

In exchange for AIF's agreement to pay the Planned Periodic Premiums, the Trustee agreed that when a policy matured by reason of the death of the insured or insureds he would pay AIF an amount equal to the sum of all the premiums paid by it on such policy less the amounts previously paid to it with respect to such policy (the "Net Aggregate Premiums"). The Trustee also agreed that if he terminated a split-dollar agreement before the death of the insured or insureds he would either pay AIF an amount equal to the Net Aggregate Premiums for the policies subject to the terminated agreement or would transfer the policies to AIF. To secure his obligations under the split-dollar agreements, the Trustee assigned the insurance policies to AIF as collateral.

The total Planned Periodic Premiums with respect to all of the policies held in the trusts is approximately \$1.8 million each year. For each year that the split dollar arrangement is in effect you have been treated as having received compensation equal to the cost of the current life insurance protection offered by each policy and as having made a gift of this amount to the 1999 Life Insurance Trusts. Tom Turrin has been properly reporting these amounts on your annual income and gift tax returns. For 2011, the amount of compensation/gift was approximately \$97,652. However, as the premiums continue to increase over the term of the policies, the amount of taxable income you will be deemed to have received and the size of your taxable gifts to the insurance trusts will increase.

Since 1999, when the parties initiated the split-dollar arrangements, AIF has paid about \$20.1 million in premiums. In recent years AIF had been borrowing from the Black Family Partners in order to make these premium payments. In 1999, at the commencement of the split-dollar arrangements, it was estimated that by 2010 the cash surrender value of the policies would be about \$22 million. However, because of poor market performance, as of March 31, 2010, the cash surrender value of the policies together was about \$15 million.

Given the poor performance of the policies over the past decade and the fact that the \$150 million death benefit will not come close to fully covering your anticipated estate taxes, it makes sense to evaluate whether it is appropriate for the insurance trusts to continue to maintain the existing policies. Eileen is analyzing whether to continue the existing policies. In the interim, we think it is important to restructure the split-dollar arrangements in order to minimize the ongoing tax consequences to you. To that end, we have proposed the transaction described below.

Proposed Transaction

Acquisition of Rights Under Split-Dollar Agreements by The Black 2006 Family Trust. The Black 2006 Family Trust (the “2006 Trust”) will purchase AIF’s rights under the split-dollar agreements from AIF for cash. The purchase price will be based on an appraisal of the value of such rights to be obtained by the trustees of the 2006 Trust and by AIF. Because the rights of AIF under the split-dollar agreements are limited to the right to receive the Net Aggregate Premiums on your death or on the death of the survivor of you and Debra (unless the owners of the policies elect to terminate the split-dollar agreements), the appraised value is likely to be substantially less than the current cash value of the policies. Eileen will arrange for the appraisals.

Once this step has been completed, you will no longer have any income or gift tax liability on account of the annual cost of the current life insurance protection offered by each policy.

Repayment of Loans to Black Family Partners. AIF will use the funds it receives from the trustees of the 2006 Trust to repay any outstanding loans to Black Family Partners. It will then liquidate. AIF’s remaining cash, if any, will be distributed to you.

Termination of Split-Dollar Agreements. The Trustee of the 1999 Life Insurance Trusts may then decide to terminate the split-dollar agreements in order to avoid any further potential liability for the annual cost of the current life insurance protection offered by the policies. Upon termination, because the Trustee lacks sufficient resources to pay the trustees of the 2006 Trust an amount equal to the Net Aggregate Premiums, he will transfer his interests in the policies to the trustees of the 2006 Trust.

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If you have any questions, please call Carlyn at [REDACTED] or Elyse at [REDACTED]

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CSMCC/EGK

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