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To: jeffrey E. <jeevacation@gmail.com>

Subject: funding art partnership

Date: Thu, 16 Oct 2014 03:56:59 +0000

Attachments: COLLATERAL_AFTER_SWITCH_-HELD_BY_ART_PARTNERSHIP.pdf;
COLLATERAL_CHANGES_-ADDITIONS_AND_DELETIONS.pdf;
FUNDING_ART_PARTNERSHIP_AND_COLLATERAL_PLANNING.pdf;
LDB_HELD_ART_AFTER_TRANSFER_TO_ART_PARTNERSHIP_-
_AFTER_COLLATERAL_SWITCH.pdf; PLEDGED_-PARTIALLY_OWNED_-
_S_CORP_OWNED_ART.pdf

Re: funding art partnership/LCC in tandem with LLC assumption of debt (with LLC member guarantee)

BOFA loan is collateralized by fine art at 2X rate. If LDB is to have \$500MM of net value/equity in the art partnership, then Narrows needs to hold art with a value of \$1.0MM. When Narrows becomes obligor to BOFA, the debt would be recourse to LDB given the personal guarantee; the trusts would not have economic risk of loss on the debt. Excluding works pledged to charity or jointly owned, there is approximately \$519MM of art that is not collateralized, one of which is The Scream. Less this one work, there is \$384MM of art that may not be secured, and thus may be held by LDB directly.

Given that all collateral is required to be held by Narrows, the removal of any item as collateral (and subsequent distribution to LDB) would require other items already held by Narrows to then be identified as security/ collateral. A substitution of \$209MM of highly appreciated collateral (unrealized gain \$167MM – 18 works) with minimal appreciated items (unrealized gain \$8.6MM – 110 works) would permit LDB to hold the Scream and 394 other works (FMV \$523MM and unrealized of \$236MM – 55 of these works would comprise \$450MM of value and \$135MM of unrealized appreciation; the balance of the 340 works would have a value of \$73MM and net unrealized loss of \$(1MM). The number of secured/ collateral works would swell from 90 to 182.

The contribution of trust-owned art to the art partnership may allow these works to serve later as collateral. The analysis above assumes that LDB contributes the BOFA debt prior to the admission on the trusts as LLC members/ partners and the trusts assume no portion of the BOFA debt.

The attached reports are pro forma based on a presumptive shift in collateral, ie highly appreciated collateral is replaced by art that has low basis.

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