on during the coming year.

Meanwhile, the numbers speak for themselves. We are clearly back to the 2001 level of Books & Equipment sales and may well return to the \$3,000,000 level in fiscal 2004. Now that we can conclude that demand

for our products remains strong, our primary objectives in fiscal 2004 will be as follows: operate more efficiently in order to increase net margins, eliminate certain unprofitable concession commitments at national tournaments, streamline the catalog production cycle and reduce catalog expenses, evaluate and strengthen existing partnerships, improve product selection, institute automated credit card processing in connection with our on-line store, and utilize wireless credit card machines at concessions, where possible.

## 2. RELOCATION OPTIONS

On June 9, 2003, the Executive Board voted to relocate the USCF corporate headquarters to Crossville, Tennessee. For those who previously thought we were moving to Miami, or Palm Beach Gardens, I have presented a synopsis of the events concerning the proposed move since the last Delegates' meeting.

As a result of the USCF Strategic Planning process conducted in early 2002, it became apparent that significant operating expense savings could be realized by changes in the workflow and supporting systems at USCF headquarters in New Windsor. At the same time, a potential buyer came forward prepared to pay "fair market value" for the existing property. With this in mind, management began exploring relocation options, locally and elsewhere, that would provide the opportunity for potential savings to be realized.

Prior to the annual meeting in Cherry Hill, Shane Samole agreed to a proposal which would accommodate the USCF headquarters in a building adjacent to the World Chess Hall of Fame & Sidney Samole Chess Museum in Miami, on property owned by Excalibur Electronics. Mr. Samole is President of Excalibur Electronics, a member of the U.S. Chess Trust Board, and a principal benefactor of the Hall of Fame. The building, as envisioned, would be newly constructed on two floors, with one floor designed to our specifications and attached to the Hall of Fame. If needed, additional warehouse space would be made available up to an aggregate total of 8,000 square feet at an annual cost of \$12 per square foot net of utilities, taxes and insurance. The total lease cost of \$96,000 annually was set as a target since it was felt that more than \$100,000 per year in operating cost savings could readily be achieved with such a move. In other words, the savings will be more than the rental expense. This assumption is fundamental to the decision to relocate. Additionally, Mr. Samole agreed to handle the financing for the project. Finally, the synergy of having the USCF office housed on the same campus as the World Chess Hall of Fame seemed evident to me at the time.

As a consequence, relocation of the USCF headquarters to Miami was incorporated into the USCF strategic plan presented at the 2002 Delegates' meeting in Cherry Hill. An important factor at the time was that an opportunity to build a separate facility on the property contiguous to the World Chess Hall of Fame was a realistic possibility at some point in the future. The project could be financed, at cost, through Excalibur Electronics with a subsequent option to buy. Management did not believe that building on the adjacent property was financially feasible without infusion of new capital, but it was hoped that it would remain a reasonable option to consider a few years down the road.

Subsequent to the Delegates' meeting, a new proposal was received on behalf of the community of Palm Beach Gardens, Florida. Coordinated by a local organizing committee which was co-chaired by two USCF members, Don Schultz and Joel Channing, a proposal was developed in October and presented to the Executive Board for consideration at its meeting in Boca Raton in November. The proposal contained a number of attractive elements including:

- (1) New building in a desirable location
- (2) 8,000 sq. ft. at \$11.75 per square foot under a ten-year lease
- (3) Limited option to buy
- (4) Substantial community financial support

Since the Executive Board was entertaining a proposal other than Miami, it was recommended by some USCF delegates that a notice be put up on the USCF website notifying our members that we were seeking proposals for possible new headquarters. This was accomplished on December 10. Subsequently, we received inquiries from 27 additional communities, including:

- |                        |                       |
|------------------------|-----------------------|
| 1. Trenton, NJ         | 2. Mobile, AL         |
| 3. Kansas City, MO     | 4. Minot, ND          |
| 5. Cortland, NY        | 6. Bloomington, MN    |
| 7. Providence, RI      | 8. Kansas City, KS    |
| 9. Atlanta, GA         | 10. San Francisco, CA |
| 11. Portland, OR       | 12. Moab, UT          |
| 13. Rockford, IL       | 14. Dallas, TX        |
| 15. Salt Lake City, UT | 16. Leesburg, VA      |
| 17. Durango, CO        | 18. Toms River, NJ    |
| 19. Crossville, TN     | 20. St. Louis, MO     |
| 21. Chandler, AZ       | 22. Indianapolis, IN  |
| 23. Louisville, KY     | 24. Lexington, KY     |
| 25. Newark, DE         | 26. San Diego, CA     |
| 27. Spokane, WA        |                       |

Of the initial contacts, Crossville, Toms River, San Diego and Spokane provided special considerations that were comparable to Miami or Palm Beach Gardens. These were pursued further and Crossville was designated in March as a feasible back-up location in case the others fell through. More on that later...

With respect to Palm Beach Gardens, we requested an option to buy at a specified price during the ten-year lease period. The developer responded that a future purchase would be at the current appraised value of the property at the time of purchase and could not be based on a previously agreed upon price. It would be a limited option in the sense that the developer would be free to sell to a third party at any time prior to the exercise of the option by the USCF, and USCF would be given an opportunity to bid prior to sale to another party. To me, that seemed like no option at all. The Palm Beach Gardens developer estimated that the *pro rata* land value (our share of the 2.4 total acres) would be \$436,000, and the preliminary construction cost would be \$914,000, for a total of \$1,350,000. The side-by-side acquisition cost would be as follows:

	MIAMI	PALM BEACH GARDENS
<b>Land</b>	<b>\$440,000</b>	<b>\$436,000</b>
<b>Building</b>	<b>\$1,200,000</b>	<b>\$914,000</b>
<b>TOTAL</b>	<b>\$1,640,000</b>	<b>\$1,350,000</b>

Of course, remaining in New Windsor continues to be an option. We

have inadequate parking, poor layout, extensive future repair costs, and antiquated systems. But not moving will save relocation costs for employees, severance costs for terminated employees, retooling expenses, and down time. It is estimated that it would cost approximately \$150,000 to orchestrate the move. Some of this (perhaps half) would be necessary to implement new systems even if we stay in New Windsor. Nevertheless, the Executive Director and Vice President of Finance believe that a minimum of \$100,000 per year (possibly more than double that amount) can be saved on an annual basis upon relocation. Time is of the essence. We believe we should cash out of our existing property and reinvest in a more suitable physical location.

After consideration of the above factors, the Executive Board voted the following during a January 16, 2003 conference call:

**EB 03-09 (Smith):** *I move that the USCF move the national office to the proposed site in Palm Beach Gardens, Florida; provided the satisfactory sale of our property in New Windsor has been complete; and that all the details of the Palm Beach Garden location be worked out by the Executive Director, working with a committee of not less than three persons, of whom two would be Board members, to be named by the President. PASSED, 4-1-2, with Smith, Brady, Denker, and Wagner in favor; Camaratta opposed; and Shutt and McCrary abstaining.*

With respect to the details of the PBG location cited in the motion, these were discussed in closed session and, accordingly, were not specified in the meeting minutes. In general, they can be summarized as follows:

- a. Lease agreement in accordance with the formal proposal submitted on behalf of PBG (10-year lease, initial rent of \$11.75 per sq. ft., 3% maximum annual increase, timing, acceptance of plans, etc.).
- b. Evidence of assurance that the \$250,000 of local funds will be raised (in the form of initiation of an active fundraising campaign, and a reasonable amount of signed contingent pledges or actual donations demonstrating the achievability of the fundraising goal).
- c. A suitable 'Option to Buy' which would enable the USCF to eventually own the building at an affordable price and, if necessary, an option to get a renewable lease beyond the first 10-year period at comparable rental rates to the initial period.

During my meetings with developers in Florida, I made it clear that the section of the preliminary agreement relating to an Option to Buy was unacceptable since it did not meet two critical goals for the USCF. These are:

- Goal 1. We would like to own our property at some point in the future and not get to the end of our lease term with zero equity and no place to move.**
- Goal 2. We need protection against both a huge rent expense increase after the tenth year, and the sale of the building to a third party who may not be an acceptable landlord to us.**

The absence of a reasonable Option to Buy was a potential deal breaker. I stated it as such from the outset of our discussions.

It is important to note that the proponents of the move to Miami withdrew their offer upon hearing of the vote to move to PBG. The main shortcoming of the Miami proposal was that the building would be

physically attached to the Excalibur Electronics corporate headquarters and, therefore, a future purchase was not legally feasible. Meanwhile, building on the adjacent property, which would result in future ownership by USCF, was not financially feasible in the near term.

With Miami out of the picture, we were left without a back-up plan. So, solicitation of expressions of interest was extended through February 20, 2003 and submission of proposals was extended through March 10, 2003. This was publicized in *Chess Life* and on our website. We reviewed the proposals previously received to determine suitability for a back-up site if the details of the PBG arrangement could not ultimately be resolved. The best of these was from Crossville, TN, and sponsored by Harry Sabine. It involves a donation from the City of three acres of property upon which a new building can be constructed. The land can be used as a down payment on a mortgage so that the stream of payments made over 15 years would accrue equity and result in ownership. I had excluded Crossville in the first review because I made the erroneous assumption that no key employees would move there. An intriguing proposal was also received from Island Heights, NJ, in which the office would be housed in an historical building overlooking the Atlantic Ocean and the mouth of the Tom's River. Ownership, however, is not a possibility in New Jersey.

Subsequent to the May 24-25 Executive Board meeting, I traveled to Florida for two reasons: First, to attempt to resolve the impasse with the Palm Beach Gardens developer and, second, to determine whether a Miami option was still viable and could potentially be resurrected. After that, I returned to Crossville to meet with bankers and other local officials to determine whether financing was available on affordable terms.

With respect to Palm Beach Gardens, I met with the developer in his office on May 30, 2003. Don Schultz also attended the meeting as a member of the local organizing committee. The meeting was cordial but the developer made it clear that our expectation of an option to buy the property at a price affordable to us could not be met. Furthermore, there would be no assurances regarding lease payments beyond the first ten years. I expressed our reluctance to place the USCF in jeopardy of getting ten years down the road with no equity and no affordable place to operate. We agreed that there could be no meeting of the minds and, therefore, the original deal conditionally approved by the EB on January 16, 2003, was off the table.

Meanwhile, at my request, Shane Samole and Al Lawrence contacted the current owner about the availability of the property adjacent to the World Chess Hall of Fame & Sidney Samole Museum in Miami. As you will recall, the principal downside to the earlier Miami proposal was the lack of an ownership option. By building on property that we could own, the Miami alternative would be more desirable. On June 2, 2003, we learned that the property was committed for a proposed condominium development and no longer available to us.

I returned to Crossville on June 4, 2003. While there, I met with Harry Sabine and three local banks. I learned that Millard Oakley, principal owner of the bank that holds the Avery-Dennison building, has agreed in writing to temporarily lease the vacant property free of charge, including utilities, during the period prior to completion of our new building. This will provide an important and economical staging opportunity to simplify the relocation process. The Crossville City Council met on June 10, 2003, and voted to transfer three acres of land

on O'Brien Avenue to the USCF.

All three banks were very receptive. All agreed that the land value between \$200,000 and \$300,000 can be used to fulfill the down payment requirement. In other words, no cash down payment from our reserves will be required. Two of the three banks gave verbal approvals before I left on June 7.

The rates quoted were comparable. The best of these (Cumberland County) was as follows:

**Construction Loan: Nine months up to \$600,000 at 4.25% (prime).**

**Permanent Financing: Mortgage amortized over 15 years, fixed rate of 4.75% (prime plus ½%) for the first three years, flexible at ½ % over prime thereafter, or alternatively: between 5% and 6% fixed for the entire 15 years depending on the value of the prime rate plus 1% at the date of inception of the permanent financing.**

**Down Payment: Land only; no cash down payment required.**

**Monthly payments: \$4,513 per month during the first three years of permanent financing (\$54,156 annually).**

**Conclusion: Financing in Crossville is available and affordable.**

I concur with the Executive Committee's vote on June 9, 2003 (5-1-1) to relocate the USCF headquarters in Crossville, Tennessee, contingent on the sale of the existing property in New Windsor, New York, and subject to approval by the LMA Committee to utilize the proceeds of the sale in connection with the move.

### 3. ACCOUNTS PAYABLE:

A major focus during the past year and a half has been the improvement in cash flow and consequent reduction in Accounts Payable. We have utilized our revolving Line of Credit (\$300,000) and positive cash flow to reduce amounts owed to our vendors. When I arrived at USCF in late December, 2001, the balance in Accounts Payable was \$654,000. Once again, I will let the numbers speak for themselves. Following is a summary of Accounts Payable on a quarterly basis over the past 18 months:

<b>November 30, 2001</b>	<b>\$600,776</b>
<b>February 28, 2002</b>	<b>474,423</b>
<b>May 31, 2002</b>	<b>281,626</b>
<b>August 31, 2002</b>	<b>377,431</b>
<b>November 30, 2002</b>	<b>295,033</b>
<b>February 28, 2003</b>	<b>328,593</b>
<b>May 31, 2003</b>	<b>198,991*</b>

\* = preliminary balance prior to annual audit.

### 4. MEMBERSHIP TRENDS:

In FY 2003, the trends noted in previous years have continued. Scholastic memberships continue to climb while regular adult memberships declined. Dues were increased effective January 1, 2003. Of particular note this year is the moderate utilization of the economy options for both adult and scholastic memberships. The scholastic economy membership was not available prior to January 1, 2003. The regular economy membership had previously been promoted as an 'Internet' membership.

Overall, total paid memberships as of May 31, 2003 are at 90,638, an increase of 1,356 since last year. The total number of members, including affiliates and *Chess Life* subscribers, is 94,342. Last year the amount was 92,662. Once again this year, both amounts are all-time highs for a fiscal year-end date.

**A FIVE-YEAR MEMBERSHIP COMPARISON SHOWS THE FOLLOWING: AS OF MAY 31**

	2003	2002	2001	2000	1999
Adult Regular	23,479	25,120	26,487	27,593	28,529
Regular Economy	509	264	95	0	0
SUB-TOTAL	23,988	25,384	26,582	27,593	28,529
Scholastic Regular	33,368	37,367	33,999	30,541	27,675
Scholastic Economy	6,609	0	0	0	0
SUB-TOTAL	39,977	37,367	33,999	30,541	27,675
<b>TOTAL PAID</b>	<b>90,638</b>	<b>89,282</b>	<b>87,956</b>	<b>86,109</b>	<b>84,160</b>
<b>TOTAL MEMBERS</b>	<b>94,342</b>	<b>92,662</b>	<b>91,492</b>	<b>89,612</b>	<b>87,853</b>

**A COMPARISON OF THE LARGEST STATE AFFILIATES BY HEAD COUNT SHOWN BELOW:**

	MAY 31, 2003	MAY 31, 2002	MAY 31, 2001
1. Texas	7,768	6,969 (2nd)	6,089 (2nd)
2. New York	7,686	8,418 (1st)	7,800 (1st)
3. Illinois	5,249	5,676	5,095
4. S. California	5,160	4,807 (5th)	3,847 (5th)
5. N. California	4,995	4,987 (4th)	4,217 (4th)
6. Florida	4,240	4,181	3,463
7. Pennsylvania	3,818	3,762	3,213
8. New Jersey	3,470	3,395	3,022
9. Ohio	3,313	3,215 (10th)	2,746 (10th)
10. Arizona	3,233	3,234 (9th)	2,979 (9th)

**SMALLEST:**

52. Wyoming	98	80	66
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**MOST FULL SCHOLASTIC MEMBERS:**

1. Texas	4,097	3,964 (2nd)	3,635 (2nd)
2. New York	2,859	3,965 (1st)	4,003 (1st)
3. Illinois	2,286	2,492	2,038 (4th)
4. N. California	1,813	2,185 (5th)	1,969 (5th)
5. Arizona	1,739	2,239 (4th)	2,173 (3rd)
6. S. California	1,544	1,609 (7th)	1,329 (7th)
7. Florida	1,502	1,942 (6th)	1,639 (6th)
8. Pennsylvania	1,379	1,318	1,224
9. Ohio	1,116	1,136 (10th)	919 (14th)
10. Tennessee	1,055	936 (15th)	941 (13th)

*Note: State affiliates with the most Economy Scholastic memberships are as follows:*

**Texas 717, New York 612, N. California 573, Florida 560, Arizona 531, Michigan 343, Illinois 302, S. California 294, Indiana 221, Kentucky 204.**

**MOST ADULT REGULAR MEMBERS:**

	MAY 31, 2003	MAY 31, 2002	MAY 31, 2001
1. New York	2,056	2,273	2,383
2. S. California	1,684	1,665	1,790
3. Texas	1,319	1,439	1,495
4. N. California	1,234	1,379	1,487
5. Pennsylvania	1,173	1,297	1,319
6. Illinois	1,084	1,235	1,282
7. New Jersey	1,074	1,104	1,168
8. Florida	991	1,080	1,136
9. Ohio	923	989	1,058
10. Massachusetts	834	903	938

**5. RATINGS & MSA:**

I am happy to report that the processing of ratings remained up-to-date throughout the year. The scheduled modification to the ratings formula was **not** implemented on January 1 for technical processing reasons. The expanded Members Service Area (MSA) which will allow on-line downloading of tournament crosstables, and other important new features, is up and running. It can be viewed at [msa.websong.com](http://msa.websong.com).

The bi-monthly *Rating Supplements* are now available in electronic form and can be downloaded from the USCF website. Beginning in November, USCF will begin rating on-line tournaments played at all affiliate websites, not just U.S. Chess Live.

**6. OFFICE STAFFING:**

One of the questions that I hear frequently is "Why haven't office staff reductions been made already?" And, "Must we move to operate more efficiently?". The simple answers are 'they have' and 'we don't'. The key ingredient, however, is systems. I'm not speaking only of automated systems but of every process at USCF whether manual, verbal or computer supported. In short, the office layout needs to be revamped, modern systems need to be implemented, staff resources need to be redeployed, and personnel need to be given the opportunity to grow in their jobs. A major investment in technology, facilities and people is necessary. Short of that, all of our gains will be incremental and necessarily limited.

Nevertheless, some reductions have been made. To keep with the theme of my message, I will let the numbers speak for themselves.

Salaries and wages paid to USCF during the last eight months of fiscal 2003:

MONTH	SALARIES & WAGES PAID
October 2002	\$124,208
November 2002	118,887
December 2002	117,986
January 2003	115,888
February 2003	104,630
March 2003	97,829
April 2003	93,128
May 2003	89,633

Despite the changes, the pressure to get things done with fewer resources is constant. Fortunately, the USCF is blessed with a dedicated management team committed to getting the job done no matter what the obstacles. All of them will be spending some time at the U.S. Open workshops and Delegates' meetings in Los Angeles. I hope you will take the time to congratulate them and get to know them better.

Executive Assistant:	Barbara Vandermark
Director of Finance:	Linda Legenos
Managing Director of Operations:	Judy Misner
Editor of <i>Chess Life</i> :	Peter Kurzdorfer
Director of Publications & Senior Art Director:	Jami L. Anson
Director of Scholastic Programs & National Events:	Tom Brownscombe
Director of Product Acquisition & Inventory Control:	Joan Dubois
Chief Information Officer:	Gary Prince

I would like to give special recognition to Diane Reese who, despite moving during the past year, continues to do her usual outstanding job as National Events Manager from her home in California!

Finally, I am extremely pleased to announce that Kris Weise, our outstanding customer service representative, was selected Employee of the Year by the Senior Staff of the USCF. The Employee of the Year is selected annually from among the Employee of the Month award winners of the previous twelve months. The recipients of the Employee of the Month award during the past twelve months were as follows:

June 2002	Dale Lein
July 2002	Lillian Damon
August 2002	Alan Kantor
September 2002	Kris Weise
October 2002	Michele Stowe & Jean Bernice
November 2002	Joyce Hoffman
December 2002	Mercedes Parker
January 2003	Kathleen Trapini
February 2003	Alan Kantor
March 2003	Joy Fairweather
April 2003	Amanda Weidkam
May 2003	Steve Immitt

Much progress has been made during the past year. But there is still so much more that needs to be done. None of this would be possible without the trust and support of the Executive Board and the Delegates. I want you to know that I appreciate your confidence in my leadership and our management team.

See you in L.A.!



Respectfully submitted,  
Frank A. Niro  
Executive Director

## USCF MANAGERIAL STAFF



**Jami L. Anson**  
Director of Publications  
& Senior Art Director



**Tom Brownscombe**  
Director of Scholastic  
Programs & Nat'l Events



**Joan DuBois**  
Director of Product  
Acquisition & Inventory  
Control



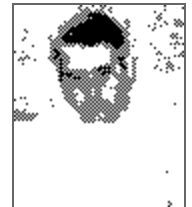
**Peter Kurzdorfer**  
Chess Life  
Editor



**Linda Legenos**  
Director of  
Finance



**Judy Misner**  
Managing Director of  
Operations



**Gary Prince**  
Chief Information  
Officer



**Diane Reese**  
Events Manager



**Barb Vandermark**  
Executive Assistant

## USCF CONSULTANTS



**Arthur Bisguier**  
Grandmaster-on-Call



**Barbara DeMaro**  
Managing Director  
U.S. Chess Trust



**JoAnne FATHERLY**  
Library & Research



**Glenn Petersen**  
USCF Press  
Book Publishing



**Ron Burnett**  
Editorial  
Consultant



**Left: Kris Weise, Customer Service  
2002-2003 Employee of the Year.  
Kris (center) is shown here with  
her children Jake and Shayla**



