

## Starfire Update

The condition and value survey came back with an estimated market value for the Starfire of \$25mil. The report commented on the boat being in "exceptional" condition for its age. I have attached a copy of the survey and audio gauge reports for you as well as the preliminary report of deficiencies/recommendations. The Captain said he was not really surprised by any of the findings. Many of the items are being addressed while the boat is in the yard and he said the balance will be addressed over the next year by the crew. They did find one hole in the bottom of the boat and some wasted metal in the anchor locker that needs to be replaced. Carl will be preparing a summary but spending on the items identified before you closed on the purchase are coming in a bit higher than the original \$750K estimate-closer to \$950K. Additional maintenance identified will cost approx \$350K-this includes the radar system, replacing the crane, and the wasted metal projects. Requests from you and Debra including Seabobs, new interior floors, sun shades and other design items will run approx \$300K. I've paid out a bit over \$3mil ytd which does include some of the yardwork but Carl estimates the total yard bill to be approx \$1.6mil.

Now that the survey is in, we can move ahead to do the takeout financing if you want to.

Just to review, terms and structure being offered by Bank of America are as follows: 5 year term but 20 year amortization schedule for 70% (\$17.5mil) of the value at a floating rate based on the one month LIBOR rate + a spread of 1.75%. Today that would be a 2% rate. Interest and principal payments would be due monthly (approx \$100,000/mo). There are no prepayment penalties. There is a 25 bp origination fee (I assume we can get this waived). Borrower would be BJAV Marine Ltd, you would be the guarantor. The LIBOR + 1.75% compares to your existing credit facility terms of LIBOR + 1.25%. It is possible to fix the interest rate on the loan via a swap. Since the term of the loan would be 5 years, it would make sense to lock in a rate for 5 years. If we were to do so we'd pay the 1.75% spread + the swap rate. Today that would equate to a rate of approximately 3.25%. There is probably a more sophisticated way to do this, but I played with the numbers and it would take a scenario where rates stay around today's levels for 2 years, and then rise 100 bps per year in years 3, 4 and 5 to get you to breakeven for doing the swap versus staying floating. While tough times in Europe might imply rates staying low making the floating rate structure preferred, LIBOR could be vulnerable to spiking if the European financial crisis was to really spiral out of control. 3, 6, and 12 month LIBOR rates have moved off their lows recently reflecting such concern.

A bit of an aside, but, with the help of the closing attorney I did a bit of comparison shopping for rates from other yacht lenders. B of A is the way to go. Interestingly though, he said the 5 year term makes practical sense because in his experience most first time yacht owners within 5 years are either ready to sell the yacht because they either don't use it enough and/or prefer not to incur the expenses of owning a yacht or they are ready to upgrade to a new vessel.

Considering your larger financial picture, I was disappointed to find that if, at some point, we wanted to try to lock in at low rates on some of your art loan, the bank does not allow a swap longer than 2 years on this type of credit facility. To me, then, maybe the real reason to think about doing the swap on the yacht loan is that this would be a way to at least lock in some of your debt at a relatively low rate.

Please advise on whether you want to proceed with the financing.

Thanks, Eileen  
10/27/11