

November 2015

Dear MacMahan Cottage Owners and Associate Members:

With the island efficiently put to bed by Chris and his crew, the 2015 season has about come to a close. I thought an update might be in order on several fronts.

On the litigation front, the lawsuit appeal is continuing on schedule. The Taft/Pinney plaintiffs filed their appeal in early September, we filed our response on October 21, and they filed their reply brief on November 4. We are now at the mercy of the Law Court's calendar. Our legal team at Bernstein Shur expects that the Court will order oral argument for sometime after the first of the year, with a decision coming three-to-six months after that. With any luck, we will have a decision by Memorial Day. If the Court decides for the plaintiffs, the lawsuit goes back to the Business Court for trial. If the Court decides in SICO's favor, the lawsuit is over and we will move on to the valuation proceeding. Either way, we hope that there will be a window of opportunity for settlement discussions on all remaining issues.

When most of you left the island we were working hard, with Tommie Burke and Rufus Brown serving graciously and generously as intermediaries, to bring the Taft/Pinney plaintiffs to the table with members of the SICO Board to see if we couldn't move things off the dime on which we felt stuck. I am sorry to report that so far this has been not possible. As I mentioned above, we hope to have another opportunity for discussions when the lawsuit appeal is decided.

You may recall that the Business Court set January 8, 2016, as the date to revisit the valuation proceedings. We expect that date to be pushed out further, stayed until the time of the Law Court's decision on the appeal.

Litigation expenses to date total \$186,192. Broken down by sub-category it works out as follows: Taft/Pinney lawsuit - \$75,349; conversion/valuation proceedings - \$53,075; petition for judicial appraisal - \$15,148; demand letter (threatening other possible suits) - \$2907; Curtis Thaxter (corporate counsel) support - \$3712; payouts @ \$26.81 plus interest per share - \$22,051; cost of our appraisals - \$13,950. This number does not include the one-time cost of D&O tail coverage insurance of \$4313, which will help protect our directors going back to about 1999.

At its September 6 meeting the Board voted a restatement of SICO's long-standing accounts receivable policy. You will find the actual vote in the minutes on the web site, but it states that cottagers with outstanding bills from a prior season need to make arrangements with the Superintendent or an officer of the company for payment of those bills before that cottager will be able to receive services in the new year. The Board felt that a restatement was important from a good business practices standpoint. We have operated this way for many years, but it seemed that a reminder might be in order. We thank you for your continued cooperation with this policy.

Chris reported at the November 7 Board meeting that the island closing went well. He was able to repair the *Island Raider* to the point where he only had to bring a few parts of the engine home, as opposed to the whole boat. The man is a genius!

The Finance Committee is looking into ways to replenish our Reserve Account. As you know, we have been using that money to pay our litigation expenses. Everything is still in such a state of flux right now that it is hard to pin down an exact number for recovery. We intend to draw down the \$65,000 line of credit we established for this at Bath Savings. It will turn into a loan on January 1, to be paid back in four years with interest of prime plus 0%. Thanks go to Warren Lammert for keeping his finger on the pulse of all this and for devising spreadsheets that can easily project our needs. If only the litigation expenses

were as easily projectable. The loan will allow us to delay setting the 2016 assessment a little bit, but we will still be working on a preliminary budget for early February. Chris reported that from an operations standpoint it has been a very good year, and that we could end up ahead of the budget projections.

Even better, the tennis court has been done, so that in the spring we will only need to apply the brick dust, put up the nets, and lay the tapes (Chris and his transit can help).

Thanks to everyone's generosity, Eric's medical bills have been fully paid off. There was a surplus of about \$900 which will be put in the reserve fund and earmarked as such. Chris is doing some investigation into health plans that might be a possibility for Eric, and perhaps the surplus could be applied to the requisite premium.

The Board is aware and very much appreciates that everyone has been very prompt with paying bills. It has made Chris' life a great deal easier in these times of tight cash flow and extraordinary litigation expense. For those interested, I will have Megan post the Reserve Fund spreadsheet so that you can see what is coming up on the capital expenditures horizon (see Islander Information, Official Documents).

The Board thanks you for your on-going support and wishes everyone a happy Thanksgiving. Please contact me if you have any questions about this update.

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