

From: Jeffrey Epstein <jeevacation@gmail.com>

To: "Condren, James" <[REDACTED]>

Subject: Re: Bear High Grade Investment CONFIDENTIAL/FOR SETTLEMENT PURPOSES ONLY

Date: Thu, 30 Jun 2011 12:39:54 +0000

Im surprised you still think the earth is square,,

On Thu, Jun 30, 2011 at 8:37 AM, Condren, James <[REDACTED]> wrote:

People can "agree to disagree" on pretty much anything (e.g., whether the earth is square), but that doesn't mean there's a legitimate dispute.

From: Jeffrey Epstein <jeevacation@gmail.com>

To: Condren, James

Sent: Thu Jun 30 08:29:06 2011

Subject: Re: Bear High Grade Investment CONFIDENTIAL/FOR SETTLEMENT PURPOSES ONLY

"redeemed" is a tax question, as opposed to received a distribution. and made a new capital contribution. (as per the k-1 s,) there was no tax consequence. we agree. In many instances highly depreciated assets, swaps, 1031 exchanges, there are no "tax consequences" but highly significant, as you put it, economic consequences. It seems on this issue you and I will agree to disagree.

On Thu, Jun 30, 2011 at 8:08 AM, Condren, James <[REDACTED]> wrote:

I certainly haven't seen any cases that support your view. I'd be happy to read any that you can point me to. And I strongly disagree that the tax analysis is irrelevant. It shows that there was no economic consequence to the transaction. Your position is that you redeemed your HG investment. That's not what happened.

From: Jeffrey Epstein <jeevacation@gmail.com>

To: Condren, James

Sent: Thu Jun 30 07:43:26 2011

Subject: Re: Bear High Grade Investment CONFIDENTIAL/FOR SETTLEMENT PURPOSES ONLY

I understand your view, - from a tax perspective. in any like-kind exchange it would be the same. re loss here the dates are fixed, the amounts are fixed, I believe the cases on "out of pocket" are on my side. Kramer is a great tax firm. I don't see the tax relevance. Insurance cases have this all the time. the property exchanged has a carry over basis, but is irrelevant for loss purposes.

On Thu, Jun 30, 2011 at 7:32 AM, Condren, James <[REDACTED]> wrote:

I'm aware of the K-1's, but I don't see how they would affect our view.

From: Jeffrey Epstein <jeevacation@gmail.com>

To: Condren, James

Sent: Wed Jun 29 20:10:57 2011

Subject: Re: Bear High Grade Investment CONFIDENTIAL/FOR SETTLEMENT PURPOSES ONLY

thanks for your view,, there are also the K-1 s that show "withdrawal and distribution" amounts for hg, and" capital contributed "for EL

On Wed, Jun 29, 2011 at 3:52 PM, Condren, James <[REDACTED]> wrote:

Jeffrey and Darren, as I mentioned to Jeffrey a little while ago and in anticipation of the call that Jeffrey and I expect to have tomorrow with Mary Erdoes, this will set forth the rationale for JPM's view that

"out of pocket" damages should be assessed by reference to the amount of an investor's initial contribution to the High Grade fund before rollover into the Enhanced Leverage fund. Our view is based on the premise (which we strongly believe is correct) that investors who rolled over from HG to EL did not "redeem" their HG investments. Instead, they made an in-kind transfer of their partnership interest in HG to EL. Among other things (as referred to below), the transaction created no taxable event for the investor, and the tax basis of the investor's interest in EL received in the rollover was the same as the investor's basis in HG before the rollover.

The specific points we make in support of our view are as follows:

- To effectuate the transfer of interest, investors did not have to fulfill the redemption requirements set forth in the HG offering documents (i.e., they did not have to submit redemption forms and were not subject to the terms of the PPM concerning withdrawals).
- The documents related to the transaction (a subscription agreement and an interest exchange agreement) refer to an "exchange" of interests and an "in-kind transfer of assets" from HG to EL.
- No cash was paid to investors as part of the transaction.
- As mentioned above, the transaction created no taxable event for investors, and the tax basis of an investor's interest in EL received as a result of the transaction was the same as the basis in HG before the rollover.

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