Financial Trust

GOVERNMENT OF
THE VIRGIN ISLANDS OF THE UNITED STATES

INDUSTRIAL DEVELOPMENT COMMISSION

PUBLIC HEARING

FRIDAY, April 23, 1999
9:40 a.m. to 3:15 p.m.

Port Authority Conference Room
St. Thomas, Virgin Islands

MEMBERS PRESENT

CAIN MAGRAS, Acting Chairman
MARCIA HOLLINS, Member

STAFF PRESENT

FRANDELLE GERARD, Acting Exec. Director
NADINE THOMAS, Assistant Exec. Director
FRANCOIS DOMINIQUE, Special Assistant
ANA L. DAVILA, Director or Admn/Operations

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I N D E X

MS. ROWE: You are very welcome.

THE CHAIR: Is there anyone who would like to testify for or against this proposal?

(No response)

THE CHAIR: Not seeing anyone, thank you again.

MR. PEGUERO: Thank you.

THE CHAIR: Let me call the next applicant, Financial Trust Company.

Sorry for the interruption. If we can proceed, we are now at the Financial Trust Company, Inc.

MR. HOFFMAN: Good afternoon, Mr. Chairman and Miss Hollins, members of the staff. My name is Paul Hoffman and I'm here as the attorney for Financial Trust Company. But I'm really here and it's my great pleasure to be here to introduce Mr. Epstein, Jeffrey Epstein who is the principal of the company and who will make the presentation.

What you have before you is an application --

THE CHAIR: Before you proceed, could we have Mr. Epstein sworn in, please?

MR. HOFFMAN: Sure.

(Thereupon, Jeffrey Epstein was sworn in by the Court Reporter.)

THE CHAIR: Thank you very much.

MR. HOFFMAN: The application is for a designated service business in the -- as defined in the Economic Scientific and Management Consulting Services. And what personally gives me the greatest pleasure and satisfaction here is that I believe Mr. Epstein's company and his efforts mark what I think is really a tremendous opportunity for the Virgin Islands to expand our financial services sector, that entire area of our economy where I think we can become second to none.

And with that said I would like to ask Mr. Epstein to first tell you about himself and tell you about the application. Obviously if there is any question that I can answer either today or at any time before your final consideration -- I believe everyone knows me -- and I will make myself and Mr. Epstein available as required.

THE CHAIR: Thank you very much.

Mr. Epstein.

MR. EPSTEIN: Good afternoon. What I thought I would do is just to give you a bit of background about my personal history first and then explain how my business comes out of my background in effect.

I come from Coney Island in New York City is where I started out. And my first job was a school teacher. I was a high school math and physic teacher for a number of years. Like many teaching jobs, we are usually under compensated. I think the great shame is how low teachers are paid around the country.

What happened was I got an opportunity while being a school teacher to have a job on Wall Street, which is a place I knew the location of but I knew nothing else about what Wall Street meant. At that time I had no money. So I really did not know the difference between a stock and a bond.

My first job was with a company called Bear Stearns, which is one the largest investment banks on Wall Street where I was for five years and only after five years made the youngest partner in the history of the firm.

In 1981, I left Bear Stearns to set up my own financial consulting operation and over the past 18 years have been advising clients around the world on how to invest their moneys, how to make acquisitions, how to do the necessary research needed in what has become an extremely, complicated and interwoven global marketplace.

The main change really of all the financial service business was in the mid-1970's when computers first got involved in the application of investment decisions where you can graph the way stocks move, your access to information worldwide and as the computers got faster and faster. Up until only ten years ago, really the beginning of fax machines, you actually had to be in New York City to do financial business. You could do it other places but it was very difficult. Because to simply deliver a message or a handwritten document across town even in New York took an hour to get from uptown to downtown. So in fact Wall Street begins as one building in the early 1900's where people can yell at one another and they can actually see one another because that was their first communication.

The major change happened with fax machines where people in fact can deal with their clients in no matter what country they were as long as there was telephone service. In the United States we were pretty lucky because telephone service existed in most places. But in Europe, in the Mediterranean the phone systems weren't very advanced. So fax machines it took awhile.

The biggest change in the financial service industry has come and is driven by technology in the telecommunications industry. Now with the advent of electronic mail in fact it's possible to do financial business with a base located on almost anywhere in the world. And in fact some companies you probably are aware have divisions in countries on the other side of the earth. And they have countries like India do their paperwork but it's all down loaded by satellite and returned the next morning.

One of my first businesses -- I mean, one of my first clients was a man named Leslie Wexler, W-e-x-l-e-r, who invented Victoria Secret, which the women heard about and not only the men.

MR. DOMINIQUE: I never heard of that.

MR. EPSTEIN: This was a man who started a business with one store 28 years ago where he was the cashier, the buyer, the window washer and the salesperson. He had an idea that he would sell clothing.

In the past before Les Wexler came along, when anyone wanted to buy clothes you went to a department store and there was men's clothes and women's clothes and everyone just sold clothing. He said we'll sell clothes and limit it to women. So he started a business called The Limited, which has grown over the years and based in Columbus, Ohio to six thousand stores and only in the United States. He's dedicated to only being in the United States.

Why I speak so much about Mr. Wexler is because he wasn't only my first and very large client but he was my mentor. So in my history of being a school teacher as well as being mentored by someone as bright as he was, it developed in me not only a sense of how I do my business with a sense of integrity, but the responsibility to bring people along with my success. And not only the people surrounding only in my company but the community at large.

I think the concept and responsibility of giving back, just in fact makes more money, it's a great business decision. I teach certain courses to people. And one of the first things I talk about is in fact how giving back is a great financial decision, not only a moral but ethical decision.

With my personal history aside, I have and continue to have clients around the world who rely on me personally for investment advice.

THE CHAIR: Mr. Epstein?

MR. EPSTEIN: Yes.

THE CHAIR: You only have 15 minutes for a presentation. You've used ten already. Please get to what your business is about.

MR. EPSTEIN: Sure.

THE CHAIR: Thank you.

MR. EPSTEIN: My business is financial services, which is investment consulting, research acquisition of information that allows my clients to make their investment decisions. I spent a great deal of time vacationing up and down the world. I came to the Virgin Islands a number of years ago. And when I was made aware of the benefits and the requirements of IDC, I realized that in fact the financial service business would be a perfect candidate to be located down here.

And in my application -- I don't want to reread my application to you. You've all read it -- the concept for me would be to hire people, which I realize there is a great talent pool here and under utilized frankly such as the university and from government. I need people who can collect research information for me, help me with execution, follow-up with the accounting.

And I'm the only one really who speak to my clients. But the financial infrastructure here I have already set forth I would have at least ten employees at a minimum.

The benefits my employees -- would not be unusual for my employees because I've always thought it was necessary to frankly give scholarships for people who work for me so they can get an education and be as fortunate as I was having a quality education.

The normal health benefits are mostly now cafeteria style because people have different requirements and bring them along.

I thought that -- obviously I'm committed to hiring Virgin Islands residence. I think the talent pool is easily found frankly. And I was hoping even on the upper levels to encourage potential Virgin Islanders who have been off island to come back to work for me as maybe senior tax people.

I would envision really my core group being here in the Virgin Islands, formed by Virgin Islanders and have training. And if I bring anybody down, it would be on top of the ten people that I'm committed to here. But training would be an important fact.

As we talked at the break, my business is only for clients. And the tax break, I understand, is only for clients located outside the Virgin Islands. But eventually I see people I train being able to do business here on their own with local residents, which I think is a great advantage for them.

Again my focus is also on the young people. I think there are people here who have had futures that looked uncertain. And I think financial services from the Virgin Islands becomes -- because it's telecommunications. And the advantages I think like the old days where people needed to know how to read, people need to know and understand computers and the access it gives them to information immediately. So I hoping that the committee considers my application.

If I were to receive these benefits it's my hope to start an operation here and immediately give back to the community. I've made a commitment in my application for a minimum of $10,000.00 in charitable contributions as a new start up business because I see that as being an important part of -- I don't want to use the word obligation. It's a desire of mine to help people around me.

So if there are any questions?

THE CHAIR: What type of financial services do you see yourself providing, investment assistance or what specifically?

MR. EPSTEIN: I choose to be investments. In fact I had to choose someone's investment allocation at the lunch break. I was asked between stocks and bonds which stocks, how to balance out everyone's investment portfolio but investment portfolio not in the common terms.

It's more like a financial doctor. It's a very personal decision on how you invest your money, how you leave it to your children, how much income you need, and your tax situation.

So it's an entire package. It's a full health -- financial health operation.

THE CHAIR: Are you an attorney?

MR. EPSTEIN: No, I'm not.

THE CHAIR: Where are your offices presently located?

MR. EPSTEIN: In New York.

THE CHAIR: And how many employees do you have there?

MR. EPSTEIN: I have 16 there.

THE CHAIR: Miss Hollins.

MS. HOLLINS: You asked all of my questions.

THE CHAIR: Sorry about that.

Ms. Gerard.

MS. GERARD: Are you a licensed broker dealer?

MR. EPSTEIN: No, I'm not.

MS. GERARD: And would you use a broker dealer in New York or would you do a pass through to a local operator here?

MR. EPSTEIN: The executions would be determined by what type of investment. I'm determined and committed to use local people as best as I can. But certain types of transactions you can only use a very large firm because it's a capital requirement. But there is no further plan more than that.

MS. GERARD: Would any of the Virgin Islands employees be required to be security licensed?

MR. EPSTEIN: They would not be required to be security licensed because I'm an investment consultant and a registered broker dealer. But I in fact would encourage them to become, even if they weren't working for me because they would be involved with the terminology of the securities industry on a regular basis, I think it's helpful for everybody to have that education.

MS. GERARD: Would you provide the training?

MR. EPSTEIN: Yes. I just think that's a great benefit for people in general because they can go off and do as they please. Again with the local community especially, which I think there is a lack of financial service advisers here.

MS. GERARD: And in terms of the health planning for your clients I would assume -- I mean, I'm an insurance person.

MR. EPSTEIN: Okay.

MS. GERARD: We have -- I'm not

sure how we do with life and health sales. Is that -- you don't do any sales?

MR. EPSTEIN: No, I don't sell insurance. I have nothing to do with insurance. I do not sell insurance. I advise them in terms of maybe how much insurance they should have.

MS. GERARD: So it's strictly financial consulting?

MR. EPSTEIN: That's correct.

MS. GERARD: And that would be investment?

MR. EPSTEIN: I am saying I advise people on their financial health.

MS. GERARD: Good. That's it. Thanks.

THE CHAIR: How long after you begin operations would you see reaching the ten employees or is that right away?

MR. EPSTEIN: I would like to do it immediately. I have been holding off even looking for employees. I've spent sometime at the university actually sitting in on some classes to see the level of university students. But I have not begun. I have to do it as soon as I could.

THE CHAIR: Mr. Dominique.

MR. HOFFMAN: And on that if I could just interject here, that's been primarily at my advice and that not with any disagreement on Mr. Epstein's part. But to avoid any sense of a presumption we have not gone out in any formal way and inquired of people.

But I have assured him again as a former school teacher that I don't think that we are going to have a problem. I just don't believe in that. I have that confidence in St. Thomas.

THE CHAIR: Mr. Dominique.

MR. DOMINIQUE: Lately we are experiencing the coming of financial business institutions. How did you get the information of settling here? Was Mr. Hoffman responsible for your coming?

MR. EPSTEIN: No. In fact I'm a physic professor by heart and I can't get it out of my system. When I go someplace new I do a bit of research, at least to find out about the cultural history, the political history and the economic history. And in fact on the computer I pulled up the economic development program set up by the Virgin Islands Government and I read it myself.

MR. GERARD: The website.

MR. EPSTEIN: Oh, is that your website?

MS. THOMAS: Yes.

MR. EPSTEIN: The blue background was very nice.

MR. DOMINIQUE: You are saying that you will pay for employees continued education, is that correct, as part of your employer's contribution?

MR. EPSTEIN: Yes.

MR. DOMINIQUE: If you were granted the benefits would you have difficulty or would you commit to making say a direct scholarship to a student out there maybe at the UVI or to some other institution?

I ask that because indeed while you are proposing scholarship or tuition reimbursement to employees, it's two-phase. But the fact may be that some people may take it, some may not. But in terms of gradual progression, moving somebody who's unable to move on up, would you like to make a commitment to that?

MR. EPSTEIN: I not only would like to make a commitment, I would gladly make a commitment. But I think it's important because it's not only my employees I would like to give scholarships for -- and I think it's presumptive of me to assume that the scholarships only be used in the Virgin Islands. It's possible and I think potentially advantageous to have scholarships available to Virgin Islanders to go elsewhere, to get an American university education. Because you could see from the application I fund things at NYU in New York and other schools. And I would commit to a scholarship program but to be used judicially and let the local people decide where it should be used.

MR. DOMINIQUE: If you were to relocate here would you maintain your office in New York City or would you shuttle down? Is that the plan?

MR. EPSTEIN: My plan is there is an core group of people that I would probably keep in New York. They have been employees of mine for a long time. So I don't think it's fair to simply pickup and leave.

But my core business -- because my core business frankly is me. And the people around me provide information to me would be here in the Virgin Islands.

MR. DOMINIQUE: Under the retirement plan is it an employee/employer contribution or are you carrying that?

MR. EPSTEIN: It's a 401(k) with an employer/employee contribution. And again I decide I believe the best retirement and benefit plan. It's a much more cafeteria style, using under the rules to let people choose what they want to choose, whether they want it to be participation or potentially profit sharing.

MR. DOMINIQUE: Thank you. I simply want to state that I, too, spent quite sometime in the mathematics area, ten years doing this. And maybe I should have done like you did.

THE CHAIR: Do you intend to relocate to the Virgin Islands and become a resident of the Virgin Islands and pay your personal taxes here?

MR. EPSTEIN: Yes.

MS. GERARD: I noted on your application your relationship with the Tri Lateral Commission.

MR. EPSTEIN: Yes.

MS. GERARD: How did that happen and what role do you play?

MR. EPSTEIN: Well, again in no offense, I've been extremely fortunate. David Rockefeller was the founder of the Tri Lateral Commission. I advise the Rockefellers on certain financial issues. That's why I sit on the board up until recently at Rockefeller University.

And he suggested that politics aside -- and that's very difficult for him to say -- the concept of Tri Lateral is that business people would stay basically the same. They would be at the Rotary Club. The business clubs stayed together while the politics changed dramatically in different countries.

So that separate from the Council on Foreign Relations, which I'm also a member of which deals with world leaders and the politics of those countries, which should be a underlying system of communication between business leaders around the world.

MS. HOLLINS: Are you fully committed to a specific island?

MR. HOFFMAN: I really ought to advise him not to answer that, Miss Hollins.

THE CHAIR: If you get her vote you lose mine.

MR. HOFFMAN: Now, friends.

MR. DOMINIQUE: Lastly, Commissioner, for your investment you have $300,000.00. For some of the other type of similar businesses I have seen the investment seems to be very much smaller. Can you explain to us what type of office you are planning to set up here with $300,000.00?

MR. HOFFMAN: If I might answer that. One of the things that we are also asked to do was with respect to location of offices. And at the time of the application we were actually negotiating with two people and had focused on one.

The numbers in the statement number ten with respect to the leasehold improvements and so forth are probably at this point slightly understated because the office -- the architect's latest estimate for getting this leasehold improvement is above this 120. And so I'm going to try to get it back down to 120 is my mission because I don't see where it's going myself. But I think there is very easily a $100,000.00 in simply leasehold improvements to a building, which quite frankly was damaged after Marilyn and not fully repaired and the landlord refuses to do it and we want do it.

With respect to the other information there, a lot of the computers and copiers and printers are relevant. Telecommunications is the key to this and also a back-up, a whole series of back-up systems which gets to be, unfortunately, very expensive.

And just so the record is clear, Mr. Epstein is fully committed and understands with respect to the leasehold improvements, which is really a construction contract as well as the acquisition of this equipment. He was been told by me and others what the program requires by way of making the opportunity to bid, to make those sales and do that work to local, qualified suppliers and so on. And that should not be an issue.

THE CHAIR: Miss Thomas.

MS. THOMAS: Hi. My question goes back to your statement regarding being a high school teacher and you said that you had a relationship with NYU. Did you teach courses at NYU or have you taught courses at NYU?

MR. EPSTEIN: No, I took courses at NYU. And then I thought because some of those financial courses that I did take were so helpful to me as a young student that when I was fortunate enough to become successful with my career I thought I should give back to the university to help. That's how it happened.

MS. THOMAS: You have sat in on some of the classes at UVI. Do you think it's a possibility since you are thinking of moving to the Virgin Islands that you could also, perhaps, teach a course there?

MR. EPSTEIN: I'd love so. As I said outside this room, I believe that the future of the Virgin Islands is really with the young people in getting them to understand not only the ethics of business, which is very difficult nowadays, but the advantages by having new communication systems that they really can be here and do many of the things that no one ever thought possible before.

MS. THOMAS: Okay, thank you.

THE CHAIR: Thank you very much. Any other questions?

Miss Hollins.

MS. HOLLINS: Do you do things similar as the Garden Brothers do?

MR. EPSTEIN: I'm not familiar with them.

MS. HOLLINS: Mark Lipton.

MR. EPSTEIN: If you tell me what they do, then I can tell you.

MS. HOLLINS: Investment advisers. They are two brothers on the Internet.

MR. EPSTEIN: No. Do you want to know if I have any hot stock tips? Is that it?

In fact I'm much more the specialist. It's a personal one to one. I don't put out a market letter. I don't give investment advice to the general population.

THE CHAIR: Mr. Epstein, Mr. Hoffman, thank you very much.

MR. HOFFMAN: Thank you.

THE CHAIR: Before you go, is there anyone else here who wanted to testify on this particular application?

(No response)

THE CHAIR: Not seeing anyone,

thank you very much.

MR. HOFFMAN: I appreciate your indulgence. And I, needless to say, request your favorable and prompt decision.

Thank you very much. We'd ask to be excused.

(Recess)

(After Recess)

[redacted]