

From: Yvonne Berger [REDACTED]
To: "Melanie Spinella" [REDACTED]
Cc: John Castrucci [REDACTED], Joe Avantario [REDACTED], Richard Joslin [REDACTED], "Jeffrey Epstein (jeevacation@gmail.com)" <jeevacation@gmail.com>
Sent: Thursday, January 28, 2016 9:25:28 PM

MEMORANDUM

TO: Melanie Spinella
CC: John Castrucci
Joe Avantario
Rich Joslin
Jeffrey Epstein

FROM: Brad Wechsler
DATE: January 28, 2016

Summary

1. In 2015, based on 180 hours of usage, the plane costs you approximately \$3.4MM/yr (operating costs) with approximately \$400K of interest costs. Debt amortization in 2015 was \$1.5MM. Amount of debt outstanding on the plane today is \$19.6MM and the loan is due in September of this year. Last quarter, the fmv (actual sales) of a G-V was approximately \$14MM. Today, the average asking price market is \$13MM.
2. Currently the plane is registered under Part 135 as part of chartering business which means all flights "technically" can be business related, thereby maximizing deductions. Last year because of various non-complying activities, 62% of the flights or 111 hours of the 180 hours flown were 135 flights. The balance of the hours were flown under Part 91. Apollo hours were 42 of the 180.
3. The alternative to Part 135 is to abandon the chartering business and fly solely Part 91. A numerical after-tax analysis comparing 135 to 91 for 2015 shows net after tax costs of roughly \$2.6MM under Part 135 and \$3MM under Part 91. (This assumes all non-Apollo hours are non-business which may be too conservative). If 20% more of Part 91 flights were considered "business" there would be additional after tax savings under Part 91 of approximately \$370K and the net after-tax costs of Part 135 and Part 91 would be a push.
4. The key "life-style difference" between 91 and 135 is that there are less rigorous pilot rest rules under Part 91.

5. Generally speaking the tax position is stronger under 135.
6. As a point of information the charter rate for a G-V today is around \$7,500/hr excluding flight incidentals of \$300K. Your 180 hours would have meant an all-in "chartering" cost without incidentals of around \$1.35MM.
7. There is a lot of underlying detail and complexity which can be walked through (Jeffrey has received detailed numbers). The family office's bottom-line recommendation: is to continue under Part 135 as that is (i) is likely to have a moderately lower net out of pocket cost to you; (ii) provides the strongest tax position, (iii) can reduce net costs further, if, and as, the percentage of Part 135 flights goes up and (iv) makes your plane marginally more attractive to a potential purchaser.
8. Structurally, we would have plane ownership be held directly by Avioneta which would enter into a management services agreement with Jet Aviation. Avioneta would be owned by you and Debra. Wells Fargo (initial trustee for purposes of a failed 1031 and Rance (current owner of plane) would disappear.
9. To us (and the experts) this is a close call but with 135 being the favorable route. Please note, however, everyone is comfortable with reverting to Part 91. (Jeffrey's recommendation I believe).

Let's discuss.