

Proposal for Narrows Restructuring

As of September 10, 2014

Overview of Narrows Restructuring

Narrows Holdings, LLC ("Narrows") will be the family investment vehicle through which art and art related investments will be acquired, held and sold. One of its principal purposes will be to acquire and manage a diversified portfolio of fine art for investment purposes. To enhance the value of its collection, Narrows will lend its fine art for temporary exhibition. It will also enter into a licensing agreement with Phaidon to use the Phaidon name in connection with art-related investments or ventures.

The Narrows governing documents will be amended to provide for both managing and non-managing Member interests. The managing Member interests will constitute 1% of the LLC's membership interests and the non-managing Member interests will constitute 99% thereof. Leon Black ("LDB"), APO1 Agreement ("APO1") and APO2 Declaration ("APO2") will be the Members.

There will be a Class A Manager (LDB) responsible for all investment decisions and a Class B Manager (either APO1 or APO2) responsible for all decisions regarding distributions use of LLC assets, exhibition loans, capital calls and liquidation.

Narrows will have its own art lawyer on staff and will have contractual arrangements with curators and art consultants. It will rent office and storage space and carry fine art insurance on its art portfolio.

Preliminaries and Narrows Restructuring

Restructuring of Bank Loans Secured by Art:

- Restructure existing Bank of America Loan and Pledge Agreements so that Narrows is the borrower.
- If LDB must provide a personal guaranty, Members agree to contribute proportionately if LDB is called to satisfy the guaranty.

Amendment of Narrows/Sale of Managing Member Interest:

- Amend Narrows LLC Agreement to create a 0.5% Class A managing Member interest, a 0.5% Class B managing Member interest and a 99% non-managing Member interest. LDB to own all Membership interests.
- LDB to determine what art is to be distributed from or contributed to Narrows.
- Class B managing Member interest to be valued and LDB to sell it to APO1 or APO2 for cash or a note.

Restructure Assets for Capital Contributions:

- Black Family Partners, [REDACTED] ("BFP") to create a new LLC ("NAI LLC") and fund it with all of its non-Apollo investments. BFP to distribute interests in NAI LLC to its partners, *pro-rata*.
- GRATs to distribute NAI LLC interests to LDB as part of his annuity payments.
- The LDB 2011 LLC will distribute its interests in PLB LLC to APO1

Narrow Restructuring and Capitalization

Capital Contributions of Managing Members:

- LDB will contribute art in exchange for a 0.5% Class A managing Member interest and a 0.5% Class B managing Member interest.
- APO1 or APO2 will purchase the Class B managing Member interest from LDB.

Capital Contributions of Non-Managing Members:

- LDB will contribute art and interests in NAI LLC in exchange for a *pro-rata* non-managing Member interest.
- APO1 will contribute art, interests in LDB 2011 LLC (which will own art, cash and investment partnerships) and NAI LLC in exchange for a *pro-rata* non-managing Member interest.
- APO2 will contribute art and interests in NAI LLC (and possibly cash) in exchange for a *pro-rata* non-managing Member interest.
- Art and LLC interests must be valued at the time of contribution.

Administration of Narrows (Post-Restructuring)

- Class A Manager makes all investment decisions:
 - Provides Members an investment policy statement and quarterly and annual reports of investment activities.
 - Makes capital call recommendations to Class B Manager (e.g., for new investments, servicing debt, paying employees, insuring, storing and maintaining LLC property, etc.)
- Class B Manager determines:
 - When and in what amount Narrows may make distributions (to be made *pro rata* in accordance with each Member's ownership percentage);
 - When Members must contribute additional capital; and
 - Who may use LLC property (including for exhibition loans).
- A majority-in-interest of the Members may remove a Manager.
- Members may not withdraw capital without the consent of the Class B Manager.
- Membership interests may be transferred only to family members and family trusts.

Overview of Narrows Restructuring

Pros:

- Provides for professional management and investment of fine art by a sophisticated art investor.
- Narrows will employ its own art lawyer to handle all legal transactions with respect to its art collection.
- By combining their collections into a larger, more diversified collection, APO1 and APO2 reduce market risk for their beneficiaries.
- Art can be insured as a single collection, resulting in cost efficiency.
- With the Class B Manager's consent, Members may use art owned by Narrows.

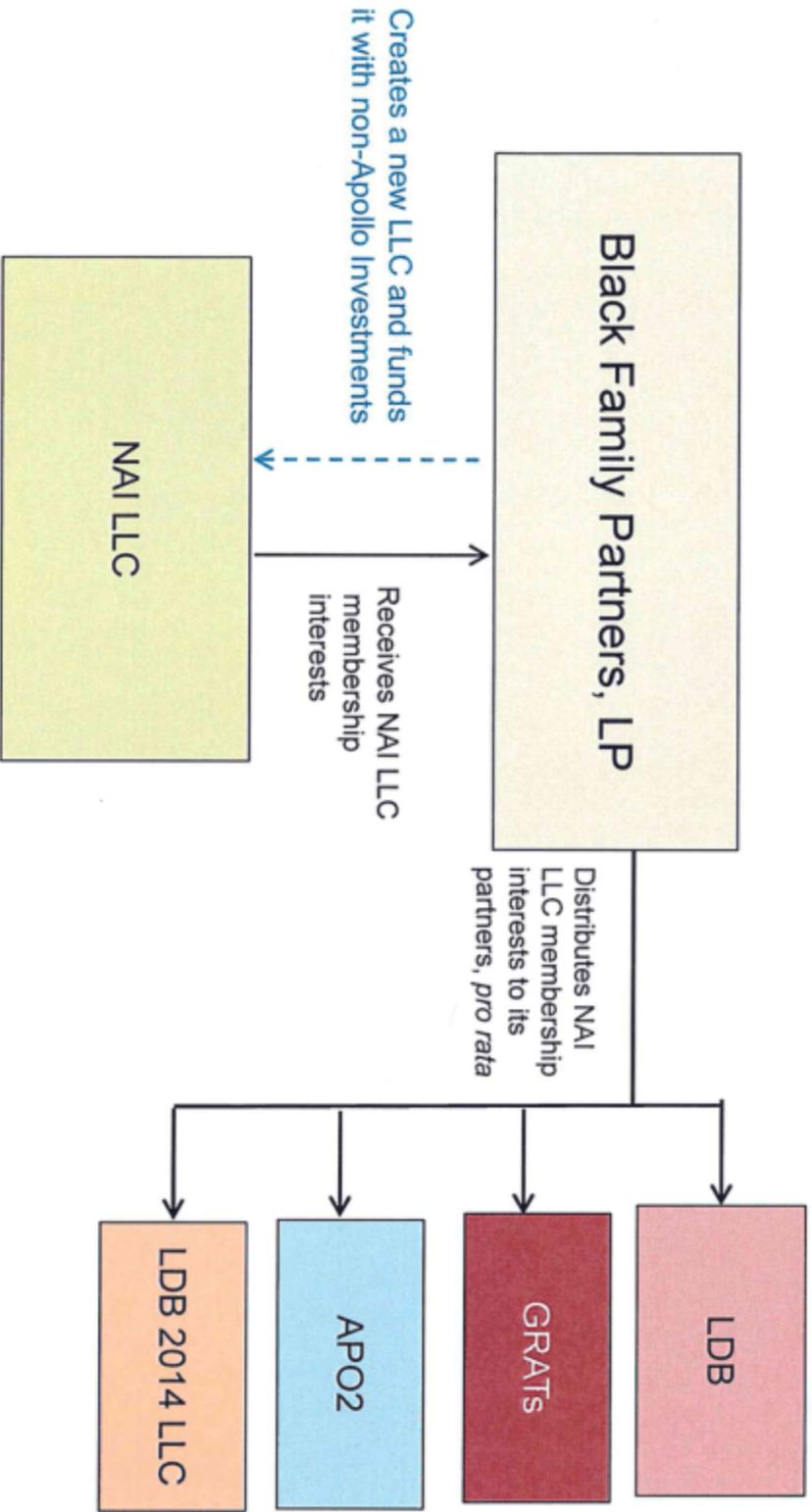
Cons:

- Appraisals of art and interests in LLC entities will be required when contributed as capital and again if distributed or withdrawn in-kind.
- Art may have to be sold or additional capital contributions may be required to cover costs and expenses.

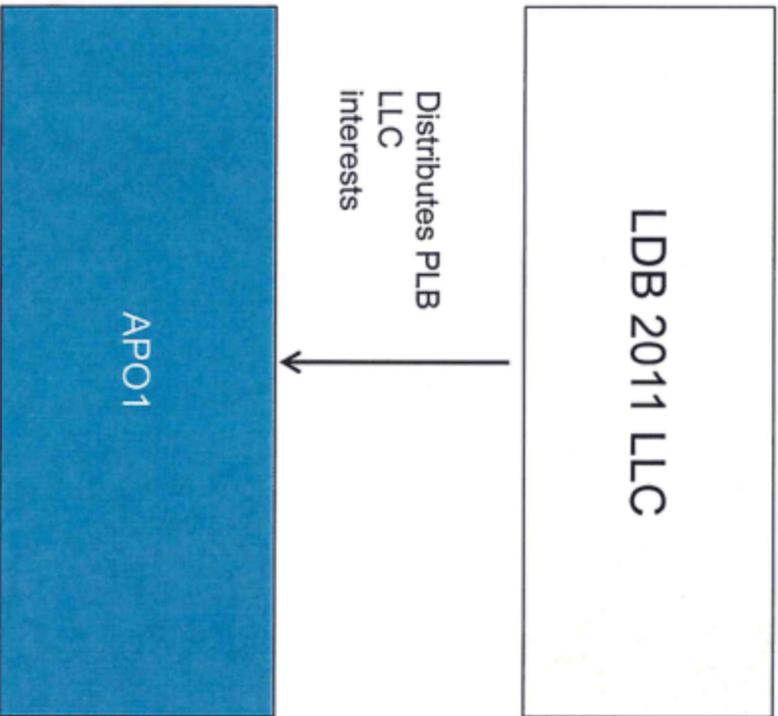
Other Considerations:

- To make a charitable donation of a work of art contributed to Narrows, the Class B Manager must consent to the Member's in-kind withdrawal of the work—which will reduce the Member's Membership interest.
- If LDB and Debra Black use Narrows property while both are living, no rent is required but use will be subject to a use agreement. Rent may otherwise be warranted unless use of Narrows property by the Members is consistent with relative Membership interests.

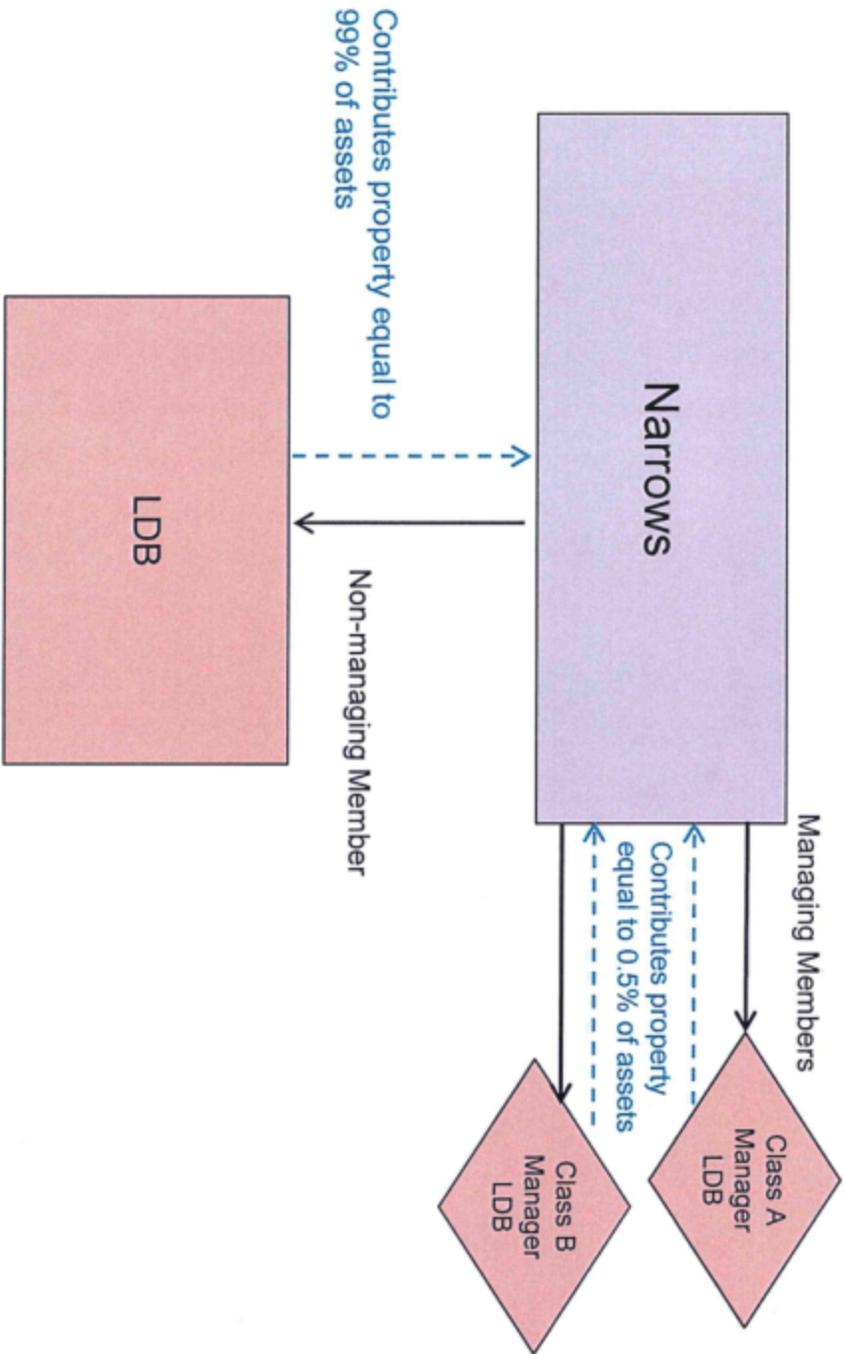
Preliminaries of Narrows Restructuring



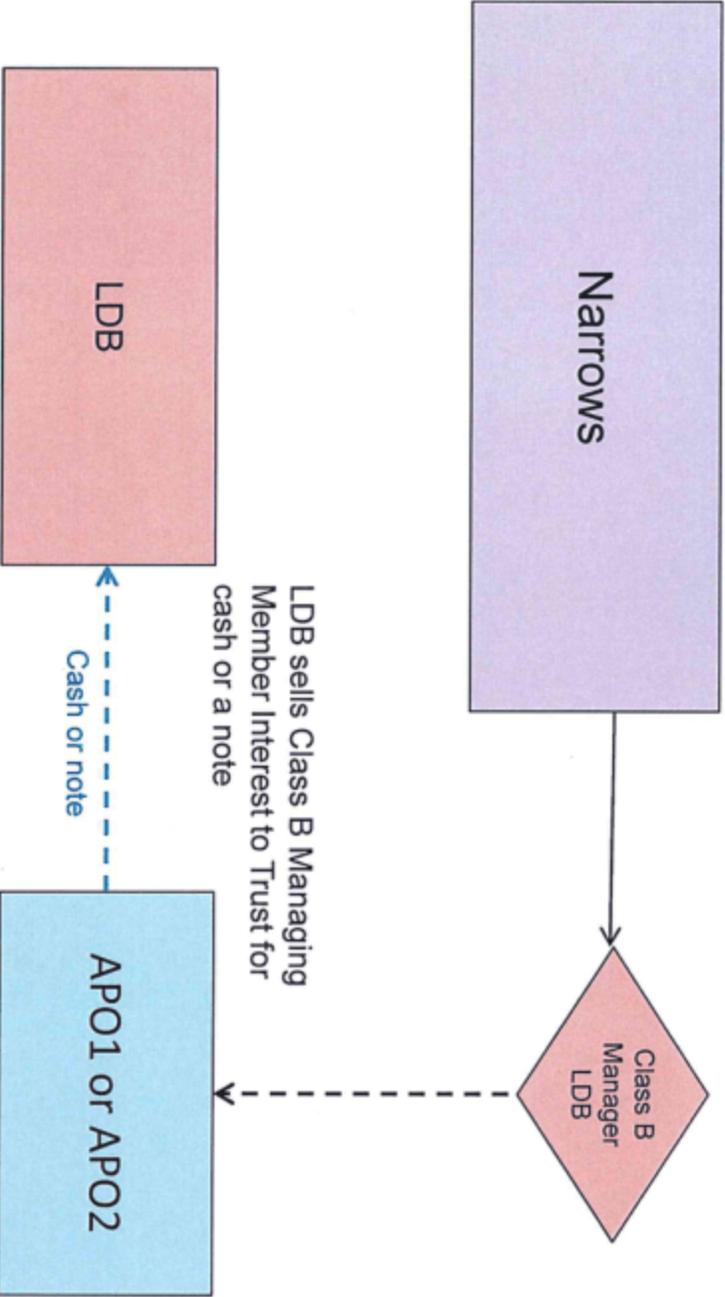
Preliminaries of Narrows Restructuring



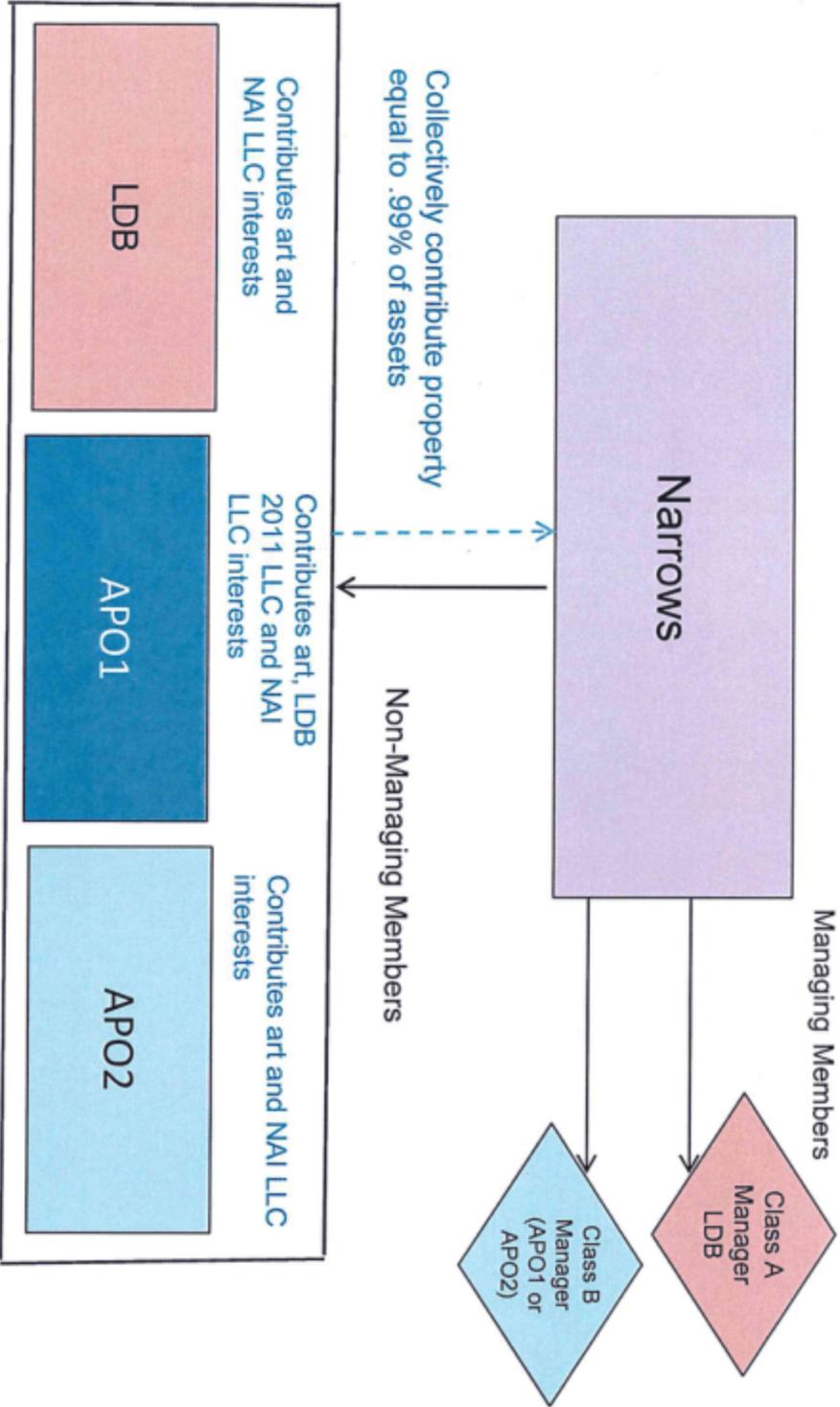
Mechanics of Narrows Restructuring



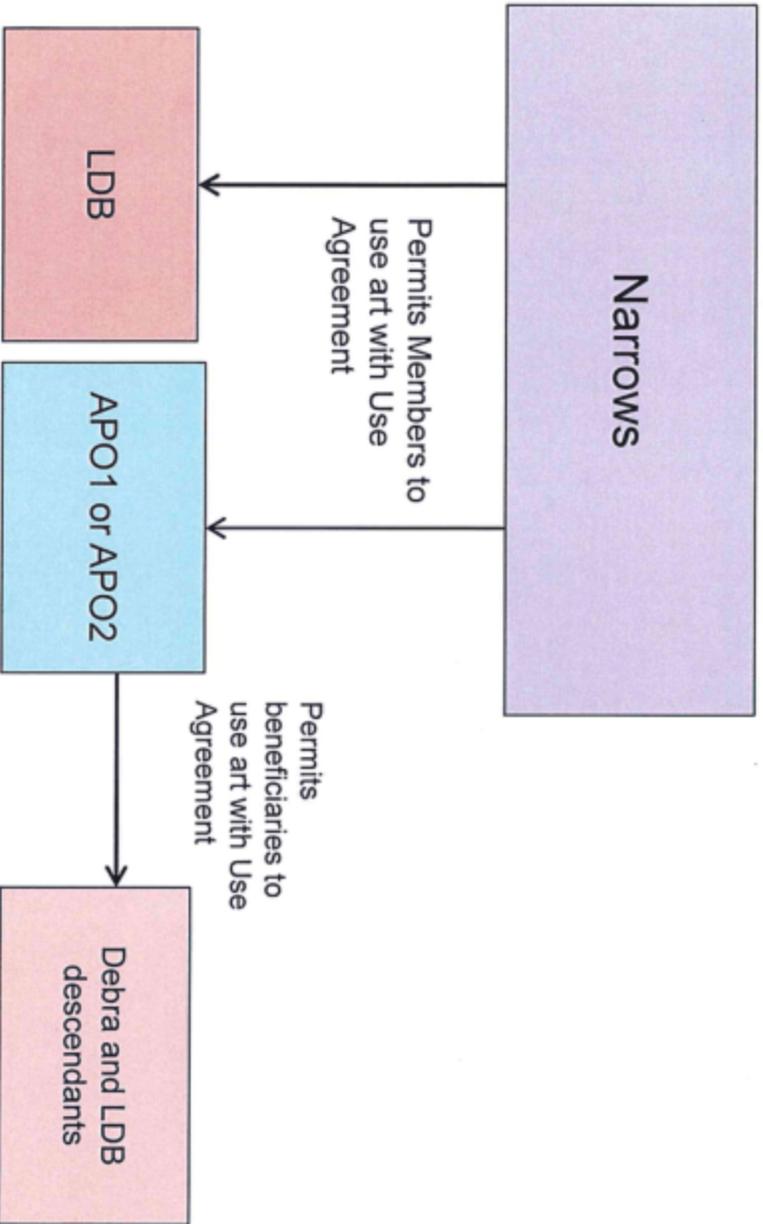
Mechanics of Narrows Restructuring



Mechanics of Narrows Restructuring



Use of Narrows Property



ART ENTITY: ACTION STEPS

As of September 10, 2014

- I. **Existing Loan** --Renegotiate Bank of America loan agreement such that Narrows Holdings LLC ("Narrows") assumes Leon and Debra's personal indebtedness
 - A. Eileen to set up meeting with Leon and Jane
- II. **Amendment and Restatement of Narrows LLC Agreement**
 - A. 0.5% Class A Managing Membership Interest: Leon
 - B. 0.5% Class B Managing Membership Interest: Leon
 - C. 99% Non-Managing Membership Interest: Leon
 - D. If Narrows is to hold additional artwork, Leon to transfer such artwork prior to III
 1. Identify additional works to be contributed (The Scream? bronzes?)
 - E. Distribute out some art currently held in Narrows prior to III
 1. Identify works to be owned by Leon (jointly owned, promised, and/or sentimental value), subject to working out loan/pledge agreements
- III. **Transfer of Class B Managing Membership Interest**
 - A. Leon sells 0.5% Class B Managing Membership Interest to APO1 or APO2
 - B. Two-step process (described in II and III) designed to address 2704(a) risk
- IV. **LDB 2011 LLC to Distribute PLB LLC**
 - A. LDB 2011 LLC will distribute its interests in PLB LLC to APO1
- V. **Black Family Partners LP ("BFP")/Non-Apollo Investments**
 - A. BFP to create LLC to hold non-Apollo investments ("NAI LLC")
 - B. BFP to distribute interests in NAI LLC to its partners
 - C. GRATs to distribute interests in NAI LLC to Leon as part of annuity payments
- VI. **Second Amendment and Restatement of Narrows Agreement and Admission of Members**
 - A. Incorporate terms outlined in term sheet

- B. Admit additional Members/Add additional capital
 - 1 APO1 to contribute art, LDB 2011 LLC interests (which will own art, cash and investment partnerships) and NAI LLC interests
 - 2. APO2 to contribute art and NAI LLC interests (possibly cash)
 - 3. Leon to contribute NAI LLC interests (art already contributed)
 - 4. Determine how much initial cash is required for near-term operating expenses, which Members will contribute such cash and how much
- C. Change name to incorporate Phaidon
 - 1. Get licensing agreement from Phaidon.

VII. Other Agreements

- A. Enter into Art Use Agreements
- B. If Narrows Holdings LLC assumes Leon and Debra's debt and BAC requires a personal guaranty from Leon, Members agree to contribute proportionately if Leon is called upon to satisfy the guaranty

VIII. Art Insurance/Storage

- A. Narrows to acquire fine-arts insurance coverage for art owned by Narrows
- B. Ascertain whether any art should be held in storage and locate storage facility

IX. Employees/Office Space

- A. Hire employees (Heather Gray) and set up benefits for them
- B. Enter into independent contractor agreement with Diana Howard
- C. Enter into office use agreement with Elysium to provide office space for employees and determine how to calculate rent
- D. Determine how Elysium will charge Narrows for accounting, legal and administrative services provided by Elysium employees (hourly rate, percentage of employee's time/salary)

ART ENTITY: TERM SHEET

As of September 10, 2014

I. Entity Amended and Restated Narrows Holdings LLC (“Narrows”) to be the new investment entity; subject to working out loan/pledge arrangements

II. Governance

- A. Leon is the Class A Managing Member with power to make all decisions other than: distributions, use of Narrows property and liquidation of Narrows
1. Makes investment decisions, including financial investments and investments in art, other tangible property and real estate
 2. Makes recommendations to the Class B Managing Member regarding capital calls for such purposes as:
 - (a) Servicing bank or other debt
 - (b) Paying employee compensation/benefits
 - (c) Insuring, storing and maintaining the property of Narrows
 - (d) Making additional investments or acquisitions.
 3. Provides to Members:
 - (a) Annual reports describing investments and sales, investment policy statements and overview of market
 - (b) Quarterly reports, including schedule of investments and sales
- B. APO1 or APO2 is the Class B Managing Member with power to make decisions regarding distributions, use of Narrows property (including exhibition loans), capital calls and liquidation of Narrows.
- C. Removal, Replacement and Succession
1. A majority in interest of the Members can remove a Managing Member; provided if Leon participates, successor may not be related or subordinate to Leon
 2. Note that Leon has power to remove and replace APO1 and APO2 Trustees under the trust agreements

III. Members: Leon, APO1 and APO2

IV. Funding LLC/Contributions of Capital

- A. Members will make initial capital contributions as noted in the Action Steps.
- B. Members must contribute additional capital requested by the Class B Managing Member

V. Withdrawal Rights/Transfers

- A. No withdrawals without consent of the Class B Managing Member
- B. Limited transferability to family members and trusts

VI. Use of Art, Other Tangible Property and Real Estate

- A. By Members with consent of Class B Managing Member:
 - 1. No rent, but subject to use agreement, if Leon/Debra use property while both are living and married; otherwise rent would be warranted unless use among members is consistent with relative membership interests
 - 2. By beneficiaries of Members (e.g., Debra and children), subject to use agreement
- B. For exhibition loans, to enhance value, upon consent of Class B Managing Member
- C. As collateral for loans made to the LLC upon the determination of the Class A Managing Member

VII. Tax Status

- A. Initially, disregarded entity
- B. Consider making it a partnership prior to substitution or sale of interests in Narrows