

From: "Barry J. Cohen" <[REDACTED]>
To: jeffrey E. <jeevacation@gmail.com>
Subject: Re: Apollo's 2012 Post Mortem
Date: Mon, 22 May 2017 23:47:37 +0000

I will investigate. That was part of the verbal account.

Sent from my iPhone

On May 22, 2017, at 7:40 PM, jeffrey E. <jeevacation@gmail.com> wrote:

i dont see any mention of an apollo employee signing off.

On Mon, May 22, 2017 at 7:20 PM, Barry J. Cohen <[REDACTED]> wrote:

Fairly consistent with what I sent earlier.

From: Marc Rolan [mailto:[REDACTED]]
Sent: Monday, May 22, 2017 6:38 PM
To: Barry J. Cohen <[REDACTED]>
Cc: Katie Gregory Newman <[REDACTED]>; John J. Suydam <[REDACTED]>; Gillian Bonyng <[REDACTED]>
Subject: ACWP: BRH Audit Update

Dear Barry –

After spending a number of weeks looking into the audit notices you received, we wanted to share with you a summary of key facts (as they appear to us) and next steps. The below is largely based on correspondence between Deloitte and various contact persons at the IRS, a review of workpapers and returns from 2012, and conversations with former employees and service providers involved in the preparation of our 2012 returns. Needless to say this is an unfortunate turn of events and it is something that we have taken very seriously.

Summary

- According to a file we were able to obtain from the IRS, in 2014, the IRS initiated an audit for Apollo Value Management (the management company of VIF), and, based on its records, sent notices accordingly. Apollo has no record of receiving the audit notification.
- Having no response from the taxpayer, the IRS issued an assessment, making two adjustments which were \$2.3M in total.

- o \$329k of the adjustment related to income that the IRS argued was improperly allocated to a retired partner in Value Management. The IRS re-allocated this amount to AMH.
 - o \$1.9M of the adjustment related to the disallowance of expenses.
 - o These adjustments do not appear on the official IRS transcript for this entity
- The total adjustment was allocated up through a number of tiers - from Apollo Value Management to AMH, then to AGM and AP Professionals, and then ultimately to all of the partners in AP Professionals.
 - We reviewed each partners' notice that we received and can confirm that the amounts reflect the appropriate percentages with respect to one another. However, the underlying allocation between AGM and AP Professional was approximately 1%/99% where it should have been 33.69%/66.31%. After reviewing the 2012 return for AMH, we believe the IRS incorrectly split the adjustment according to each partners relative share of Line 1 income. We have not received any information from the IRS as to the reason they used Line 1 to perform the allocation when the appropriate sharing percentages for profits were clearly provided on the K-1s.
 - If the IRS had not erred in its allocation at that particular level, the amount on each partner's adjustment would have been reduced by approximately 33%.
 - The official IRS transcripts for the various entities through which the adjustments were allocated show no sign of these adjustments.

Next steps

- Deloitte has advised us that there is no means for any Apollo entity to contest the audit results.
- Deloitte has advised us that the incorrect allocation of the adjustment may be contested on a person by person basis under Section 6230(c)(1)(A) by filing a claim on a 8082 Administrative Adjustment Form within 6 months from the notice of adjustment. We are told that these claims are very rarely filed and that partners should seek their own advice but that it might not be a rewarding path to pursue.
- Partners should speak to their tax advisors about the impact of paying the adjustment on each partner's tax basis. Apollo currently intends to increase AP Professional's basis in AMH, which will ultimately serve to reduce taxable gains on share sales.
- We also wanted to highlight that the retired partner income allocation that was performed in 2012 was performed again in 2013. The statute of limitations for the 2013 return for Value Management will expire later this year.
- Apollo tax is deeply concerned at the prospect of IRS correspondence not arriving to the group. We have confirmed applicable addresses on file and receive IRS correspondence with regularity, so it is unclear how this particular piece of mail lost its way. As a remedial measure, we have reached out to Maureen O'Connor, the new head of Office Services, to help us devise an

additional layer of scrutiny over mail which comes in from the IRS to reduce the risk of an issue like this re-occurring.

We hope this update is helpful. We are happy to answer any questions you may have and appreciate your patience as we've made these inquiries. We are also happy to find time for you or your accountants to speak with Howard Berman at Deloitte, who has led the effort.

Katie, Marc and Gillian

Marc Rolan | Apollo Global Management

730 Fifth Avenue, New York, New York 10019

Office [REDACTED] Mobile [REDACTED] | Fax [REDACTED]

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