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Subject: split \$

Date: Fri, 14 Jun 2013 23:35:20 +0000

Just touching base on this subject so all the ducks are lined up for action regarding the unwind of the split \$ agreements-

Please review the attached report from Bryant Group when you have a chance. As we have acknowledged previously, the second-to-die policies are in much better shape than the individual policies. Their illustration assumes a 6% rate of return which may be a bit high but is probably ok given the underlying investments are equities.

FYI at 3/31/13-

Individual policies in Trust #1 with \$50 mil face value had CSV=\$7.5mil vs split \$ Advance =\$10.5mil - all 3 policies have CSV below the advance

Second to die policies in Trust #2 with \$100mil face value had CSV=\$15.2mil vs split \$ advance=\$12.5mil - all 5 policies have CSV above the advance

We have paid \$12.5mil in to the second to die policies so far. Assuming the 6% return is valid, with an addl \$13.3mil in premiums, the death benefit until age 95 is \$100mil. (worth considering)

In the case of the individual policies where we've paid in \$10.5mil, even assuming we kill the Security Life of Denver policy and recycle those \$ into the two other individual policies, it will take \$11.4mil in addl premiums for the \$45mil in death benefit which is only maintained until Leon is 86 (would seem, to me, not worth keeping).

As I understand it, the 1999 Insurance trusts can terminate the split \$ arrangement, cash in the policies (current CSV = \$23mil), give AIF IV Mgmt Inc its cumulative split \$ advances (currently \$23mil), AIF IV would then repay BFP 'loans' for premiums paid in 2008-2011 on its behalf (\$7.3mil). Leon, as owner of AIF, would then receive the balance of the cash in AIF IV (\$15.6mil).

The other alternative suggested by Carlyn was to value AIF's right, have the 1997 Trust buy the "right" (at a deeply discounted valuation- estimated at \$7.4mil). AIF would then repay the \$7.3mil owed to BFP. The '97 Trust, once it owns the right, can force the policies to be put to it. The '97 Trust could then keep the policies and pay the annual premiums going forward. Obviously, this would not be cash generative but would clean up, get rid of bad policies, keep the better ones and have \$100mil in life insurance for estate liquidity down the road (at a cost of \$1mil in premiums/yr for the next 13 years) - may be worth considering in the vein of keeping the option open to Leon & Debra since they are not so insurable again - could be handy to have this cash on the second death especially if majority of the estate has been given to the kids and/or charities.

It would help me to know if you are absolute in feeling that we should cash in all policies because, while I have asked WTAS to proceed with valuation of AIF's right, it sounds like he is just really ready to start his work. If we are less inclined to own the second to die policies in the 1997 Trust, we will not really need WTAS valuations at all. If we are considering keeping the second to die policies, I should order the outside objective analyses the policies to see what kind of shape the policies are in as well as the valuation of the right from WTAS just for the Insurance Trust #2.

P. S. - To remind you, the split \$ agreement says: "the sole right of the corporation (AIF IV) thereunder is to be repaid from each policy the amounts it has paid toward premiums with respect to such policy. Such repayment shall be made from the cash surrender value of such policy if this agreement is terminated or if the owner surrenders or cancels any such policy, or from the death proceeds of such policy, if the employee dies while such policy and this agreement remain in force"

Thanks.

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