

To: The MacMahan Community  
From: Lucy Stinson, SICO President  
RE: Response to Bradford Myers

Interspersed in Brad's letter below are my responses *in italics* to the points he has made.

Dear MacMahan Community,

Several months ago, prior to the vote at the annual meeting, I expressed my concerns regarding the proposed conversion plan (namely the anticipated COSTS versus the benefits), and as expected, I was met with some opposition.

I would like to bring some significant facts to all of our attention, many of which may have been missed or overlooked by some members of the community. I feel called to speak out because I've been a part of this island family for nearly my entire life. My first visit to MacMahan was at three weeks old and I care immensely for our island community.

As part of the board's required response to dissenters of the conversion plan exercising their appraisal rights, on October 13, 2014, SICO was appraised by a third party (selected by the board) to have a value of \$338,000. As of June 30, 2014, the cash/liquid assets of SICO, which include the reserves/checking/savings and the Vanguard account (earmarked for Peter and Brenda's retirement, but still a SICO asset) amounted to \$314,921.31. I know the numbers can change over the course of the year, but this would mean that the remainder of SICO's "assets," which include the Lodge, the Boat Yard, the Yacht Club, the Play House, and any other property, machinery/assets owned by SICO to be valued at roughly \$23,000. In this particular case, any argument can be made for valuations, but cash/investable assets are what they are, and I find it difficult to accept that the remaining SICO assets hold such little value. I'm not an appraiser, or an attorney, and I have no qualification to determine what the remaining assets might be worth, but I'm trying to imagine how a Maine State Supreme Court would view this valuation.

*The Board engaged two independent expert appraisers (one to appraise the Company's real estate and the other to appraise the Company's entire business) because the appraisal statute requires the Board to inform the dissenters of the its estimate of the value of the Company's shares and because the Board feared the dissenters might make outrageous valuation claims. The Board, of course, has no expertise to make such appraisals on its own.*

*The appraisers each submitted a detailed written report explaining how they reached their conclusions, and those reports were reviewed by the Board, including in a conference call with both appraisers. The Board then voted to adopt the appraisers' opinion of fair value.*

*It is not practical to review the appraisers' data and reasoning here, but it should be noted that the Vanguard account to which Brad refers is more than offset on the balance sheet by an even larger legal obligation to the Schuerches.*

As all of you know, the island has been through this process before. If any of you are curious, a simple Google search for Sheepscoot Island Company Taft, should bring up the public information regarding prior legal proceedings as one of the first results. You can see all of the court documentation of the suit filed against the Taft family. I don't bring this up to simply help you understand that it was the SICO board that in fact filed suit against the Taft family, but rather to shed light on how quickly the Maine Supreme Court dismissed the case. The outcome of that case (a loss for MacMahan) is irrelevant to the point I'm trying to make. In this particular lawsuit, MacMahan was fortunate enough to have members of the community who were also retired/practicing attorney's handle the case. Nearly all of the legal work was being done pro bono by community members. This is significant, because this current conversion is now being handled by large Portland law firms, unfortunately not pro bono. They are, in fact, extremely expensive.

*Every dollar the Company has spent for appraisals and for special legal counsel has been spent to defend the Company against the claims of seven individuals, six of whom are members of one family. They are represented by two Portland law firms. It would have been irresponsible for the Board not to have engaged qualified appraisers and lawyers to defend the Company.*

Whether appraisal rights were sought by a single individual holding one share or a slew of shareholders with thousands of shares, the island would have been forced to respond in the same way. As the end of 2014 approached, the SICO board was required to follow Maine State Law and take the actions that they did, between securing an appraisal and seeking legal counsel. This brings us to the end of year letter from the board, which told us just how much the conversion had already cost. For those who didn't read it, it was nearly \$50,000. As noted in this week's communication from the board, that figure has jumped to \$70,000, less than two months later. In theory, these legal fees were supposed to come from SICO operating profits (but SICO has not turned a profit anywhere near this exorbitant sum). The sad truth is that this money was taken from maintenance projects, improvements, and the purchase of new goods or assets that could have helped improve the island as a whole. When will it stop? What dollar value will be "too much to spend?"

*The first dissenter, Albert D'Antonio, owned ten (10) shares. His claim could have been settled for less than the cost of the appraisals. Another dissenter, Peter Allen, has withdrawn his claim. This leaves the responsibility for the Company's costs squarely on the shoulders of the seven individuals referred to above.*

*Most of the Company's costs so far have been to defend against the dissenters' appraisal claims, and of course those claims are only valid if the Plan is valid. Yet the year-end lawsuit filed by the seven seeks to invalidate the Plan. If that is their true goal, they could have saved the Company most of the money it has already spent by filing that suit last July, as our attorneys believe the law required, making their appraisal claims unnecessary.*

*"What will be too much to spend?" is a question better addressed to the seven. The Company is only incurring costs in response to their attacks, and their December demand letter hints at more to come - against the stock issuance in 2000 that established the Schuerch retirement account and against Maine Coast Heritage Trust to void the conservation easement.*

Try to imagine yourself in the shoes of our superintendent. At one point, you thought you had sufficient funds to repair/improve/replace items that need attention, but now those funds are going to a law firm to cover legal costs. I can only imagine how much more difficult this has made Chris Martin's job, a man who during his tenure has significantly improved the efficiency, safety, and overall enjoyment of our island community. How frustrating might it be if he can't do the job he was hired to do because the funds he needs are being spent elsewhere. I praise him often for how much he has improved MacMahan, and I'd hate to jeopardize his progress because the money he needs just isn't there anymore.

*The Board is very much aware of the pressures that these legal proceedings against the Company are placing on Chris Martin. We have assured him that their costs will not impact his compensation (as his latest compensation package demonstrates) and that he will continue to have the funds available he needs to carry out his responsibilities as Superintendent. Chris is a seasoned businessman and not a stranger to overcoming challenges.*

As a member of the finance committee, I can't say that we are without resources, but as many community members understand, those resources are quite limited. Chris and the SICO boards, both past and present have worked tirelessly to build up what we call a "reserve" fund. You have all seen it on the balance sheets. It has been funded for years to ensure we are covered for any expenses necessary for island operations. This fund is now in jeopardy. As a result of projected legal fees in 2015, the finance committee does not intend to fund the reserve account this year, and we've even discussed an inability to fund Peter and Brenda's retirement account. Now, there are sufficient funds in the account at the present time to support Peter and Brenda, but the plan has always been to add to this account annually. Though not legally binding, we made a promise to Peter and Brenda that we would provide them with retirement funds indefinitely. I know we can avoid funding their retirement plan this year, but who is to say that this is the only year we will face these types of legal fees? This is a very important fact: under the current conversion plan, there is NO SET LIMIT on how much can be spent for legal fees, court costs, or in the worst case scenario, to pay out settlements.

*Again, it is not the Board that is creating these costs. We encourage the seven dissenters/ plaintiffs, finally, to reveal exactly what there is about the conversion and its benefits, as attested to by an 87% vote, that they find so unacceptable as to warrant the costs and divisions they are inflicting on their fellow islanders.*

I'd like to add at this point: the letter from the board from February 19, 2015 suggests that the Finance Committee has been consulted regarding expenditures since the 2014 annual meeting; however, we held our first committee meeting since July 2014 in January 2015. The Finance

Committee had no part in the decision-making process with regards to expenses associated with the conversion, but was asked in January 2015 to come up with the best way to cover past and future expenses that have and will grossly outweigh operating profits.

*The Board asked the Finance Committee to advise it on how best to manage the large amounts of cash, which we are fortunate to have on hand, to help ease the cash crunches created by having to defend the Company and make payouts to the dissenters at this time of year when Company's income is at a low point in its financial cycle. The Finance Committee has not yet finalized the 2014 financial reports, but the preliminary version submitted to the Board showed a large operating profit, and the Superintendent anticipates similar results for 2015.*

In the original conversion plan, as voted on by shareholders this summer, the board expressed that if the conversion became too costly (due to dissenters exercising their appraisal rights, legal fees, appraisal costs, etc.) that by year end, the board could elect to "pull the plug." Did this official board vote to protect the island from excessive costs happen? What was the threshold set to constitute "too costly?" Shareholders were also publicly "comforted" by the board expressing that this conversion plan wouldn't cost the shareholders/cottage owners anything. How can we be so sure? With costs mounting by the day, if SICO profits and cash accounts prove insufficient, what options are left to meet these financial demands? A loan (if we would even qualify for a significant loan as a non-profit, and then how could we afford to repay the sum?) or (gasp!) might each cottage owner be charged a special assessment?

*The Board has never said that conversion would cost the community "nothing." Rather, the Board has stated that the costs being imposed on the Company by the seven will delay the time at which the Company's operating profits can safely be used to reduce assessments and charges, an important reason for the conversion in the first place. The Board has also suggested to the Finance Committee various ways to fund these costs if they exceed operating profits, and a special assessment is not one of them.*

The board anticipated spending approximately \$36,000 in the first six months of this year in legal fees (If the figure was \$50,000 at year end and it's near \$70,000 now, that's \$20,000 in less than two months.) And even if that figure were accurate, it could just be the tip of the iceberg...like I said, there are currently no limits. You have all likely received a document asking you to become a "cottage member" or an "associate member," referencing the new SICO articles of incorporation. These articles are not as simple as you might hope/believe. It is true that a "special assessment" as in one that might be needed to replenish the depleted reserve fund or to cover legal fees/court costs/settlements, can't be forced upon you, or that they can't force you to change the color of your house, but a majority vote can force you to pay if you wish to be a part of the future "association."

*The Articles and By-Laws were developed with valuable community input and resulting modifications. They give the members full control over all financial matters, unlike the previous by-laws which gave all financial authority to the Board.*

*Again, future costs will depend on future actions by the seven, subject to resolution by the court, which may well act on the Company's motion to dismiss the lawsuit before Memorial Day.*

Article II Section 1 Part A.1 (Cottage Memberships)

"...agree to and continue to comply with the obligations of membership as set forth hereunder, including the payment of all fees, charges and assessments established by the Board of Directors, and the right of the company to enforce such fees, charges and assessments against such member ("Cottage Members").

Now for those of you who are curious about your options, well, unfortunately those haven't really been addressed. The articles of incorporation aren't very clear about your rights as a member OR nonmember.

Article II Section 1 Part A.3 (Cottage Memberships)

"The rights of Cottage Members shall include the right, subject to such rules and regulations as the Board of Directors may establish, (a) to receive or to contract for any and all services from time to time offered by the company, (b) to receive the water services of the company, (c) to use and have access to all floats, docks, piers, roads, paths, tennis courts and other community buildings and facilities owned by the company for the use of Members and (d) to vote at meetings of the Cottage Members in the manner specified in Section 3 below."

What if you don't want to become a member? Would you be denied access to island services? Would you no longer have access to fresh water? What about fire rescue services? What about the families that have been on the island for decades? Could they no longer walk on the paths or use the tennis courts? What if those are the same families that supported the island for years and years to keep it running investing they're own time/labor/money?

*This litany of horrors is purely imaginary and simply fear-mongering. The rights and privileges of cottage owners who pay their assessment (\$1700 for 2015) but for some reason choose not to become members is a decision for the Board and is on the agenda for the February 28 meeting. However, there need be no concern that rights of access and the availability of Company services will be restricted. Of course non-members will not have the right to vote at meetings of the Members.*

*This conversion, absent dissenters and lawsuits, would have been as seamless as our transition to the MacMahan Island Association(MIA) in 2005. While the dissenters that time were wrangling in court, the rest of us went about business as usual and only noticed the difference when we had to pay our bills- to MIA instead of SICO.*

I'll leave you with these parting thoughts: The conversion was campaigned as a way to avoid a potential lawsuit, yet it has regrettably resulted in one. One that has costs for all of us both emotionally and fiscally. The board had the power to "appoint" a special committee, which

has ultimately been responsible for the communication with legal counsel and much decision-making WITHOUT the knowledge of all board members. This special committee has been acting virtually on their own, and will continue to do so into 2015. It isn't their money they're spending, but yours. I urge you to reach out to your board members ask that they put an end to this. As I've been saying since before the vote, I'm not against change, but this plan isn't what we signed up for, and it's going to cost us our MacMahan family.

*The conversion has only resulted in a lawsuit because the seven dissenters filed one. They can withdraw it at any time, or at any time accept the Board's repeated and ongoing offer to meet and seek a settlement.*

*The Special Committee, appointed by unanimous vote of the Board to respond to the appraisal claims and any related matters, such as the recent lawsuit, is required to report at least monthly to the Board, and has done so more frequently than that. The Board vote establishing the Committee states that the Committee is at all times subject to the oversight and control of the Board. It is not possible for a Board of 9 to be nimble enough to make the quick decisions required in litigation.*

*Thank you for your thoughtful consideration of these points.*

*Lucy*