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**From:** Jeffrey Epstein <jeevacation@gmail.com>  
**Sent:** Thursday, January 23, 2014 12:51 PM  
**To:** Melanie Spinella  
**Subject:** Fwd: Outline of Proposals

----- Forwarded message -----

From: Alan S Halperin=<[REDACTED]mailto:[REDACTED]>  
Date: Thu, Jan 23, 2014 at 8:32 AM  
Subject: Outline of Proposals  
To: =Jeffrey Epstein <jeevacation@gmail.com <mailto:jeevacation@gmail.com>>  
Cc: Ada Clapp <<mailto:[REDACTED]>>, Ada Clapp <<mailto:[REDACTED]>>

Jeffrey, as requested, Ada and I have discussed the open issues you have identified to develop a joint proposal on how to proceed. Here are our recommendations.

A. Art Currently Held in the LDB 2011 LLC (which is referred to as the 2011 LLC)

1. The goals are twofold: avoid paying rent which triggers current sales tax and raises current issues as to the fair market rent of such rent; and reduce the risk that the IRS might seek to include the art in the estate under a 2036 argument.
2. We recommend that, to achieve this result, the art should continue to be held in the 2011 LLC, the membership interests in which are to be sold to a trust where Deborah is a beneficiary.
3. Proposed action steps to achieve the desired result include:
  - a. The 2011 LLC is to create a new LLC (NewCo). The 2011 LLC will contribute its interests in BFP to NewCo.
  - b. The 2011 LLC then is to distribute NewCo to the members of the 2011 LLC (the four children's trusts).
  - c. The four trusts, in turn, are to sell their interests in 2011 LLC to APO1 in exchange for a promissory note.=/font>
  - d. The four trusts could contribute the assets they receive from the sale -- the promissory notes from APO1 -- to NewCo (if trapping income on the note payments, to avoid mandatory payments to children, is desired).
  - e. The 2011 LLC and Debra (a beneficiary of the APO1 Trust) will then enter into an art use agreement, without any rent. We should consider who is to pay insurance on such art.

4. The desired consequences include:

- a. With a sale of membership interests in the 2011 LLC, the sale will involve membership interests in an old and cold LLC holding both art, and financial assets, including an interest in Phaidon, securities and investment partnerships, strengthening the argument that the sale involves intangible personal property.

b. By creating NewCo holding BFP, we avoid a sale involving Apollo interests and continue to trap income (that would otherwise have to be distributed to the children after age 25 from the children's trusts).

c. By contributing the note to the 2011 LLC, we better control fiduciary accounting income.

5. We will need to consider governance issues with respect to the 2011 LLC and NewCo.

#### B. Existing Insurance/Split Dollar

1. The current split dollar arrangements should be terminated in accordance with prior discussions and analysis. Ada will circulate a memorandum she prepared for Norman Brownstein, who is the Trustee of the 1999 insurance trusts, summarizing the steps.

2. The insurance on Leon's life (\$50 million face amount) likely will be terminated. The survivorship policies (\$100 million) have performed better and may be continued. The family office has been working with Roger Cammon to obtain performance illustrations and projections to help make this decision.

3. If the survivorship policies are retained, the 1999 insurance trust (Trust #2) will continue to own them. Since Trust #2 has no other assets, funds could be made available to Trust #2 from APO2 (or another trust) on a periodic basis, and without much paperwork, via decantings.

4. Note that Trust #2 calls for mandatory income payments to the children following the death of the survivor of Leon and Debra. It further grants each child a broad testamentary power of appointment (which means that, on his or her death, the child may direct the disposition of his or her share of the \$100 million death benefit to a spouse or anyone else in his or her Will). We have considered whether it makes sense to decant Trust #2 in favor of a new trust, say APO3 (which could be a sub-trust of APO2). In the end, we believe it is better to keep the insurance in Trust #2 for the following reasons:

a. Creating yet another trust may raise issues and would involve additional administration.

b. We generally favor old and cold trusts unless there is a problem with them.

c. Any decanting of Trust #2 would involve multiple steps, as the trust's governing law (Colorado) currently does not authorize decanting.

d. Given the amounts involved and Leon's desire to provide some cash flow to the children at some point, the mandatory income payments (and testamentary power of appointment) may not be too problematic.

#### C. Insurance on Art and Other Issues Relating to the Art

1. The owners of the art should have an agreement recording the arrangement concerning the insurance, including:

a. One umbrella policy saves each of the parties significant funds as compared to separate policies held by each (and therefore is a prudent business decision by the Trustees).

b. The agreement should set forth the allocation of premiums (perhaps based on some objective factors). It further should explain how a claim is handled (particularly if the loss exceeds coverage).

c. Each of the parties in fact should pay its share of the premiums.

2. Each time art is acquired by a trust, there should be a contemporaneous writing, such as a trustees' resolution, recording the decision.

3. Every trust that owns art should have a use agreement. We should discuss who pays the insurance on trust-owned art subject to a use agreement.

D. APO1 GRAT Annuity Payment

1. The annuity payment for the first quarter is due by Monday. It will be paid in cash and BFP interests.
2. The BFP interests received will be transferred to a new GRAT.
3. Should the new GRAT be created simultaneously with the annuity payment (or shortly thereafter)? Or should we wait in order to consolidate with the APO2 GRAT annuity payment (payable in early March)?

E. Decanting the 1997 Trust into APO2

1. We should now proceed with the decanting.

I suggest that we use the following call-in information:

\* [REDACTED] > , then press #.

Thank you. Alan

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