

To: Jeffrey Epstein[jeevacation@gmail.com]
Cc: Kirschner, Elyse[REDACTED] Heller, Amy[REDACTED]
From: McCaffrey, Carlyn
Sent: Sun 2/10/2013 3:16:52 PM
Subject: RE:

I agree (although at least one of my partners does not) that you can avoid the reach of section 2703 with a cash settled option.

How would we price the option? Are call options on the stock publicly traded? How are dividends treated under the normal stock option?

Here's how I understand your proposal.

Step 1 - LB buys stock from Trust (T) for \$1B. LB issues a \$1B note to T bearing interest at X%. and secured by a lien on his art. We need to discuss what X should be. We also need to think about the mechanics which are made a little difficult by the fact that the stock is held in a partnership. We also need to think about the fact that much of his art is already subject to a lien held by US Trust.

Step #2 - LB sells a 2 year call to T. The price for the call is \$.1B (obviously, a rough estimate); the strike price is the current market price.

Step #3 - During the 2 year period of the call, LB spends the \$.1B on living expenses, taxes, art, etc.

Step #4 -Alternative 1 - the \$1B worth of stock is now worth \$1.2 B. LB owes T .2 Billion. He issues a note to settle the option. No income tax consequences because of grantor trust rules. The trust is ahead but not as much as it would have been if it hadn't entered into the transaction but LB's spending needs have been taken care of.

Step #4 - Alternative 2 - the \$1B worth of stock is still worth \$1B. LB owes T nothing. T has lost .1B, but LB's spending needs have been taken care of.

Step#5 - LB sells another 2 year call to T, etc.

There are no income tax consequences because of the grantor trust rules.

What are the securities law consequences? Are any of these transactions covered by Rule 16b? Do these transactions have to be reported?

Is this what you had in mind?

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From: Jeffrey Epstein [mailto:jeevacation@gmail.com]
Sent: Saturday, February 09, 2013 8:11 PM
To: McCaffrey, Carlyn
Subject:

i have reviewed the 2703 regs, i don't see the issue, if the trust buys an option, at market, today and the stock goes up, the stock gets valued at the fair market, but the cash settled option comes due reducing the value of the estate, bringing the same net result. and even better if debra gets the stock with a step up, what am i missing?

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