
GRAT Combined with Art Partnership
Black 2006 Family Trust

August 14, 2012



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GRAT Combined with Art Partnership

Following is our understanding of the planning techniques discussed with Leon's attorneys on August 14, 2012:

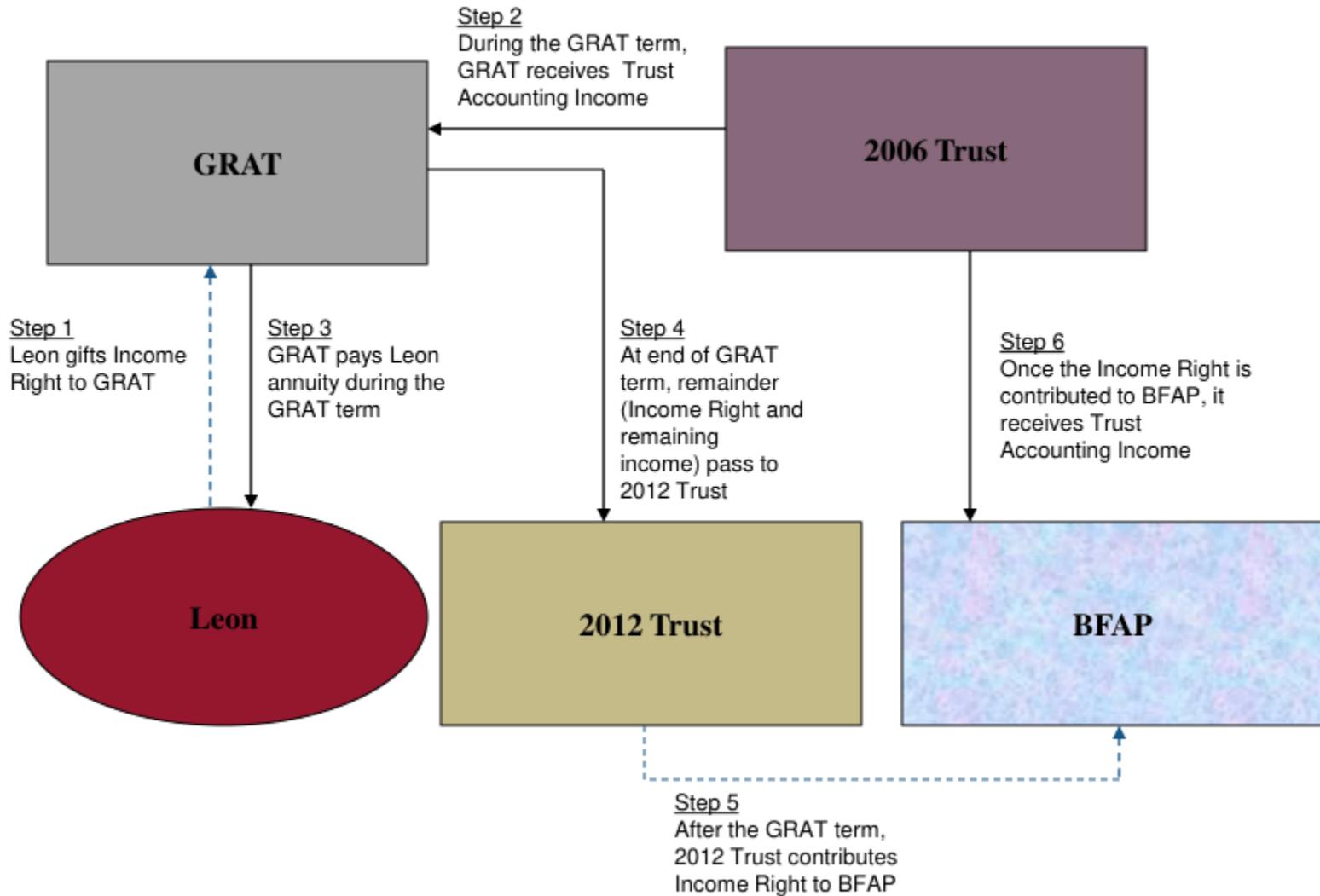
Step One: Create the GRAT and 2012 Family Trust

Leon would create a new family trust (the "2012 Trust") with identical dispositive provisions to the Black 2006 Family Trust (the "2006 Trust"). Thereafter, Leon would create a grantor retained annuity trust (the "GRAT"). The GRAT would be funded with a contractual right to receive all Trust Accounting Income of the 2006 Trust to which Leon is entitled under the terms of the 2006 Trust (the "Income Right"). The term of the GRAT would be 2-3 years, after which time the remainder would be distributed to the 2012 Trust. Upon receiving the Income Right, the 2012 Trust will contribute it to the an art partnership ("BFAP"), as described on the following pages.

GRAT Mechanics:

- Leon creates the 2012 Trust.
- Leon creates the GRAT.
- A valuation is obtained for the Income Right.
- Leon gifts the Income Right to the GRAT.
- An annuity is paid to Leon each year during the GRAT term.
- At the end of the GRAT term, the Income Right and any income remaining in the GRAT, after satisfying all annuity payments to Leon, will pass to the 2012 Trust, which will assign the Income Right to BFAP .
- Following the assignment of the Income Right by the 2012 Trust, Trust Accounting Income will be paid to BFAP.

GRAT Mechanics



GRAT Combined with Art Partnership

Pros:

- GRAT can be structured to produce a gift valued at, or close to, zero (a “zeroed-out GRAT”).
- If Leon lives for three years after the gift of the Income Right, the property held in the 2006 Trust which generates the Trust Accounting Income would not be included in his estate.
- If Leon survives the GRAT term, the Income Right would not be included in his estate.
- A zeroed-out GRAT virtually eliminates risk of excess gift on audit—an IRS increase in value would require an increase in the annuity but almost no taxable gift would result.

Cons:

- GRAT is only successful if income from the Income Right exceeds the IRS discount rate (1% for August 2012).
- If Leon dies during the GRAT term, the GRAT assets, including the Income Right will be taxed in his estate.
- Cash flow from the Income Right may prove insufficient to pay the annuity. GRAT will have to borrow.
- Risk that assets held in the 2006 Trust that generate Trust Accounting Income are included in Leon’s estate if he dies within three years of GRAT funding.

GRAT Combined with Art Partnership

Step Two: Create Art Partnership

BFAP would be formed by Narrows Holdings LLC (“Narrows I”) and the Black 2006 Family Trust (the “2006 Trust”) as limited partners and LB 2012 Family LLC as general partner (the “GP”). The GP would be owned 50% by Narrows I and 50% by the 2006 Trust. Investment decisions for BFAP would be made by the GP’s Class A Manager (Leon). Liquidation, withdrawal and distribution decisions would be made by the GP’s Class B Manager (John Hannan).

The 2006 Trust would contribute to BFAP its interests in LBF Holdings (“LBF”) and Black Family Partners (“BFP”), valued without the Trust Accounting Income associated with such assets. Narrows I would contribute to BFAP fine art valued at roughly \$1 billion. Ownership of BFAP would be *pro rata* based on contribution of capital. After the GRAT term ends, the 2012 Trust would contribute to BFAP the Income Right. Following such contribution, it is expected that Narrows I would be a 49.5% limited partner of BFAP and the 1997 Trust and the 2006 Trust collectively would own a 49.5% limited partner interest in BFAP. The GP would be a 1% general partner of BFAP.

Over time, Narrows I could redeem its capital in the form of cash and would reduce its ownership interest in BFAP.

Art Partnership Mechanics

Preliminaries:

- LBF distributes to the 2006 Trust all interests it owns other than a 70.869% interest in BFP.

Creation of Art Partnership:

- The 2006 Trust contributes assets to the GP (may include a portion of its 1.806% direct interest in BFP); Narrows I contributes assets to the GP with the goal of being a 50% owner of the GP.
- The GP contributes its assets to BFAP in exchange for a 1% general partner interest.
- The 2006 Trust contributes its interest in LBF and all of its 1.806% direct interest in BFP not contributed to the GP (valued without the Income Right) in exchange for a *pro rata* limited partner interest.
- Narrows I contributes fine art to BFAP in exchange for a *pro rata* limited partner interest.
- After the GRAT term ends, the 2012 Trust contributes Income Right to BFAP in exchange for a *pro rata* limited partner interest.

Administration of Art Partnership:

- BFAP makes *pro-rata* distributions of its income to the GP and the limited partners.
- The GP makes distributions of its income to Narrows I and the 2006 Trust.
- Narrows I makes distributions of its income to Leon.
- BFAP may permit the 2006 Trust to use or rent art owned by BFAP. The Trustees of the 2006 Trust may permit Debra, as a beneficiary, to enjoy such art.
- Over time, Narrows I could redeem its capital as cash and would reduce its ownership interest in BFAP.

GRAT Combined with Art Partnership

Pros:

- After the GRAT terminates, gives Leon access to income from a 36.3% BFP interest via distributions from Narrows I and the GP of 50% of BFAP's current income received by these entities.
- After several years, Narrows I (wholly owned by Leon) could redeem capital from BFAP in the form of cash.
- Debra is eligible to receive discretionary distributions from the 2006 Trust and the 2012 Trust, which may provide additional cash flow for Debra and Leon prior to any redemption of capital by Narrows I.

Cons:

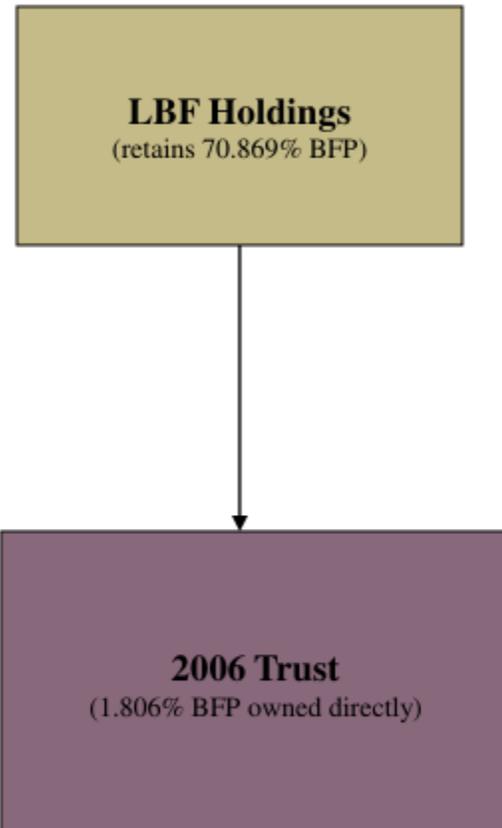
- Prior to redemption, if 36.3% of BFP income is inadequate, Debra may have to request a discretionary distribution from the 2006 Trust or the 2012 Trust, which the Trustees could refuse.
- Valuations may be required when Narrows I wishes to redeem its interests in BFAP.
- There may be insufficient liquidity in BFAP for Narrows I to redeem in the form of cash.

Other Considerations:

- The 2006 Trust could rent art from BFAP (and allow Debra as a trust beneficiary to use it); the rental payments to BFAP would increase Leon's liquidity.
- Leon could also rent art from BFAP (in effect, making additional "tax-free" gifts to the 2006 Trust and 2012 Trust).

Art Partnership Mechanics

Preliminaries



Step 1

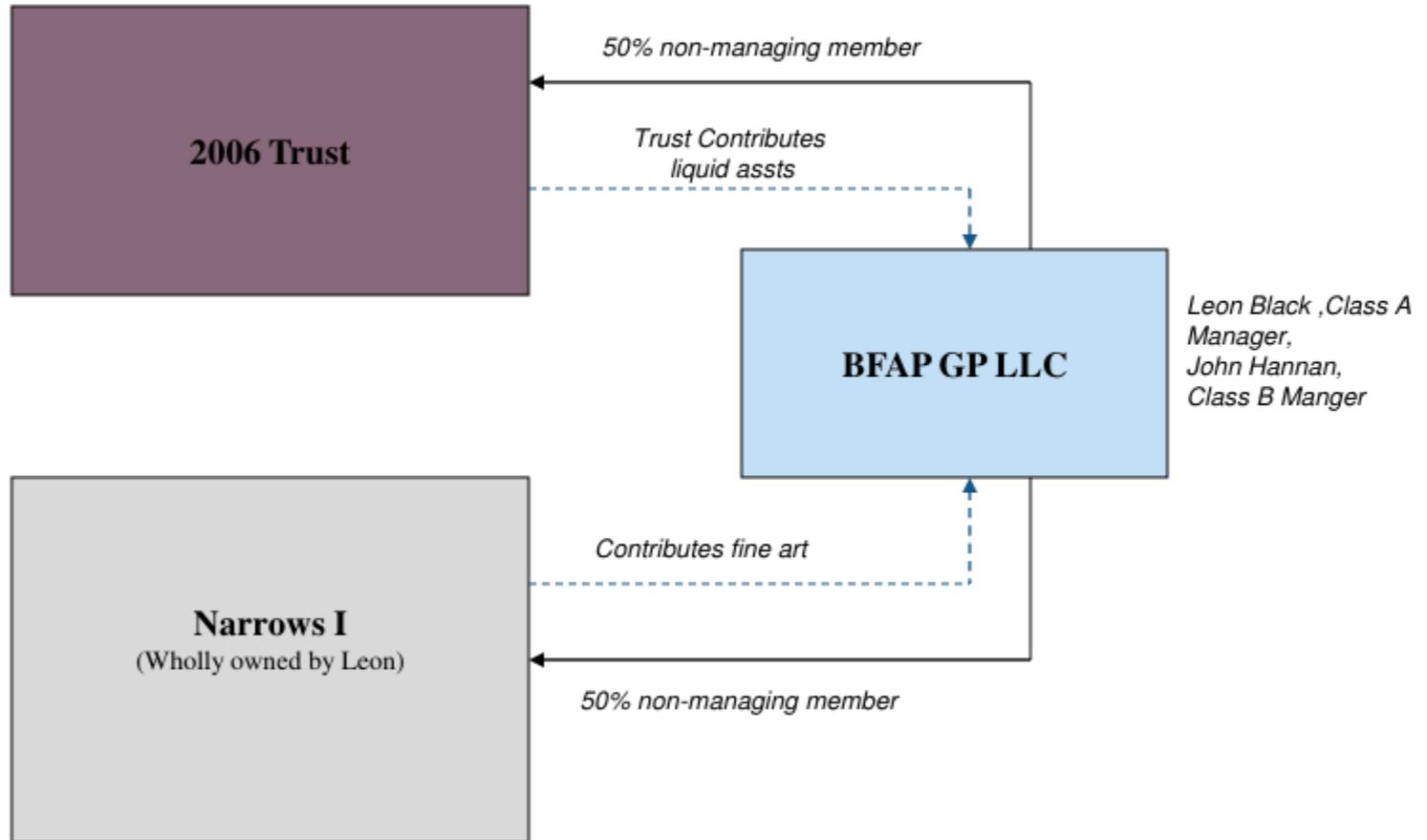
LBF distributes all assets other than BFP to the 2006 Trust

Art Partnership Mechanics

Formation of GP

Step 2

Narrows I and the 2006 Trust each contribute assets to the GP

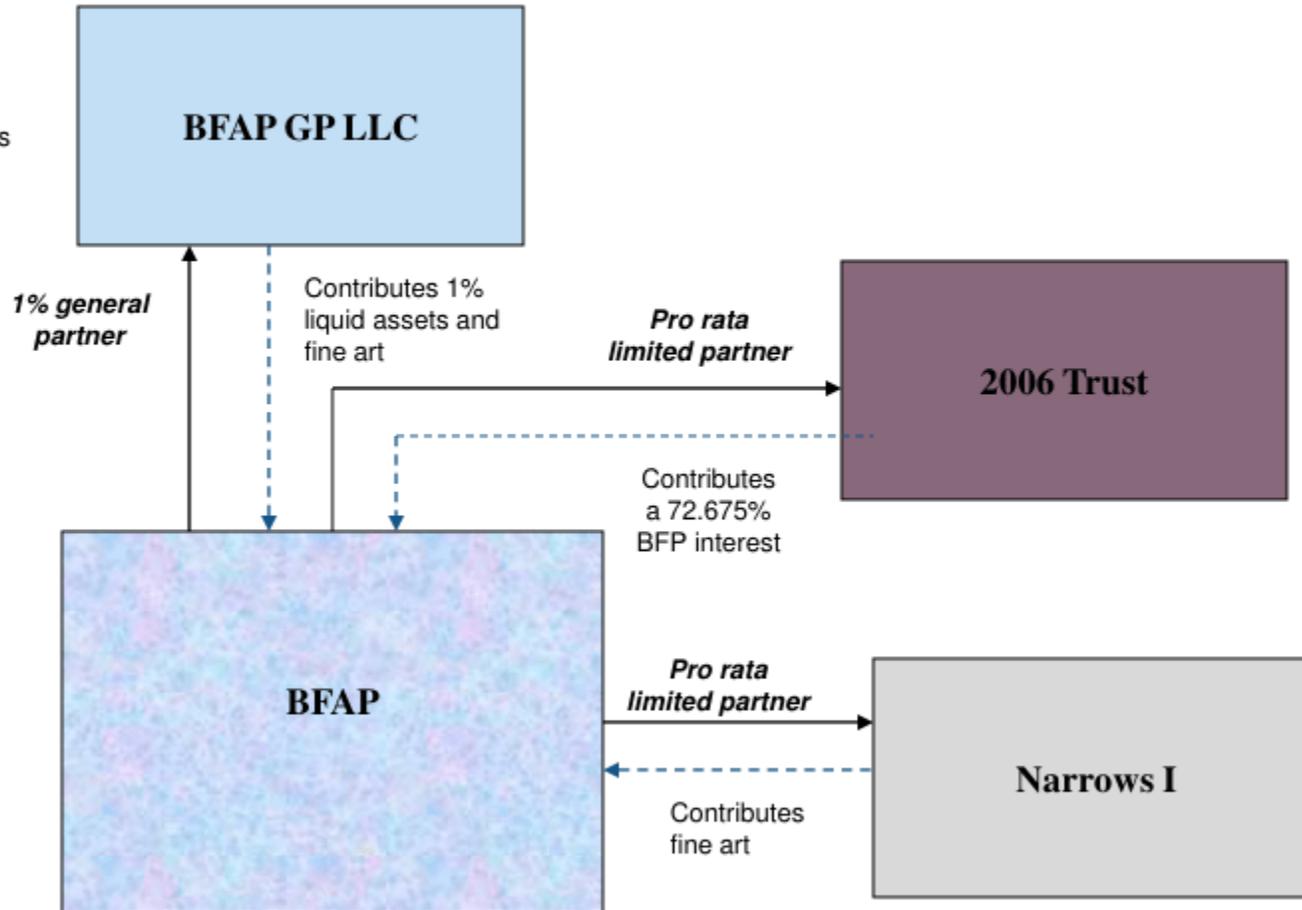


Art Partnership Mechanics

Formation of BFAP

Step 3

The GP, the 2006 Trust and Narrows I each contribute assets to BFAP in exchange for ownership interests

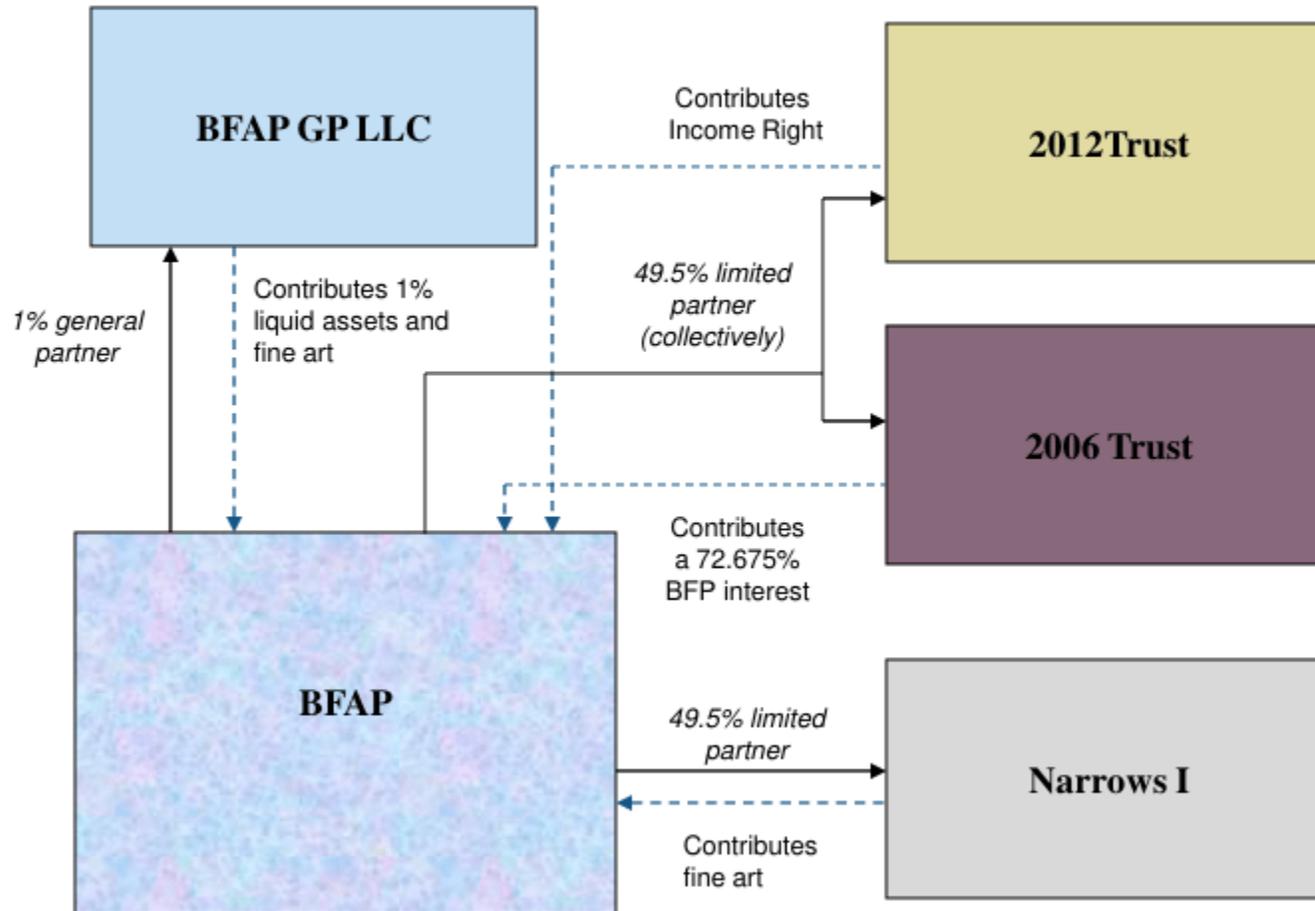


Art Partnership Mechanics

Addition to BFAP After the GRAT Term Ends

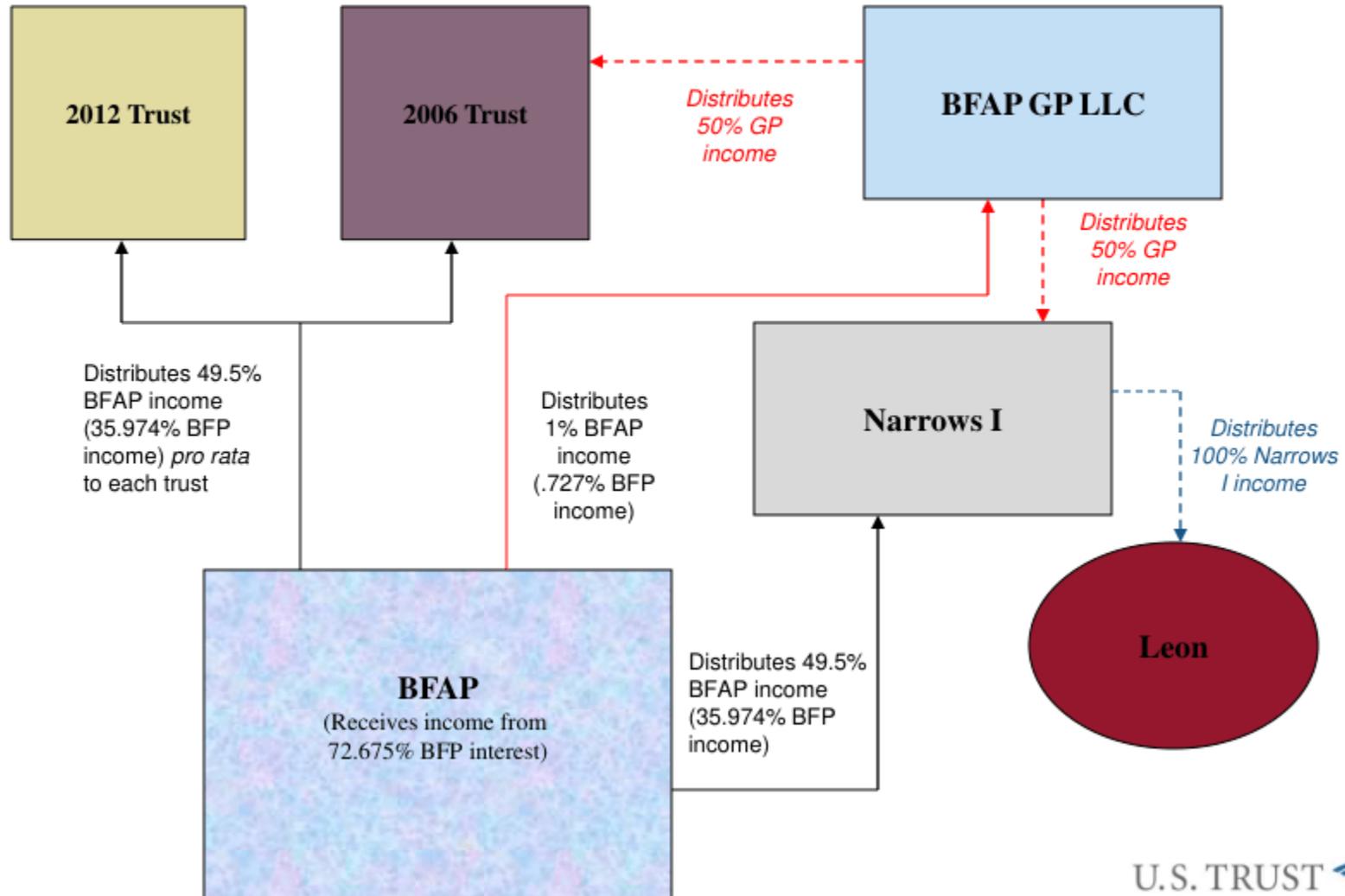
Step 4

The 2012 Trust contributes Income Right to BFAP



Art Partnership Mechanics

Administration of BFAP After GRAT Term Ends



Art Partnership Mechanics

Discretionary Authority

