

overpayment of \$17MM should be burned off by April of next year as a function of taxes due on year 2016 income plus a portion of 2017 Q1 estimates. Please note, however, that expected 2015 “taxable income” has again been lowered to approximately (\$19MM), a reduction of \$16MM, a function of lower Apollo “finalized” income as provided by Apollo (\$3MM), reducing certain placeholder income estimates (\$2MM), now useable passive losses from Regan Arts, Artspace and Avionetta (\$5MM) as well as more investment interest and portfolio deductions flowing through K-1’s (\$6MM).

5. If we had not done the Phaidon transaction in 2015 the amount of the federal overpayment that would be applied to 2016 taxes would be \$7.6MM less which would increase the cash needed to pay taxes due in April of next year by that amount. In addition, NYS taxes would have been \$4MM higher had we not done Phaidon. Lastly, please note that 100% of the itemized charitable deductions in 2015 was useable as was the investment interest expense (mostly from the art loan) despite the negative “taxable income”. What we did not get to use is the \$31MM of state and local tax deductions; however, that is always disallowed by AMT.
6. In my recent conversations with Jeffrey he has raised the issue of how the “optics” of the 1040 (negative taxable income) might or might not impact the 8865 filings. He also raised the issue of whether there is an appropriate way to view Phaidon as a 2016 close. I don’t yet follow the thinking behind it, *i.e.*, there may be some salutary benefits associated with 8865 (though they are not yet visible to me). I believe the above analysis indicates we received “value” for the Phaidon losses in 2015 and I’m not certain I (yet) identify the benefit of rolling them forward, even if that was feasible.

Let’s discuss as necessary.