



IGY-AYH ST. THOMAS HOLDINGS, LLC
(A Limited Liability Company)

Financial Statements

December 31, 2007

(With Independent Auditors' Report Thereon)

IGY-AYH ST. THOMAS HOLDINGS, LLC
(A Limited Liability Company)

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KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

Independent Auditors' Report

The Members
IGY-AYH St. Thomas Holdings, LLC
(A Limited Liability Company):

We have audited the accompanying balance sheet of IGY-AYH St. Thomas Holdings, LLC (the Company) as of December 31, 2007, and the related statements of operations, changes in members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IGY-AYH St. Thomas Holdings, LLC as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Greenville, South Carolina
September 22, 2008

IGY-AYH ST. THOMAS HOLDINGS, LLC
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Balance Sheet

December 31, 2007

Assets

Current assets:	
Cash	\$ 343,888
Restricted cash	242,037
Accounts receivable, net of allowance for doubtful accounts of \$48,233	423,022
Due from Parent	42,499
Prepaid expenses and other current assets	106,512
Inventories	<u>90,746</u>
Total current assets	1,248,704
Land	1,847,000
Property and equipment, net	20,413,747
Deferred financing costs, net of accumulated amortization	305,431
Intangible assets, net of accumulated amortization	1,670,230
Goodwill	946,212
Other assets	<u>67,522</u>
Total assets	<u>\$ 26,498,846</u>

Liabilities and Members' Equity

Current liabilities:	
Current portion of note payable	\$ 220,500
Accounts payable	80,460
Accrued expenses	317,280
Deferred revenue	483,397
Customer deposits	317,566
Asset retirement obligation	<u>422,495</u>
Total current liabilities	1,841,698
Note payable, noncurrent	<u>15,025,500</u>
Total liabilities	16,867,198
Members' equity	<u>9,631,648</u>
Total liabilities and members' equity	<u>\$ 26,498,846</u>

See accompanying notes to financial statements.

IGY-AYH ST. THOMAS HOLDINGS, LLC

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Statement of Operations

Year ended December 31, 2007

Revenues:		
Marina facilities	\$	5,556,240
Upland facilities		<u>1,484,658</u>
		7,040,898
Costs and expenses:		
Fuel		2,223,053
Depreciation and amortization		1,287,718
Personnel		887,796
Utilities		842,144
Insurance		295,969
Management fee (note 4)		484,563
Repairs and maintenance		106,851
Rent		102,966
Supplies		87,246
Travel		19,032
Other		<u>416,824</u>
		<u>6,754,162</u>
Operating income		286,736
Other expenses:		
Interest expense		1,170,779
Amortization of deferred financing costs		<u>10,532</u>
Net loss	\$	<u><u>(894,575)</u></u>

See accompanying notes to financial statements.

IGY-AYH ST. THOMAS HOLDINGS, LLC
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Statement of Changes in Members' Equity
Year ended December 31, 2007

Balance at January 1, 2007	\$ —
Capital contributions from members	10,526,223
Net loss	<u>(894,575)</u>
Balance at December 31, 2007	<u>\$ 9,631,648</u>

See accompanying notes to financial statements.

IGY-AYH ST. THOMAS HOLDINGS, LLC
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Statement of Cash Flows

Year ended December 31, 2007

Cash flows from operating activities:	
Net loss	\$ (894,575)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization expense	1,287,718
Amortization of deferred financing costs	10,532
Accretion of asset retirement obligation	20,119
Changes in operating assets and liabilities:	
Accounts receivable	(423,022)
Prepaid expenses and other current assets	(36,847)
Inventories	(23,153)
Other assets	(67,522)
Accounts payable	28,831
Accrued expenses	317,280
Deferred revenue	108,569
Customer deposits	18,064
Due from Parent	436,482
	<u>782,476</u>
Net cash provided by operating activities	<u>782,476</u>
Cash flows from investing activities:	
Increase in restricted cash	(242,037)
Purchases of property and equipment	(179,856)
Acquisition of American Yacht Harbor, less cash acquired	<u>(25,234,460)</u>
Net cash used in investing activities	<u>(25,656,353)</u>
Cash flows from financing activities:	
Borrowings under loan from Parent (note 4)	25,271,765
Principal payments on note payable	<u>(54,000)</u>
Net cash provided by financing activities	<u>25,217,765</u>
Net increase in cash	343,888
Cash at beginning of year	<u>—</u>
Cash at end of year	<u><u>\$ 343,888</u></u>
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 740,319
Supplemental disclosures of noncash investing and financing activities:	
Contribution of note from Parent to equity (note 4)	\$ 10,526,223
Conversion of note from Parent to note payable to bank (note 4)	15,017,937
Deferred financing costs paid by Parent	315,963
Purchases of property and equipment paid for by Parent	38,514
Recognition of asset retirement obligation and corresponding asset	402,376
Deferred revenue transferred from affiliate	279,000

See accompanying notes to financial statements.

IGY-AYH ST. THOMAS HOLDINGS, LLC
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Notes to Financial Statements

December 31, 2007

(1) Description of Business and Organization

IGY-AYH St. Thomas Holdings, LLC (AYH or the Company) was formed as a wholly owned subsidiary of Island Global Yachting Ltd. (IGY or the Parent) on December 5, 2006. The Company had no activities until its January 18, 2007 acquisition of American Yacht Harbor (note 5).

The Company is primarily engaged in the business of owning and operating a marina and retail facility located in St. Thomas, United States Virgin Islands (USVI). It comprises a 128-slip marina and seven buildings with 47,344-square feet of rentable retail space. AYH is managed by an affiliate. The marina is located on 3.2 acres of submerged land leased from the St. Thomas Department of Planning and Natural Resources (DPNR). The retail complex is located on 2.12 acres of adjacent waterfront land.

On May 29, 2007, a 50% passive member interest in the Company was sold to one of the Parent's investors. The Company is controlled by the Parent and the members' liability is limited to their respective capital investments in the Company.

(2) Summary of Significant Accounting Policies

(a) Cash

At various times throughout the year, the Company maintains cash balances in excess of federally insured limits. The Company's management believes it mitigates this risk by banking with major financial institutions. As of December 31, 2007, \$242,037 of the Company's cash is restricted under the terms of its loan agreement (note 8).

(b) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on accounts receivable are included in net cash flows from operating activities in the statement of cash flows. The allowance for doubtful accounts is management's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on specific account analysis. Past-due balances over 90 days and over specified amounts are reviewed individually for collectibility. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. As of December 31, 2007, \$423,022 of the Company's accounts receivable served as collateral for the loan outstanding.

(c) Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of prepaid rent, insurance, and security deposits.

(d) Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method (FIFO) for all inventories.

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Notes to Financial Statements

December 31, 2007

(e) *Deferred Financing Costs*

Costs incurred to obtain financing are being amortized using the straight-line method, which approximates the effective-interest method, over the term of the related debt.

(f) *Advertising and Marketing Costs*

Advertising costs are expensed as incurred. Advertising and marketing costs amounted \$21,106 for the year ended December 31, 2007.

(g) *Income Taxes*

The Company is not subject to U.S. federal and state income taxes as the tax effects of the Company's activities are reported directly by the members on their respective income tax returns. The Company is required to pay USVI withholding taxes on behalf of all non-USVI members.

(h) *Use of Estimates*

The preparation of financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, intangible assets, and goodwill. Actual results could differ from those estimates.

(i) *Land*

The Company owns 2.12 acres of waterfront land in St. Thomas, USVI and leases 3.2 acres of submerged land from the DPNR.

(j) *Property and Equipment*

Property and equipment are stated at cost. Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the Company's assets are as follows:

Buildings	40 years
Marina building and structure	20 years
Equipment	3 – 7 years
Vehicles	5 years
Furniture and fixtures	5 – 10 years

(k) *Goodwill and Other Intangible Assets*

Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in a business combination. Goodwill and intangible assets determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other*

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Intangible Assets. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The Company will perform its initial impairment review of goodwill in 2008.

(l) *Impairment of Long-Lived Assets*

In accordance with SFAS No. 144, *Impairment of Long-Lived Assets*, long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(m) *Revenue Recognition*

Revenues are recognized primarily at the time services are performed or products are sold and consist of amounts earned from marina and upland operations. Revenues from leases are recognized over the term of the lease. The Company recognizes minimum rental starting when possession is taken. When a lease contains a predetermined fixed escalation of the minimum rental, the Company recognizes the related rental income on a straight-line basis and records the difference between the recognized rent income and the accounts receivable under the lease as straight-line rent receivable.

(n) *Major Maintenance Activities*

The Company incurs maintenance costs on all its major equipment. Repair and maintenance costs are expensed as incurred.

(o) *Customer Deposits*

The Company receives deposits from its retail tenants in accordance with the lease agreements. It also receives deposits from customers for slip rentals. These deposits are accounted for as customer deposits in the balance sheet.

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(p) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(q) Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. The provisions of SFAS No. 157 for financial assets and liabilities, as well as any other assets and liabilities that are carried at fair value on a recurring basis in financial statements, are effective for the first fiscal period beginning after November 15, 2007. The provisions for nonfinancial assets and liabilities are effective for the first fiscal period beginning after November 15, 2008. The Company is required to adopt SFAS No. 157 for financial assets and liabilities on January 1, 2008 and does not expect adoption to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. SFAS No. 159 is effective for the Company's 2008 fiscal year. The Company is currently evaluating the impact the adoption of this statement could have on its financial condition, results of operations, and cash flows.

FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, addresses the uncertainty about how tax positions will be treated under the tax law. This uncertainty leads to questions about whether tax positions taken or to be taken on a tax return should be reflected in the financial statements before the uncertainty is ultimately resolved with the taxing authority. FIN 48 establishes the threshold for recognizing the benefits of tax return positions in the financial statements as "more likely than not" to be sustained by the taxing authority, and prescribes a measurement methodology for those positions meeting the recognition threshold. FIN 48, as revised, is effective for nonpublic entities in fiscal years beginning after December 15, 2007. The adoption of FIN 48 is not expected to have a material impact on the Company's financial position or results of operations.

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In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS No. 141R), and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS No. 160). SFAS Nos. 141R and 160 require most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at “full fair value” and require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. Both statements are effective for periods beginning on or after December 15, 2008, and earlier adoption is prohibited. SFAS No. 141R will be applied to business combinations occurring after the effective date. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company is currently evaluating the impact the adoption of this statement could have on its future financial statements.

(3) Liquidity

The Company experienced a net loss of \$(894,575) for the year ended December 31, 2007 and generated \$782,476 of cash through operating activities. Management believes that operating cash flow will be sufficient to support operations through at least January 1, 2009.

(4) Related-Party Transactions

(a) The following is a summary of related-party transactions for the year ended December 31, 2007:

Included in revenues:

Marina facilities revenue earned from passive member	\$	89,756
Upland facilities revenue earned from passive member		89,444

Included in costs and expenses:

Management fees incurred to IGY	\$	484,563
Interest on loan from Parent		743,071

(b) Due from Parent of \$42,499 consists of a receivable for prepaid long-term slip fees transferred as deferred revenue from Parent, net of payables for operation advances, management fee, and accrued interest. Included in accounts receivable are \$19,675 due from the passive investor.

(c) The Company borrowed \$25,271,765 from its Parent to purchase the assets of American Yacht Harbor. Interest incurred on the loan accrued at LIBOR plus 2.5% and totaled \$743,071 in 2007. Accrued interest on the loan of \$330,946 is presented net in due from Parent in the balance sheet. The intercompany loan was partially converted to equity on May 29, 2007 with the remainder being converted to a note payable to bank on August 23, 2007.

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(5) Acquisition

On January 18, 2007, the Company acquired substantially all of the assets of American Yacht Harbor, consisting of tangible and intangible assets such as land, buildings, marina docks and related equipment, rights, leases, and slip agreements. The results of American Yacht Harbor's operations have been included in the financial statements since that date. The aggregate purchase price was \$25,238,326, consisting of \$25,006,665 in cash paid and acquisition costs of \$231,661.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Current assets	\$	141,124
Property and equipment		22,630,949
Intangible assets		1,967,000
Goodwill		946,212
		<u>25,685,285</u>
Total assets acquired		<u>25,685,285</u>
Current liabilities		(446,959)
		<u>(446,959)</u>
Total liabilities assumed		<u>(446,959)</u>
Net assets acquired	\$	<u>25,238,326</u>

The acquired intangible assets, all of which are being amortized, have a weighted average useful life of approximately 8.3 years. The intangible assets include a favorable fuel contract valued at \$1,156,000 (11.3-year useful life), a beneficial government lease of the marina basin valued at \$674,000 (4-year useful life), and net beneficial leasehold assets of \$137,000 (3.5-year useful life).

(6) Goodwill and Other Intangible Assets

The following table presents certain information regarding the Company's goodwill and acquired intangible assets as of December 31, 2007:

		Gross		
	Amortization	carrying	Accumulated	Net
	period	amount	amortization	balance
	_____	_____	_____	_____
Goodwill		\$ 946,212		
Amortizable intangible assets:				
Beneficial retail leases	3.5 years	\$ 137,000	37,512	99,488
Beneficial leasehold	4 years	674,000	161,479	512,521
Favorable fuel contract	11.3 years	1,156,000	97,779	1,058,221
Total		\$ 1,967,000	296,770	1,670,230

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Estimated amortization expense for the next five years is: \$310,000 in 2008, \$310,000 in 2009, \$292,000 in 2010, \$109,000 in 2011, and \$102,000 in 2012.

(7) Property and Equipment

Property and equipment consist of the following at December 31, 2007:

Building	\$	16,936,873
Marina structure and equipment		4,188,410
Other equipment		279,412
		21,404,695
Total property and equipment		21,404,695
Accumulated depreciation		(990,948)
		(990,948)
Property and equipment, net	\$	20,413,747

The Company leases commercial real estate that has a gross book value of \$12,182,356 and accumulated depreciation of \$578,226 at December 31, 2007.

(8) Note Payable

The Company obtained a \$15,300,000 million loan facility from a bank on August 23, 2007. Interest accrues at LIBOR plus 2.35%. Principal and interest are due monthly and the loan matures on August 22, 2017. At December 31, 2007, the principal amount outstanding under the loan was \$15,246,000. The interest rate in effect at December 31, 2007 was 7.58% (calculated based on a blended LIBOR rate of 5.23% plus 2.35%).

The loan is collateralized by the real property and improvements thereon, the Company's rights under its retail leases, and certain cash accounts and accounts receivable of the Company. The terms of the loan contain certain financial covenants, negative covenants, material adverse change provisions, and other terms and conditions customarily found in loan agreements of this type. The Company was in compliance with all of the covenants associated with the loan agreement as of December 31, 2007.

Future payments of the balance outstanding on December 31, 2007 are due as follows:

2008	\$	220,500
2009		238,500
2010		256,800
2011		276,900
2012		299,250
Thereafter		13,954,050
		13,954,050
	\$	15,246,000

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Notes to Financial Statements

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(9) Lease Agreements

(a) Coastal Zone Management Permits (CZM)

The Company is party to two coastal zone management permits with the DPNR. These permits provide the Company the use of submerged land and upland at the marina site. The permits expire in 2010 and 2011. Annual fees paid under the permits during 2007 totaled \$61,582.

Future minimum payments due under the permits are as follows:

2008	\$	61,582
2009		61,582
2010		52,388
2011		<u>6,262</u>
Total	\$	<u><u>181,814</u></u>

(b) Retail Leases

The Company leases its upland building spaces to retail operations under operating leases. The leases have remaining terms of up to 10 years and contain standard renewal options. Base rentals are subject to escalation based upon scheduled rent increases within individual leases.

A schedule of approximate minimum future base rentals on noncancelable operating leases as of December 31, 2007 is as follows:

2008	\$	987,752
2009		684,138
2010		448,695
2011		353,094
2012		189,197
Thereafter		<u>649,070</u>
Total	\$	<u><u>3,311,946</u></u>

(10) Fair Value of Financial Instruments

As of December 31, 2007, the carrying amounts of the Company's cash, accounts receivable, and accounts payable approximate their fair values due to their short-term nature. The Company's note payable incurs interest at market rates plus a margin and the Company's management believes it could obtain a note payable under similar terms at comparable spreads; thus, the fair value of the note payable approximates the carrying value.

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(11) Asset Retirement Obligation

The CZM permits that provide the Company use of the submerged land and upland at the marina site require that, upon expiration, the permitted area be restored to its original condition. The Company has recorded an obligation and corresponding asset of \$402,376 in accordance with the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*, for its obligation under these permits.

Balance at beginning of year	\$	—
Liabilities incurred during the year		402,376
Accretion expense		<u>20,119</u>
Balance at end of year	\$	<u><u>422,495</u></u>

(12) Commitments and Subsequent Events

Retirement Plan

On January 1, 2008, the Company sponsored a defined contribution 401(k) profit-sharing plan for substantially all its employees. Employees are eligible to participate after completing three months of service. The Company may contribute each year an amount determined by management. Discretionary employer contributions are allocated based on the compensation of each employee and the total compensation of all participants. Additionally, the 401(k) profit-sharing plan allows for voluntary employee contributions, which vest immediately. Each employee is allowed to contribute 100% of his/her salary up to a maximum of \$15,500. The Company makes a matching contribution of 30% of the employee contribution, not to exceed 10% of the employee's total compensation. The combined employer and employee contribution may not exceed the lesser of \$15,500 or 100% of the employee's salary. The employer contribution vests at 20% per year for each completed year of employment.

Fuel Purchase Contract

The Company is party to a fuel purchase agreement under which it has committed to buy its gasoline and diesel fuel from one vendor at a fixed differential above a common index. The Company is required to purchase at least 65,000 gallons per month of diesel and gasoline combined. There is no limit to the quantity the Company can purchase. The agreement expires May 31, 2018, although either party can terminate any time after 2014. The agreement is renewable for an optional additional three years by the Company.