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**Proposal for  
Art Partnership Transaction**

**As of June 18, 2012**

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# Overview of Art Partnership Transaction

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An art partnership would be formed (“BFAP”) between Narrows Holdings LLC (“Narrows”) 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 and 50% by the 2006 Trust as non-managing members. 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 its interests in LBF Holdings (“LBF”) and Black Family Partners (“BFP”) and Narrows would contribute fine art of equal value. Each would be a 49.5% limited partner of BFAP. The GP would be a 1% general partner of BFAP. Over time, Narrows could redeem its capital in the form of cash or BFP interests and would reduce its ownership interest in BFAP.

# Mechanics of Art Partnership Transaction

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## **Preliminaries:**

- LBF distributes to the 2006 Trust all interests it owns other than a 73.4% interest in BFP.
- Debra gifts Leon her 1% membership interest in Narrows so that Narrows is wholly owned by Leon.

## **Creation of Art Partnership:**

- Narrows and the 2006 Trust equally contribute assets to the GP (which may include some portion of the 2006 Trust's 1.8% direct interest in BFP).
- 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 1.8% direct interest in BFP not contributed to the GP in exchange for a 49.5% limited partner interest.
- Narrows contributes about \$1 billion of fine art to BFAP in exchange for a 49.5% limited partner interest.

## **Administration of Art Partnership:**

- BFAP makes *pro-rata* distributions of its income to the GP, Narrows and the 2006 Trust.
- The GP makes distributions of its income to Narrows and the 2006 Trust.
- Narrows makes distributions of its income to Leon.
- If Leon and Debra need additional income, the Trustees of the 2006 Trust could make distributions to Debra.
- BFAP may permit the 2006 Trust to use art owned by BFAP. The Trustees of the 2006 Trust may permit Debra, as a beneficiary, to enjoy BFAP art that the 2006 Trust is entitled to use.
- Over time, Narrows could redeem its capital as cash or BFP interests and would reduce its ownership interest in BFAP.

# Overview of Art Partnership Transaction

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## **Pros:**

- Gives Leon immediate access to income from a 37.6% BFP interest via distributions from Narrows and the GP of 50% of BFAP's current income received by these entities.
- After several years, Narrows (wholly owned by Leon) could redeem capital from BFAP in the form of cash or BFP interests.
- Debra is eligible to receive discretionary distributions from the 2006 Trust, which may provide additional cash flow for Debra and Leon prior to any redemption of capital by Narrows.

## **Cons:**

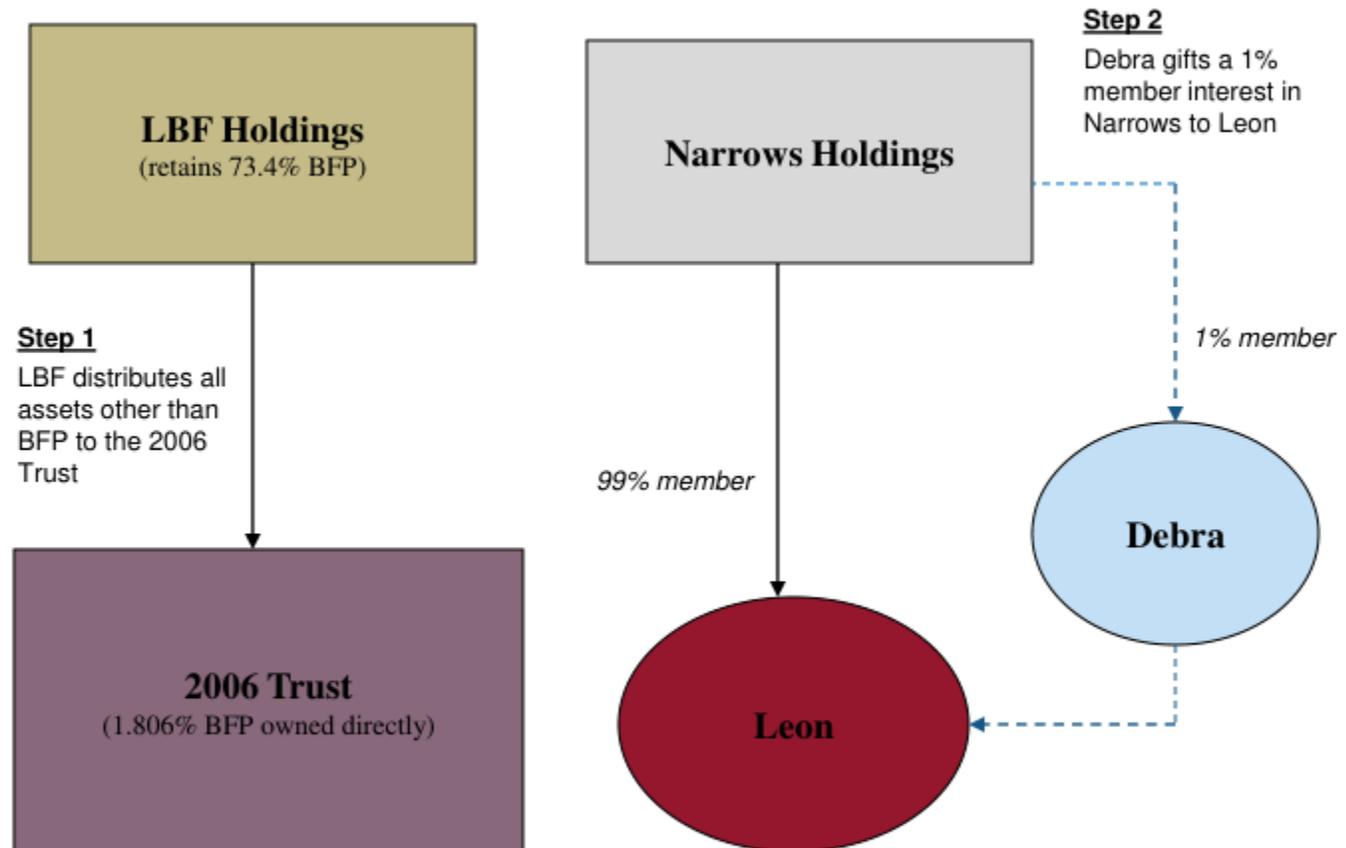
- Prior to redemption, if 37.6% of BFP income is inadequate, Debra may have to request a discretionary distribution from the 2006 Trust, which the Trustees could refuse.
- Valuations will be required when Narrows wishes to redeem its interests in BFAP.
- There may be insufficient liquidity in BFAP for Narrows 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 and Debra's liquidity.
- Leon could also rent art from BFAP (in effect, making additional "tax-free" gifts to the 2006 Trust).

# Mechanics of Art Partnership Transaction

## Preliminaries

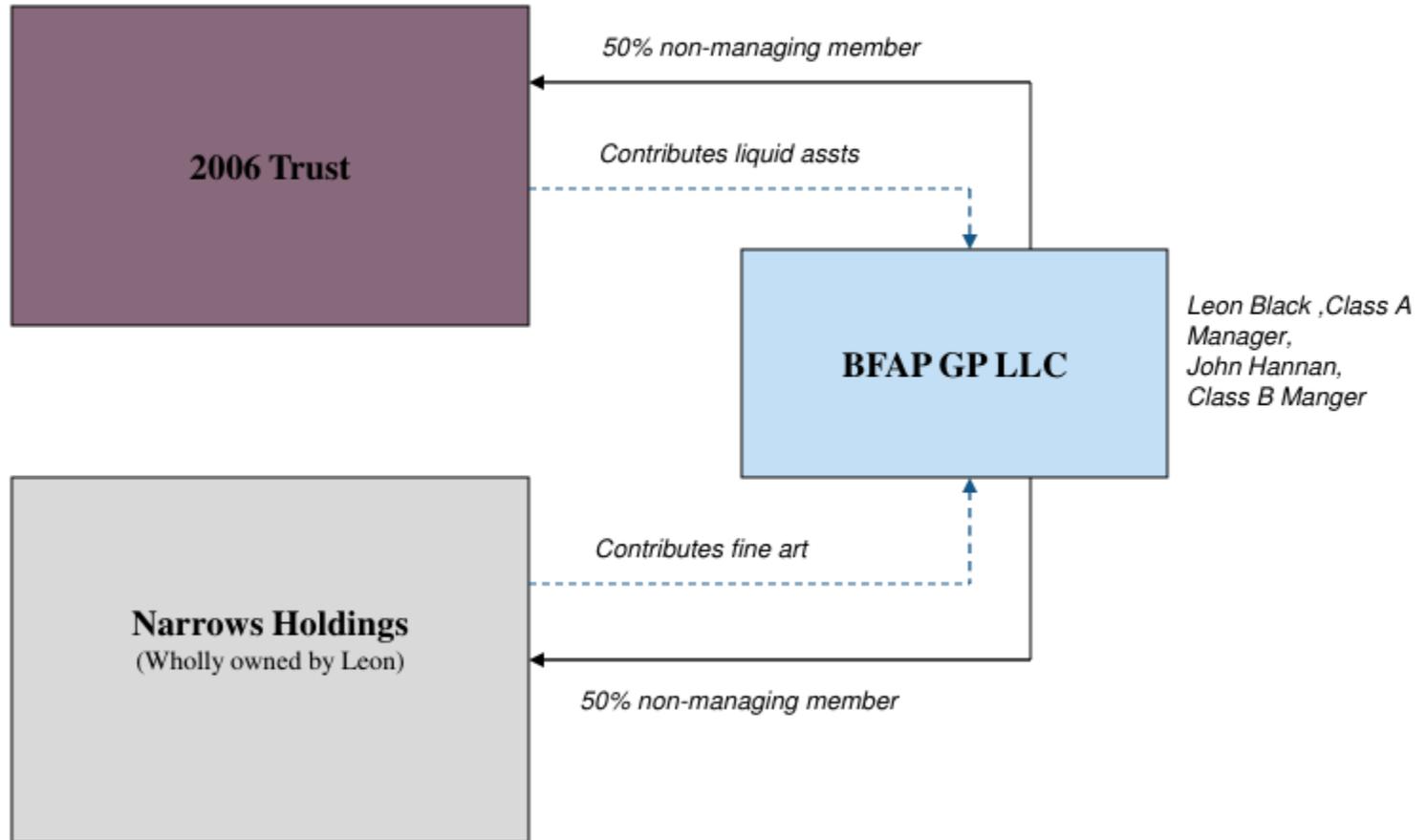


# Mechanics of Art Partnership Transaction

## Formation of GP

### Step 3

Narrows and the 2006 Trust each contribute assets to the GP

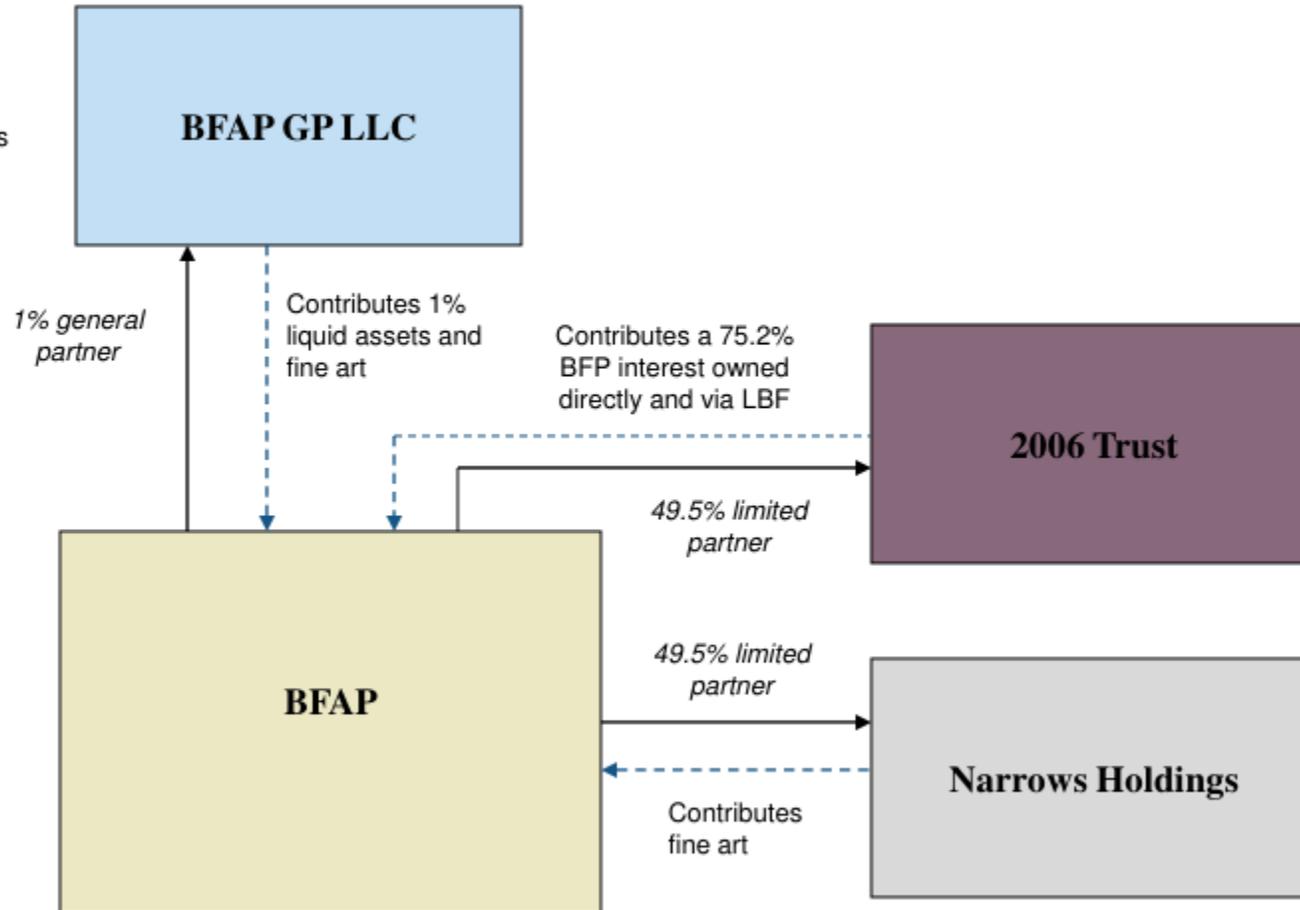


# Mechanics of Art Partnership Transaction

## Formation of BFAP

### Step 4

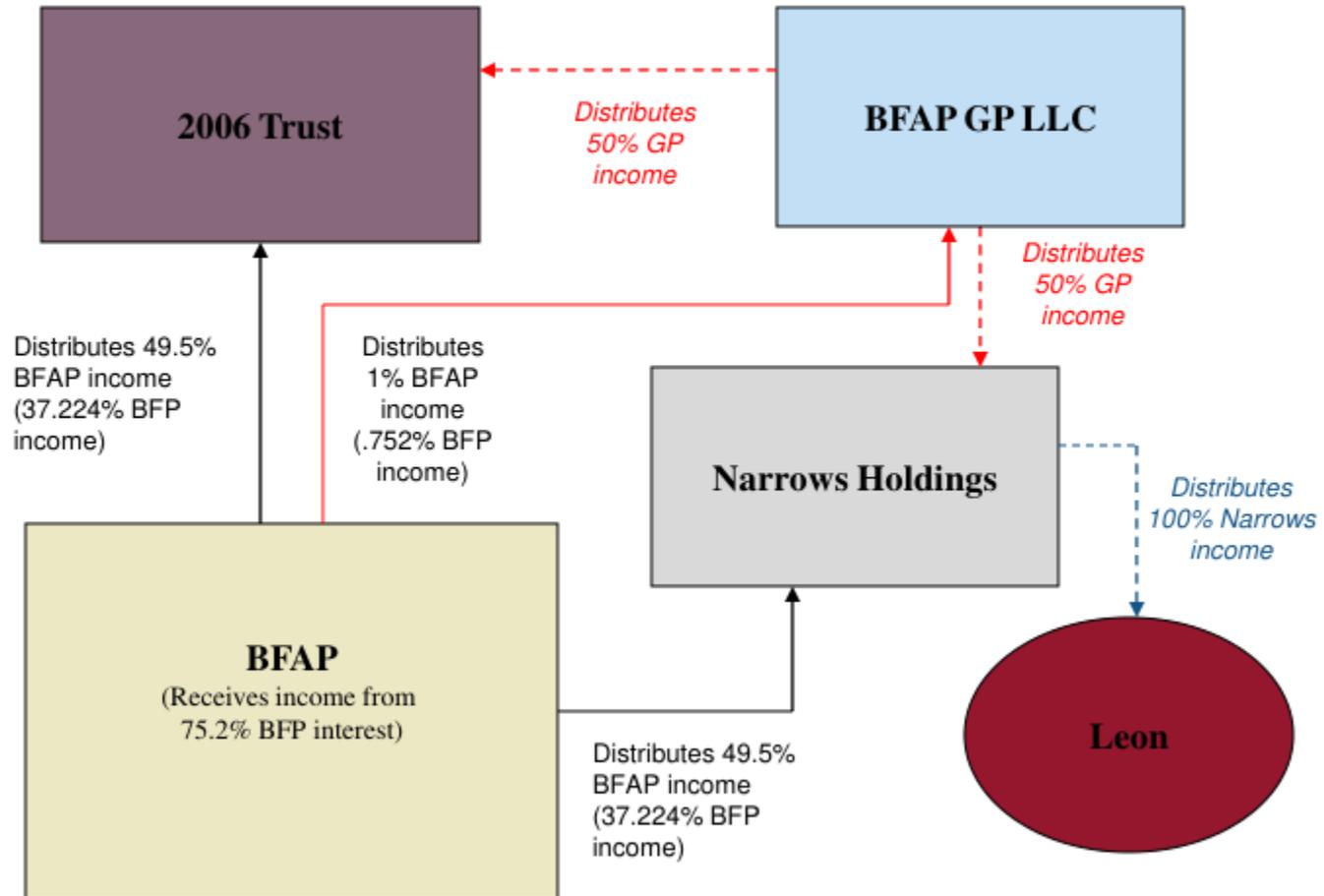
The GP, the 2006 Trust and Narrows each contribute assets to BFAP in exchange for ownership interests



# Mechanics of Art Partnership Transaction

## Administration of BFAP

Step 5



# Mechanics of Art Partnership Transaction

## Discretionary Authority

**Step 6**

