

**Talking Points**

- 1 We are currently reviewing Mr Epstein ownership structure of assets  
Understanding of this deal, like handful of other RE deals we have done in the past, was that we were 50 / 50 owners on all cash flow including any fees  
It is only now as we look at books almost 6 years later to find out otherwise
- 2 Fees in Management Agreement are very unfair under current structure  
7.5% management  
5.0% leasing  
5.0% development  
how fuel is handled
- 3 IGY has received approximately 4,400,000 more in cash flow from this deal than Mr Epstein  
No addback for management fees and leasing commission on bad debt expense
- 4 Leasing commissions - 5%  
Is AYH paid a fee even if an outside broker leases space  
Past three years there were 307,918 in writeoffs
- 5 EDC Company which requires 24 employees yet we have 28 employees  
I am concerned that there may be overlap between employee functions and management company
- 6 Capital Improvements over past three years totaled 206,318  
Property is tired looking  
Is insufficient cash flow reason no work is being done? Please explain
- 7 Concerned that when interest rates eventually increase instead of receiving distributions we will having capital calls
- 8 What is end game for investors to get their money back - sale of asset / refinance ??

<b>CASH FLOW TO PARTNERS</b>			
		<b>Jeffrey Epstein</b>	<b>IGY</b>
5/29/07	Original Investment	12,976,977.85	12,976,977.85
	Finders Fee (1%)		(259,539.56)
	Interest Paid to IGY (1/18/07 - 8/23/07)		(743,071.00)
8/29/07	Permanent Financing	(7,508,968.68)	(7,508,968.68)
12/31/07	Management Fee 7.5%	-	(484,563.00)
12/31/08	Management Fee 7.5%	-	(534,806.00)
	Free Slip P-1 Barge (0.86 x 72' x 365 days)	(22,600.80)	
12/31/09	Management Fee 7.5%	-	(582,783.00)
	Free Slip P-1 Barge (0.86 x 72' x 365 days)	(22,600.80)	
12/31/10	Management Fee 7.5%	-	(502,657.00)
	Leasing Commissions		(20,719.00)
	Free Slip P-1 Barge (0.86 x 72' x 365 days)	(22,600.80)	
11/9/11	Distribution	(250,000.00)	(250,000.00)
12/31/11	Management Fee 7.5%	-	(549,733.00)
	Leasing Commissions		(156,896.00)
	Free Slip P-1 Barge (0.96 x 72' x 365 days)	(25,228.80)	
12/31/12	Management Fee 7.5%	-	(663,711.00)
	Free Slip P-1 Barge (0.86 x 72' x 365 days)	(25,228.80)	
	Leasing Commissions		(99,328.00)
	<b>Adjusted Cash in Deal</b>	<b>5,099,749.17</b>	<b>719,530.61</b>
	<b>Difference between partners</b>		<b>4,380,218.56</b>
	<b>Management Fee</b>		
	Industry Standard is 5%, therefore I am not sure why this deal was set up at 7.5%		

<b>FUEL ANALYSIS</b>		
	<u>2011</u>	<u>2012</u>
Fuel Revenue	2,607,472.00	2,659,357.00
% of total revenue	37.38%	36.52%
Cost	<u>1,943,383.00</u>	<u>1,978,275.00</u>
Profit on Fuel	664,089.00	681,082.00
<u>Split between partners</u>		
IGY @ 7.5%	195,560.40	199,451.78
IGY - Remainder of Profit 50/50	<u>234,264.30</u>	<u>240,815.11</u>
Total IGY Share of Fuel Profit	429,824.70	440,266.89
	64.72%	64.64%
Epstein Share of Fuel Profit	234,264.30	240,815.11
	35.28%	35.36%
Fuel contract which was inherited from purchase of property requires 65,000 gallons per month average or 780,000 gallons per year		
Based on average cost of 3.25 the total volume purchased was:		
2011	802,299.08	gallons
2012	818,263.69	gallons
Those figures barely meet quota or 780,000 yet Epstein, who consumes approximately 40,000 gallons per annum was offered to purchase fuel at cost		

From: "Jeanne Brennan" <[REDACTED]>  
 Subject:  
 Date: March 6, 2013 11:31:33 AM EST  
 To: "Richard Kahn" <[REDACTED]>  
 ▶ 1 Attachment, 59.7 KB

**Tenant Write-Offs  
 American Yacht Harbor**

Date	Tenant	Write-off Amount
12/1/2010	Peach Tree write-off	\$29,845.52
12/1/2010	Peach Tree write-off	\$8,882.85
12/1/2010	Peach Tree write-off	\$65,696.13
6/30/2011	A Reaves	\$54,367.03
6/30/2011	CTS Enter.	\$16,292.50
6/30/2011	Sun Heaven	\$2,738.66
7/31/2011	Off the Hook	\$14,272.80
7/31/2011	Burrito Bay	\$68,975.00
9/30/2012	Dolphin Dreams	\$46,847.28
	<b>Total</b>	<u>\$307,917.77</u>

**Annual Summary**

2010 write-offs	\$104,424.50
2011 write-offs	\$156,645.99
2012 write-offs	\$46,847.28
<b>Total</b>	<u>\$307,917.77</u>

*x 7.5% = \$23,094*

*↓  
 Management fees that should be repaid*

# AYH- 2013 Payroll

Position	2013 Budget
	Base Wages
1 Fuel Supervisor	48,483
2 Dock Staff	20,862
3 Dock Staff	17,568
4 Fuel Attendant	26,901
5 Fuel Attendant	23,058
6 Dock Master	60,000
<b>TOTAL MARINA</b>	<b>196,870</b>
7 Security	22,509
8 Security	17,568
9 Security	19,764
10 Security	9,882
11 Security	19,215
12 Security	23,566
<b>TOTAL SECURITY</b>	<b>112,503</b>
13 General Manager	85,000
14 Accounting Administration/Payroll	28,824
15 Upland Tenant Lease Administration/EDC/HR	44,290
<b>TOTAL MANAGEMENT &amp; OFFICE ADMINISTRATION</b>	<b>158,114</b>
16 Long Term Marina Customers/Front Desk Supervisor	25,709
17 Marina Front Desk	19,282
18 Marina Front Desk	19,282
19 Marina Front Desk	19,282
<b>TOTAL MARINA ADMINISTRATION</b>	<b>83,554</b>
20 Maintenance/Landscaping/Housekeeping	29,645
21 Maintenance/Landscaping/Housekeeping	24,156
22 Maintenance/Landscaping/Housekeeping	29,645
23 Maintenance/Landscaping/Housekeeping	29,645
24 Maintenance/Landscaping/Housekeeping	20,862
25 Maintenance/Landscaping/Housekeeping	11,529
26 Maintenance Supervisor	30,749
27 Maintenance/Landscaping/Housekeeping	9,882
28 Maintenance/Landscaping/Housekeeping	20,313
<b>TOTAL MAINTENANCE/SECURITY</b>	<b>206,425</b>
<b>TOTAL</b>	<b>757,465</b>

From: "Jeanne Brennan" <[REDACTED]>  
 Subject:  
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Capital Expenditures by Project  
 American Yacht Harbor  
 For the Year Ending December 31, :

Sum of Amount	Column Labels			
Row Labels	2010	2011	2012	Grand Total
Electric meters			\$18,747.93	\$18,747.93
Electrical	\$28,500.00			\$28,500.00
Elevators	\$36,871.60			\$36,871.60
Miscellaneous	\$8,371.12			\$8,371.12
Painting	\$392.78			\$392.78
Plumbing	\$6,900.00			\$6,900.00
Pollution control	\$2,000.00			\$2,000.00
Roof	\$57,183.32	\$33,672.89		\$90,856.21
Security Cameras			\$6,725.00	\$6,725.00
Signage	\$114.00			\$114.00
Utility mast			\$6,839.31	\$6,839.31
<b>Grand Total</b>	<b>\$140,332.82</b>	<b>\$33,672.89</b>	<b>\$32,312.24</b>	<b>\$206,317.95</b>

IGY-AYH ST. THOMAS HOLDINGS, LLC

(A Limited Liability Company)

Notes to Financial Statements

December 31, 2008 and 2007

(4) Related-Party Transactions

- (a) The Company earns marina revenue from six slips leased by a passive member on an annual basis. The Company also leases two office spaces totaling approximately 3,200 square feet to the passive member. The following is a summary of related-party transactions for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Included in revenues:		
Marina facilities revenue earned from passive member	\$ 190,742	89,756
Upland facilities revenue earned from passive member	172,393	89,444
Included in costs and expenses:		
Management fees incurred to IGY	\$ 534,806 ✓	484,563 ✓
Interest expense on loan from Parent	—	743,071 ✓

- (b) Due to Parent of \$608,177 at December 31, 2008 consists primarily of accrued management fees of \$576,900 and professional fees paid by the Parent on the Company's behalf. Due to Parent of \$116,170 at December 31, 2007 consists of payables for operation advances, management fee, and accrued interest, net of a receivable for prepaid long-term slip fees transferred as deferred revenue from Parent. Included in accounts receivable are \$95,662 and \$19,675 due from the passive member as of December 31, 2008 and 2007, respectively.

- (c) The Company borrowed \$25,271,765 from its Parent to purchase the assets of American Yacht Harbor in 2007. 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 at December 31, 2007 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.

(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.

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

Notes to Financial Statements

December 31, 2008 and 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, 2008 and 2007, \$327,940 and \$242,037, respectively, 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. At December 31, 2008 and 2007, the allowance for doubtful accounts is \$275,586 and \$48,233, respectively. As of December 31, 2008 and 2007, \$473,443 and \$423,022, respectively, 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.