

**TO:** Barry Sternlicht  
**RE:** Just Some Thoughts  
**FROM:** Stephen P. Hanson  
**DATE:** October 9, 2012

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First I want to say that I really dislike having to write these emails. I have the utmost respect for you and I actually enjoy working with you.

So going forward to save each other time and effort let's agree when either of us are upset we just keep sending these last two rounds of emails to each other; much more efficient – no?  
So-

If we are to have a constructive dialogue, you need to get over the significant dough and the \$10 million in notes at ten percent (10%) I received. To reiterate past exchanges, you paid a negotiated, fair price for BRG. After your purchase, the world went to crap. You know this better than I, as you saw your investments, including BRG, drop significantly in value, such that you never built the hotels that were to be the BRG pipeline of new restaurants and the purpose for your investment in BRG. BRG was never intended to be a stand alone investment; it was always planned to sit inside the 12 plus hotels you had in the making on day one of your BRG acquisition. And if you had built those hotels, BRG would be a 400+ million company at this point.

I accepted the \$10 million in notes as a courtesy to you! SCG was required to put the \$10 million into BRG when BRG purchased Dos 3, for which the \$10 million in notes arose (\$.5 million of the note was to repay the loan I had made to Dos 3). If I insisted on my legal rights, SCG would have been required to contribute the \$10 million and you would have charged BRG twelve percent (12%) on such contribution vs the 10% I have charged. Please note that Dos 3's

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2012 Ebitda pre management fee is projected to be \$3.93 million. At purchase, DOS 3's Ebitda was approximately 75% of this amount. Further, I accepted at closing of Dos 3, one half the Top up Payment to which I was entitled.

We made a bargained for deal; it did not work out the way either of us wanted it to. I would have been much happier to have BRG be more successful, and, in such event, I would have been much better paid. I had at the onset of our venture significant upside in BRG's growth, which is now all but gone, largely due to the down turn in the business but also, in part, for giving SCG \$21 million in preferred capital earning 12% per year (2.52M per annum) and compounding, while by our contract, SCG was not entitled to a preferred return on the \$21 million or to have the \$21 million itself be returned to you prior to my receiving an equal amount.

As to my compensation, I do not want to be, in my opinion, a brat, but my annual compensation alone is not adequate for my efforts and for what I can earn elsewhere. I have continued in my position to maximize my opportunity to share in BRG's growth and, especially in the last few years, to help SCG, my partner, profit from its investment. Please let me know if you wish to discuss termination of my employment and my exit, after which you would own 100% of BRG and BRG would not continue to incur the cost of my compensation and expenses.

You are rewriting history with your argument that BRG's bad numbers caused the repayment of BRG's recourse debt. My recollection is that Wachovia, the lender, needed the

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cash for its own liquidity. As the debt was recourse to SCG, and obviously SCG had the cash to satisfy the debt, BRG's numbers were immaterial to the required payoff. Plus, the loan was recourse when taken, when BRG's numbers were great.

As I have asked many times before, for which I never got an answer, why did SCG borrow the money short term from a bank with which SCG had a strong relationship but which was not in the business of lending to restaurants and why is SCG blaming BRG for the loan recall? If SCG had financed its acquisition for a longer term with a bank eager to work with restaurants, BRG would not have been required, to my detriment, to pay SCG a 12% preferred return rather than a much lower interest rate to a third party lender and I am sure, like most loans of that time period, could have been reduced if SCG had not made it recourse.

It appears SCG will lose money on this investment and I am unhappy that is so. I would much preferred for SCG to have been successful and, while I doubt the loss will be \$80 million, I believe the loss will be significant. But I am more upset by my loss. I will lose most, if not all, of the \$57+ million of capital I left in BRG when SCG became my partner. The \$57+ million was my money; your loss, while unpleasant, was that of your investors, not you.

As to the budget, I agree; we have not met budget in any year we have been partners. In the early years, the recession impacted BRG like it did every other business. Restaurants, a discretionary expenditure, were particularly hard hit. In the last few years, the budgets at SCG's request, reflected unrealistic amounts. SCG wanted the budgets to reflect a level of growth and

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success which BRG was unlikely to attain. SCG had more input into the budgets than I did. SCG had more resources to employ in the budget process and operations than I. I understand that you, Dan and other SCG people are consistently meeting with, and asking and receiving information from, Alex, Laurent and David Haas. You know all, if not more than, I know. SCG not only had the BRG staff, with whom SCG is in constant contact and has access to all of BRG's information, but also SCG's staff to help review and evaluate. Plus, SCG has equal say in the management. You may consider looking at SCG's actions, or lack thereof, in budgeting for and operating BRG.

As to the rental of "my building," its lease to BRG was one of the assets SCG received when it invested in BRG. As you may know, the rent charged was fair market when BRG entered the lease, as determined by independent real estate brokers. By the time SCG became a member of BRG, the rent was under market. I voluntarily waived rent increases provided for in the lease. BRG paid to me the rent it was contractually obligated to pay, as it would to any third party landlord.

I will address your complaints with our losing restaurants one by one.

Primehouse was a large loss but not close to \$15 million. It was a victim of too high a rent and an inability to attract the necessary guests, especially at lunch. The recession impacted particularly hard high end restaurants, such as Primehouse. BRG followed all of your suggestions to improve Primehouse's results, without avail. At SCG's repeated requests, we

closed Primehouse instead of limping along and trying to salvage it.

Kibo was a \$3.4 million loss for which, as president of BRG, I take responsibility, but you assisted in creating the loss. You wanted to bring in a COO younger than I to lead the company after SCG exited, and, most likely, to replace me even before such time. SCG vetted and chose Alex. We, you and I, gave Alex leeway to perform. Kibo was Alex' deal, blessed by us. If you want a COO, you need him to act as one. And we did. Further, Alex, not I, was to deliver Robuchon. Lastly, Alex did not replace me, I am still here and working as always.

We have lost a small amount of money at the underground under DOS; I expect to make it back in the next few months. We make a lot more at the underground bar next to it. The entry into the night club business has been profitable for BRG.

Atlantic City has been profitable for BRG. It provides positive cash flow. Management of the AC restaurants has issues, but what business venture does not? Bottom line it is profitable. I don't get the bitch about BRG making \$1 million in fees a year with little additional overhead cost.

The loss of the Dos Caminos in Vegas was a bitter blow, one that should not have happened. We survived the recession and the Venetian's lack of guests and began to become profitable. The Venetian then wanted to own the space for itself as part of an internal power play and found a captive Nevada court system to fulfill its wish. You should note that as of a few months ago the space was still vacant and Venetian's counsel told us that evicting Dos Caminos

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was a huge mistake.

We are not "being terminated" at Blue Fin; our lease is coming due and the rent will escalate to fair market value. Do you want BRG to pay it? Let me know. I hope you are not blaming me for the price of NYC rents. I did not think I was that powerful.

The Striphouse purchase is proving to be a success. If you are unhappy with the investment, I will discuss with our partners buying your total interests, for the \$7.7 million BRG invested. Please advise if you want me to do so.

As to your number of \$3 million of Ebitda for BRG, it must be the result of a new math which I cannot understand. If that is what you think our numbers are, you should tell it to the potential purchasers of, lenders to, BRG. I am sure they would be interested in it.

In response to your second paragraph:

1. Staffing with expensive bodies. Lets discuss who you wish to terminate and still run and/or expand the business.
2. At least you acknowledge that SCG approved Kibo. If you thought Kibo was a terrible idea, you could have stopped it.
3. You have no grounds to fire me; thus, you get no credit for not doing so. As I said earlier in this letter, I am willing to discuss with you my exit.

4. Corporate overhead is a push pull. You want to grow the company and hire more experienced, qualified personnel, and you want to cut overhead. Choose one, and I will endeavor to attain it. Remember Alex G was everyone's idea to have as a CEO/COO in place for a possible sale. He did not join to assist me – we hired him to learn the business and be a leader to benefit the sale.

5. Opening new venues. If you do not want to do so, fine. It's your capital and thus your call. I have seen no economic benefit to me for the last 24 months from making the effort to grow BRG. If you do want to do so, let's stop all growth. My capital is far behind yours. My only goal was to increase BRG's value, the benefit of which would flow entirely or almost entirely to SCG on exit. Without a pipeline of new restaurants, what is our growth story to potential purchasers? And what would be BRG's costs for the unbuilt restaurants if we sold in the next few months?

6. Morale. Again your call. If you do not want to give bonuses, lets not, except where we contractually are obligated to do so. I believe that failure to give bonuses will result in BRG losing the people it most wants to retain.

I have responded to your "just some thoughts." Now, I would like to give you some of mine. In many respects, you have been a great partner, and I honestly consider you a friend. But you have not performed.

Where are the pipeline of hotel restaurants you were to provide?

Where is the compensation to BRG for the work, and success we created, for you in St. Petersburg?

Where are the introductions to your friends and associates for more restaurants?

Where is your support? You sit back and complain about the failures instead of being proactive and participating in the process. And you fail to note the successes.

DOS 3, almost \$4 million in Ebitda and part of the very successful Dos Caminos brand.

AC, \$1 million in management fees at little additional cost to BRG.

Striphouse.

Bill's, a terrific, portable success.

Survival through the worst recession. In the darkest days at the depths of the recession, I stood by you and your investment. I could have stuck it to you and left or demanded a better deal. I did not. I fell for your line – we will address the cap stack – okay, you got me.

Further, you fail to acknowledge the economic concessions I gave to SCG. You may not recall, I gave BRG three (3) months of ownership, and thus nearly \$1 million of Ebitda, for the period prior to closing.

Acceptance of notes in lieu of cash payment on BRG's purchase of DOS 3.

Forgoing salary of \$2 million to which I was entitled and rent increases pursuant to 206 Spring's lease.

Allowing SCG to receive credit for \$21 million of preferred capital and earn 12% preferred return on \$21 million of capital which SCG was required to contribute as non-preferred capital. I note that the preferred return of over \$2.5 million per annum exceeds the aggregate of my salary, expenses, and interest on the \$10 million in notes.

Bottom line. We embarked on a venture together. You bought and I sold 50% of a restaurant business, after which I had cash equal to half of the value of the business and you had half of the business. I let you lever up BRG – I believed in your pipeline. You had the opportunity for success or failure with your half of the business, as I had with investment of the money I received and the half of the business I kept. I created a terrifically successful, unique restaurant business that you reviewed, analyzed and negotiated to acquire. You paid a fair price. Now, when the business fails to meet your expectations, you are not part of the management which oversaw the business.

Did I create the recession?

Did I create the higher NYC rents and higher labor costs?

Did I have successes?

Did I cause you not to build the 12 hotels you projected. You bought BRG only to

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service your hotels and increase their value. Any benefit from owning BRG would purely be a bonus to SCG.

Barry, neither of us has a need to be involved with a relationship that does not work. Let's discuss my exit and transition of the company. You will not thereafter have me being an impediment to you making BRG successful and you will be its sole owner.

My friend, we have crossed into the "life is too short" relationship.

Stephen

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