



UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA

Douglas J. McCarron

General President

March 10, 2010

Mr. Patrick B. Morin
Executive Secretary-Treasurer
Empire State Regional Council
14 Saw Mill River Road
Hawthorne, NY 10532

Dear Sir and Brother:

This will constitute formal notice of a hearing that is being held pursuant to Section 10-H of the UBC Constitution regarding the Empire State Regional Council ("Council").

Based upon information brought to my attention, it appears that the affairs of the Council are being conducted in a manner detrimental to the welfare and best interests of the Council, the United Brotherhood of Carpenters and Joiners of America ("UBC"), and its members, and/or contrary to the provisions and requirements of the Bylaws of the Council and/or the UBC Constitution. Therefore, in accordance with Sections 6-D and 10-H of the UBC Constitution, a hearing will be conducted into the Council's affairs to determine if supervision by the UBC over the Council should be imposed.

The hearing will take place pursuant to the following arrangements:

PLACE: Crowne Plaza Hotel
10 Eyck Plaza
State and Lodge Streets
Albany, NY 12207

518-462-6611

DATES and TIMES: March 30, 2010

8:30 a.m. to 11:30 a.m.;

1:00 p.m. to 4:00 p.m.

6:00 p.m. to 8:00 p.m.

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8:30 a.m. to 11:30 a.m.;
1:00 p.m. to 4:00 p.m.
6:00 p.m. to 8:00 p.m.

However, if no one else present at any session wishes to testify or otherwise present their views and other evidence, the Chairman shall have discretion to adjourn the hearing until the next scheduled session, or if at the last session, to conclude the hearing.

By copy of this letter, all officials and delegates of the Council and all members of Local Unions affiliated with the Council are hereby notified of the date, time and place of the hearing, and are hereby invited to appear at the hearing and present testimony, their views and other evidence regarding the conduct of the affairs of the Council.

The hearing will be conducted by a hearing committee that has been appointed pursuant to Section 10-H of the UBC Constitution. The hearing committee consists of Michael Draper, UBC District Vice President, Western District (Chairman); Bobby Yeggy, UBC District Vice President, Midwestern District; and, Danny Maples, UBC District Vice President, Southern District.

As described in greater detail below, based on the information that has been received by the UBC, it appears, among other things, that: (1) financial irregularities exist within the Council with respect to the Council's pension, annuity and welfare funds, including, but not limited to, the method of allocation of Madoff losses, including allocating a \$6.4 million Madoff investment made by the Empire Welfare Fund in December of 2008 to Upstate area participants even though the Upstate Health Fund was dissolved effective January 1, 2007, and the lack of diversification for the Madoff investments; (2) the Council has failed to perform its responsibilities as a collective bargaining agent and under its bylaws with respect to the appointment of union trustees to the Council's pension, annuity and welfare funds; (3) some Council appointed union trustees of the Council's pension, annuity, and welfare funds have supported actions to exclude a union trustee of the Council's funds, who was from the Upstate area, from meetings of the Board of Trustees of the Council's pension, annuity and welfare funds when Madoff losses were being discussed; (4) the Council has discriminated against members in the Upstate area with respect to collective bargaining reallocations, and these reallocations threaten the financial security of members in that area; (5) a union trustee of the Council's pension, annuity and welfare funds was improperly removed as a trustee; (6) actions taken by the Council, as collective bargaining representative, and by Council appointed union trustees of the Council's pension, annuity, and welfare funds, with respect to the Madoff losses may have a negative impact on future

union work opportunities in the Upstate area of the Council; (7) the Council has not kept members or contractors within the Council adequately informed of matters pertaining to the Madoff losses; (8) the EST of the Council failed to provide information that he agreed to provide to the UBC regarding the allocation of Madoff losses and other matters pertaining to the Council's funds; (9) the Council has not complied with its Bylaw provisions with respect to the termination of certain Council organizers and other staff; (10) certain action has been taken with respect to staffing within the Council that may jeopardize organizing within the Council; and (11) the Council has failed to timely conduct elections to fill vacancies in Council officer positions.

Based on information received by the UBC, it appears that financial irregularities exist within the Council with respect to the Council's pension, annuity and welfare funds and that these financial irregularities threaten the welfare of members within the Council. The UBC has received numerous complaints from members of Local Unions affiliated with the Council regarding the manner in which the Madoff losses of the Empire State Carpenters Pension Fund ("Empire Pension Fund"), the Empire State Carpenters Annuity Fund ("Empire Annuity Fund"), and the Empire State Carpenters Welfare Fund ("Empire Welfare Fund")(hereinafter collectively "Empire Funds") have been allocated. The total loss to the Empire Funds as a result of Madoff losses is estimated to be over \$160 million, with the Empire Pension Fund's loss estimated at approximately \$97 million, the Empire Annuity Fund's loss estimated at approximately \$39.5 million and the Empire Welfare Fund's loss estimated at approximately \$29.5 million. Based on information received by the UBC, it appears that the Madoff losses have been disproportionately allocated to members who were former participants of the Upstate New York Carpenters Annuity Fund ("Upstate Annuity Fund"), Upstate New York Carpenters Pension Fund ("Upstate Pension Fund"), and Upstate New York Carpenters Health Fund ("Upstate Health Fund")(hereinafter collectively "Upstate Funds").

For example, although the Upstate Annuity Fund merged with the Empire Annuity Fund as of July 1, 2006 and the Empire Annuity Fund had control of the former assets of the Upstate Annuity Fund for approximately 2 1/2 years prior to the discovery of the Madoff fraud, action has been taken to allocate the Empire Annuity Fund's Madoff losses primarily to members who were former Upstate Annuity Fund participants based on the Upstate Annuity Fund's Madoff related investments prior to its merger with the Empire Annuity Fund. In this regard, based on a document entitled "Upstate Madoff Loss Analysis" dated January 15, 2010, that was prepared for the Empire Annuity Fund by its accountant and its Fund employees, it appears that the Board of Trustees of the Empire Annuity Fund approved a loss allocation of 25%/75% with respect to the Empire Annuity Fund's Madoff losses, with 75% of the losses being allocated to former participants of the Upstate Annuity Fund and 25% of the losses being allocated to other Empire Annuity Fund participants.

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Based on information provided to the UBC, it appears that participants of the Empire Annuity Fund who were former Upstate Annuity Fund participants received notification in January of 2010 that their account balances in the Empire Annuity Fund were being reduced by approximately 51 percent of their account balances as of June 30, 2008. It appears that other participants of the Empire Annuity Fund either did not have their accounts reduced for the Madoff losses or had their accounts reduced by a lesser amount.

Moreover, it appears that the future rate of accrual under the Empire Pension Fund for participants in the Upstate area was dramatically cut from an accrual based on 2.0% of contributions to an accrual based on .4% of contributions, effective January 1, 2010. Such action appears to have been taken due largely to the Madoff losses. Based on information that the UBC has received, it appears that other participants of the Empire Pension Fund either did not experience a reduction in their future rate of accrual for the Madoff losses or did not have their accrual rates reduced to the same extent as participants in the Upstate area.

Likewise, it appears that former Upstate Health Fund participants recently lost approximately 46 percent of their Health Reimbursement Accounts in the Empire Welfare Fund, based on the January 1, 2007 value of such accounts, as a result of the allocation of Madoff losses. Based on information that the UBC has received, other participants in the Empire Welfare Fund either did not experience a reduction in such accounts or experienced a reduction in a lesser amount.

The method used to allocate Madoff losses with respect to the Empire Welfare Fund appears to be the most egregious. Based on a document prepared for the Empire Welfare Fund by its accountant and its Fund employees that is entitled "Upstate Madoff Loss Analysis," it appears that an investment of approximately \$6.4 million in a Madoff related investment that was made in December of 2008 by the Empire Welfare Fund was allocated exclusively to former participants in the Upstate Health Fund for purposes of the allocation of Madoff losses, even though the Upstate Health Fund had been merged into the Empire Welfare Fund and was dissolved, effective January 1, 2007. In addition to resulting in an inequitable allocation of losses, attributing such investment to the Upstate area appears to be fraudulent.

Moreover, the manner in which the Madoff losses were allocated by the Empire Funds raises serious legal concerns. For example, the reduction in the Empire Annuity Fund accounts of former Upstate Annuity Fund participants for the Madoff losses may be in conflict with the terms of the merger agreement. In this regard, the merger agreement for the Upstate Annuity Fund and Empire Annuity Fund merger provides, in part, that "the Empire Fund shall provide and maintain, as a minimum, the benefits of