

Summary of Coverage

Individual Life Insurance Coverage on Leon Black

- ✦ Split-Dollar Entity: AIF IV Management, Inc.
- ✦ Policy owner: Norman Brownstein, Trustee under the Leon D. Black Insurance Trust #1 dated September 13, 1999.
- ✦ These policies' register dates are September 1999.

| Carrier | Policy Number | Amount of Coverage | Normal Annual Premium | Account Value 12-31-12 | Net Cash Surrender Value 12-31-12 | Split-Dollar Advance 12-31-12 |
|---------------------------------------------------|---------------|---------------------|-----------------------|------------------------|-----------------------------------|-------------------------------|
| <i>Prudential</i> | VI 016 844 | \$30,000,000 | \$502,335 | \$4,504,232.62 | \$4,504,232.62 | \$6,108,212 |
| <i>AXA Equitable</i> | 49 232 126 | \$15,000,000 | \$264,894 | \$2,053,540.91 | \$2,019,619.09 | \$3,172,980 |
| <i>Security Life of Denver</i> | 610014742 | \$ 5,000,000 | \$ 96,380 | \$584,170.30 | \$576,482.80 | \$1,180,138 |
| Total – Individual Life Insurance Coverage | | \$50,000,000 | \$863,609 | \$7,141,943.83 | \$7,100,334.51 | \$10,461,330 |

Second-to-Die, Wealth Transfer Life Insurance Coverage on Leon & Debra Black

- ✦ Split-Dollar Entity: AIF IV Management, Inc.
- ✦ Policy owner: Norman Brownstein, Trustee under the Leon D. Black Insurance Trust #2 dated September 13, 1999.
- ✦ These policies, other than the Prudential policy, have a register date of April 28, 1999 in order to save Debra's insurance age. (Prudential utilizes "current age" vs. "closest age", therefore backdating was not necessary and the register date for the Prudential policy is 9/13/99.)

| Carrier | Policy Number | Amount of Coverage | Normal Annual Premium | Account Value 12-31-12 | Net Cash Surrender Value 12-31-12 | Split-Dollar Advance 12-31-12 |
|----------------------------------------------------|---------------|----------------------|-----------------------|------------------------|-----------------------------------|-------------------------------|
| <i>Prudential</i> | V0 001 958 | \$20,000,000 | \$179,595 | \$2,727,667.92 | \$2,727,667.92 | \$ 2,304,955 |
| <i>New York Life</i> | 75 500 858 | \$20,000,000 | \$196,080 | \$3,081,046.27 | \$3,073,203.07 | \$ 2,514,929 |
| <i>Pacific Life</i> | VP 6089 7390 | \$ 5,010,000 | \$ 33,218 | \$457,928.92 | \$457,928.92 | \$ 424,480 |
| <i>John Hancock</i> | 20 039 301 | \$30,000,000 | \$359,022 | \$5,040,643.54 | \$5,040,643.54 | \$ 4,622,974 |
| <i>AXA Equitable</i> | 49 232 123 | \$25,000,000 | \$205,246 | \$2,664,966.34 | \$2,638,569.80 | \$ 2,627,947 |
| Total Second-to-Die Life Insurance Coverage | | \$100,010,000 | \$973,161 | \$13,972,252.99 | \$13,938,013.25 | \$12,495,285 |

This information has been taken from sources which we believe to be reliable, but there is no guarantee as to its accuracy. It is not a replacement for any account statement or transaction confirmation issued by the provider. Please compare this document to your custodial statement for accuracy, as applicable.

Please refer to the prospectus and most recent annual report for further information.
Transcription errors do not affect actual policy values.

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Roger E. Cammon
President & Co-Chief Executive Officer
701 Market Street, Suite 1200
St. Louis, Missouri 63101

December 7, 2012

PERSONAL & CONFIDENTIAL

Ms. Eileen Alexanderson
Black Family Partners
9 West 57th Street, 14th Floor
New York, NY 10019
via email

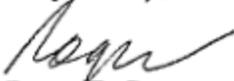
Leon Black Trust-Owned Life Insurance Coverage
2012 Reportable Income & Annual Gift

Dear Eileen:

Annually, Leon must report or contribute the economic benefit of his Split-Dollar life insurance plans as income for income tax purposes. This same amount represents the annual value of the gift for gift tax purposes. The following page outlines the reportable income and annual gift on a policy by policy basis.

If you have any questions concerning this information, please do not hesitate to contact me.

Respectfully,


Roger E. Cammon

Enclosure

cc: Mr. Thomas Turrin

Only the AXA Equitable policies are offered through AXA Advisors, LLC.

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The named individual offers securities and investment advisory products through AXA Advisors, LLC (NY, NY 212-314-4600), member FINRA, SIPC, and offers annuity and insurance products through AXA Network, LLC and its subsidiaries. Bryant Group, Inc. is not owned or operated by AXA Advisors or AXA Network.

Securities offered through M Holdings Securities, Inc.,
A Registered Broker/Dealer, Member FINRA/SIPC.
Bryant Group, Inc. is independently owned and operated.
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INDIVIDUAL LIFE INSURANCE COVERAGE ON LEON BLACK

- › Split-Dollar Entity: AIF, IV Management, Inc.
- › Policy owner: Norman Brownstein, Trustee under the Leon D. Black Insurance Trust #1 dated September 13, 1999.
- › These policies' register dates are September 1999.

| CARRIER | POLICY NUMBER | AMOUNT OF COVERAGE | ANNUAL PREMIUM | REGISTER DATE | REPORTABLE INCOME & GIFT AMOUNT |
|---------------------------------------------------|---------------|--------------------|-----------------|---------------|---------------------------------|
| <i>Prudential</i> | | \$30,000,000 | \$502,335 | 9/13/99 | \$51,413 |
| <i>AXA Equitable</i> | | \$15,000,000 | \$264,894 | 9/13/99 | \$25,191 |
| <i>Security Life of Denver</i> | | <u>\$5,000,000</u> | <u>\$96,380</u> | 9/20/99 | <u>\$8,360</u> |
| <i>Total – Individual Life Insurance Coverage</i> | | \$50,000,000 | \$863,609 | | \$84,964 |

SECOND-TO-DIE, WEALTH TRANSFER LIFE INSURANCE COVERAGE ON LEON & DEBRA BLACK

- › Split-Dollar Entity: AIF IV Management, Inc.
- › Policy owner: Norman Brownstein, Trustee under the Leon D. Black Insurance Trust #2 dated September 13, 1999.
- › These policies, other than the Prudential policy, have a register date of April 28, 1999 in order to save Debra's insurance age. (Prudential utilizes "current age" vs. "closest age", therefore backdating was not necessary.)

| CARRIER | POLICY NUMBER | AMOUNT OF COVERAGE | ANNUAL PREMIUM | REGISTER DATE | REPORTABLE INCOME & GIFT AMOUNT |
|----------------------------------------------------|---------------|---------------------|------------------|---------------|---------------------------------|
| <i>Prudential</i> | | \$20,000,000 | \$179,595 | 9/13/99 | \$3,430 |
| <i>New York Life</i> | | \$20,000,000 | \$196,080 | 4/28/99 | \$4,456 |
| <i>Pacific Life</i> | | \$5,000,000 | \$33,218 | 4/28/99 | \$860 |
| <i>John Hancock</i> | | \$30,000,000 | \$359,022 | 4/28/99 | \$5,445 |
| <i>AXA Equitable</i> | 49 232 123 | <u>\$25,000,000</u> | <u>\$205,246</u> | 4/28/99 | <u>\$4,977</u> |
| <i>Total Second-to-Die Life Insurance Coverage</i> | | \$100,000,000 | \$973,161 | | \$19,168 |

**Leon Black
Trust-Owned, Split-Dollar Life Insurance Coverages**

**Annual Review Meeting
November 30, 2011**

I. Review Current Projection of Split-Dollar Life Insurance Plans

- Summary Page (III-I from October 2011 Review) attached.

II. Explore using another, existing irrevocable trust or other entity to purchase the policies and terminate the Split-Dollar arrangement.

- Attached Comparison: Continue Current Split-Dollar Plan

Versus

Another Trust Purchases the Policies
and Split-Dollar Plan Terminated.

- Second-to-Die policies composite comparison.
- Individual policies on Leon composite comparison.

III. Issues to Consider in the above referenced transaction.

LEON and DEBRA BLACK

SECOND-TO-DIE SPLIT-DOLLAR PLANS

| Policy | Initial Death Benefit Coverage | Annual Premium |
|----------------------------------------------------------------------------------------------------------|--------------------------------|----------------|
| Hancock's Majestic Variable Estate Protection 98 Policy # [REDACTED] - Thirteen premiums paid to date | 30,000,000 | 359,022 |
| AXA Equitable Survivorship IL Policy # [REDACTED] - Thirteen premiums paid to date | 25,000,000 | 205,246 |
| New York Life's Survivorship VUL Policy # [REDACTED] - Thirteen premiums paid to date | 20,000,000 | 196,080 |
| Prudential's Survivorship Preferred Policy # [REDACTED] - Twelve premiums paid to date | 20,000,000 | 179,595 |
| Pacific Life's Select Estate Preserver Policy # [REDACTED] - Thirteen premiums paid to date | 5,010,000 | 33,218 |
| TOTALS: | 100,010,000 | 973,161 |

SPLIT-DOLLAR PLANS - 2011 In Force Update

| ORIGINAL PROJECTIONS | | | 2010 PROJECTIONS | | | 2011 PROJECTIONS | | | | | |
|--------------------------------------------------------------|--------------------------|-----------------|-------------------------------------------------------------|--------------------------|------------------|-------------------------------------------------------------|--------------------------|------------------|-------------------------------------------------------------|--------------------------|------------------|
| @ 10.00% Hypothetical Gross Rate of Return & Current Charges | | | @ 9.00% Hypothetical Gross Rate of Return & Current Charges | | | @ 9.00% Hypothetical Gross Rate of Return & Current Charges | | | @ 8.00% Hypothetical Gross Rate of Return & Current Charges | | |
| Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until |
| 12 (2010) | 2011 | Debra's Age 94 | 21 (2019) | 2020 | Debra's Age 100+ | 19 (2017) | 2018 | Debra's Age 100+ | 22 (2020) | 2021 | Debra's Age 100+ |
| 16 (2014) | 2015 | Debra's Age 99 | 29 (2027) | 2028 | Debra's Age 99 | 26 (2024) | 2025 | Debra's Age 98 | 33 (2031) | 2032 | Debra's Age 100+ |
| 17 (2015) | 2016 | Debra's Age 95 | 32 (2030) | 2031 | Debra's Age 96 | 28 (2026) | 2027 | Debra's Age 97 | 40 (2038) | 2039 | Debra's Age 100+ |
| 19 (2017) | 2018 | Debra's Age 100 | 36 (2034) | 2035 | Debra's Age 100+ | 32 (2030) | 2031 | Debra's Age 100+ | 43 (2041) | At Death | Debra's Age 100+ |
| 18 (2016) | 2017 | Debra's Age 97 | 29 (2027) | 2028 | Debra's Age 96 | 27 (2025) | 2026 | Debra's Age 95 | 35 (2033) | 2034 | Debra's Age 96 |

INDIVIDUAL SPLIT-DOLLAR PLANS (Leon Black)

| Policy | Initial Death Benefit Coverage | Annual Premium | Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until | Premium Payment Years | Company Premium Recovery | Coverage Until |
|--------------------------------------------------------------------------------------|--------------------------------|------------------|-----------------------|--------------------------|----------------|-----------------------|--------------------------|----------------|-----------------------|---------------------------|----------------|-----------------------|---------------------------|----------------|
| Prudential's VUL Policy # [REDACTED] - Twelve premiums paid to date | 30,000,000 | 502,335 | 25 (2023) | 2024 | Leon's Age 100 | 35 (2033) | At Death | Leon's Age 87 | 33 (2031) | At Death ¹ | Leon's Age 87 | 38 (2036) | At Death ⁴ | Leon's Age 86 |
| AXA Equitable's Incentive Life Policy # [REDACTED] - Twelve premiums paid to date | 15,000,000 | 264,894 | 24 (2022) | 2023 | Leon's Age 95 | 33 (2031) | At Death | Leon's Age 94 | 29 (2027) | At Death ² | Leon's Age 96 | 31 (2029) | At Death ⁵ | Leon's Age 91 |
| ING/Security Life's Firstline Policy # [REDACTED] - Twelve premiums paid to date | 5,000,000 | 96,380 | 25 (2023) | At Death | Leon's Age 86 | 29 (2027) | Policy Lapse | Leon's Age 77 | 31 (2029) | Policy Lapse ³ | Leon's Age 79 | 29 (2027) | Policy Lapse ⁶ | Leon's Age 77 |
| TOTALS: | 50,000,000 | 863,609 | | | | | | | | | | | | |
| GRAND TOTAL: | 150,010,000 | 1,836,770 | | | | | | | | | | | | |

¹ Leon's assumed life expectancy is 38 years (Age 86). To maintain the coverage beyond Leon's Age 87, changes to the Split-Dollar Plan design, such as continuing to pay the indicated annual premium or increasing the annual premium payment, may be considered.
² The indicated annual premium is paid for 29 years. This maintains the policy to Leon's Age 96. To maintain the coverage beyond Leon's Age 96, changes to the Split-Dollar Plan design, such as increasing the annual premium payment, may be considered.
³ The policy lapses in policy year 32 (Leon's Age 79) based upon the specified assumptions and paying the indicated annual premium. Paying \$126,539 annually beginning in the 2011 policy year will maintain the coverage until Leon's assumed life expectancy (Age 86). Depending upon the plan's objectives, other changes to the Split-Dollar Plan design may be considered.
⁴ The policy lapses in policy year 39 (Leon's Age 86) based upon the specified assumptions and paying the indicated annual premium. Depending upon the plan's objectives, other changes to the Split-Dollar Plan design may be considered.
⁵ The indicated annual premium is paid for 31 years. This maintains the policy to Leon's Age 91. To maintain the coverage beyond Leon's Age 91, changes to the Split-Dollar Plan design, such as increasing the annual premium payment, may be considered.
⁶ The policy lapses in policy year 30 (Leon's Age 77) based upon the specified assumptions and paying the indicated annual premium. Depending upon the plan's objectives, other changes to the Split-Dollar Plan design may be considered.

SECOND-TO-DIE SPLIT-DOLLAR PLAN

MR. & MRS. LEON BLACK

\$100,010,000 COMBINED Second-To-Die Death Benefit Coverage - 5 SVUL Policies
Based Upon a \$973,161 Normal Annual Premium Payment

| Year | His Age | Her Age | CONTINUE CURRENT SPLIT-DOLLAR PLAN | | | ANOTHER TRUST PURCHASES THE POLICIES & TERMINATES THE SPLIT-DOLLAR PLAN | | |
|------|---------|---------|------------------------------------|------------------------------|---------------------------------------------|-------------------------------------------------------------------------|------------------------------|---------------------------------------------|
| | | | CORPORATION | Trust Death Benefit Coverage | EXECUTIVE | CORPORATION | Trust Death Benefit Coverage | EXECUTIVE |
| | | | Annual Premium + Recovery | | Annual Gift + Incoming Trust Death Proceeds | Annual Premium + Recovery | | Annual Gift + Incoming Trust Death Proceeds |
| 1999 | 48 | 44 | 968,500 | 99,889,018 | 4,661 | 968,500 | 99,889,018 | 4,661 |
| 2000 | 49 | 45 | 967,740 | 99,699,252 | 5,421 | 967,740 | 99,699,252 | 5,421 |
| 2001 | 50 | 46 | 966,850 | 99,443,309 | 6,311 | 966,850 | 99,443,309 | 6,311 |
| 2002 | 51 | 47 | 965,777 | 99,179,897 | 7,384 | 965,777 | 99,179,897 | 7,384 |
| 2003 | 52 | 48 | 964,535 | 99,617,969 | 8,626 | 964,535 | 99,617,969 | 8,626 |
| 2004 | 53 | 49 | 963,035 | 99,668,704 | 10,126 | 963,035 | 99,668,704 | 10,126 |
| 2005 | 54 | 50 | 963,035 | 100,780,647 | 10,126 | 963,035 | 100,780,647 | 10,126 |
| 2006 | 55 | 51 | 959,427 | 101,714,915 | 13,734 | 959,427 | 101,714,915 | 13,734 |
| 2007 | 56 | 52 | 957,201 | 100,927,298 | 15,960 | 957,201 | 100,927,298 | 15,960 |
| 2008 | 57 | 53 | 955,429 | 98,531,757 | 17,732 | 955,429 | 98,531,757 | 17,732 |
| 2009 | 58 | 54 | 953,867 | 99,570,544 | 19,294 | 953,867 | 99,570,544 | 19,294 |
| 2010 | 59 | 55 | 955,300 | 101,213,274 | 17,861 | 955,300 | 101,213,274 | 17,861 |
| 2011 | 60 | 56 | 954,468 | 101,415,687 | 18,693 | 954,468 | 101,415,687 | 18,693 |
| 2012 | 61 | 57 | 953,784 | 101,867,361 | 19,377 | (11,677,665) ¹ | 100,010,000 | 614,139 ² |
| 2013 | 62 | 58 | 953,073 | 102,369,722 | 20,088 | - | 100,010,000 | 614,139 |
| 2014 | 63 | 59 | 952,297 | 102,930,414 | 20,864 | - | 100,010,000 | 614,139 |
| 2015 | 64 | 60 | 951,602 | 103,556,668 | 21,559 | - | 100,010,000 | 570,567 |
| 2016 | 65 | 61 | 950,488 | 104,267,144 | 22,673 | - | 100,010,000 | 289,313 |
| 2017 | 66 | 62 | 949,482 | 105,045,370 | 23,679 | - | 100,010,000 | 207,695 |
| 2018 | 67 | 63 | 948,267 | 105,891,419 | 24,894 | - | 100,010,000 | 80,500 |
| 2019 | 68 | 64 | 946,983 | 106,825,414 | 26,178 | - | 100,010,000 | - |
| 2020 | 69 | 65 | 945,170 | 107,828,121 | 27,991 | - | 100,010,000 | - |
| 2021 | 70 | 66 | (7,198,970) | 108,286,697 | 20,561 | - | 100,010,000 | - |
| 2022 | 71 | 67 | 592,632 | 108,781,288 | 21,507 | - | 100,010,000 | - |
| 2023 | 72 | 68 | 590,820 | 108,743,502 | 23,319 | - | 100,010,000 | - |
| 2024 | 73 | 69 | 589,661 | 108,187,059 | 24,478 | - | 100,010,000 | - |
| 2025 | 74 | 70 | 587,976 | 107,632,300 | 26,163 | - | 100,010,000 | - |
| 2026 | 75 | 71 | 586,630 | 107,078,888 | 27,509 | - | 100,010,000 | - |
| 2027 | 76 | 72 | 584,266 | 106,527,841 | 29,873 | - | 100,010,000 | - |
| 2028 | 77 | 73 | 581,303 | 105,979,755 | 32,836 | - | 100,010,000 | - |
| 2029 | 78 | 74 | 577,348 | 105,435,624 | 36,791 | - | 100,010,000 | - |
| 2030 | 79 | 75 | 573,363 | 104,895,480 | 40,776 | - | 100,010,000 | - |
| 2031 | 80 | 76 | 566,545 | 104,362,152 | 47,594 | - | 100,010,000 | - |
| 2032 | 81 | 77 | (6,173,393) | 104,019,842 | 33,365 | - | 100,010,000 | - |
| 2033 | 82 | 78 | 370,368 | 103,682,692 | 38,525 | - | 100,010,000 | - |
| 2034 | 83 | 79 | (774,052) | 103,345,751 | 38,735 | - | 100,010,000 | - |
| 2035 | 84 | 80 | 330,903 | 103,014,848 | 44,772 | - | 100,010,000 | - |
| 2036 | 85 | 81 | 324,539 | 102,690,309 | 51,136 | - | 100,010,000 | - |
| 2037 | 86 | 82 | 317,024 | 102,373,285 | 58,651 | - | 100,010,000 | - |
| 2038 | 87 | 83 | 305,471 | 102,067,814 | 70,204 | - | 101,063,258 | - |
| 2039 | 88 | 84 | (7,409,646) | 101,935,862 | 47,643 | - | 102,614,407 | - |
| 2040 | 89 | 85 | 129,587 | 101,806,275 | 50,008 | - | 104,254,279 | - |
| 2041 | 90 | 86 | 121,122 | 101,685,153 | 58,473 | - | 105,984,401 | - |
| 2042 | 91 | 87 | - | 101,685,153 | 68,456 | - | 107,805,796 | - |
| 2043 | 92 | 88 | - | 101,685,153 | 79,866 | - | 109,717,955 | - |
| 2044 | 93 | 89 | (7,219,807) | - | (101,685,153) | - | - | (109,717,955) |
| 2045 | 94 | 90 | - | - | - | - | - | - |

NPV of Corporate Cash Flow @ 6.00%: **9,408,104**

3,554,801

Leon's Gift Amount
2012 & Thereafter: **1,178,543**
Total Gift Amount: **1,334,473**

Leon's Gift Amount
Future Premium Payments: **2,990,492²**
Total Gift Amount: **3,146,422**

Executive's Internal Rate of Return: **17.43%**

Executive's Internal Rate of Return: **12.26%**

¹ Company recovers \$11,677,665 of the \$12,495,235 Split-Dollar Advance.

² In the event the trust has sufficient cash to meet the premium payments, additional gifts may NOT be needed.

INDIVIDUAL SPLIT-DOLLAR PLAN

MR. LEON BLACK

\$50,000,000 COMBINED Individual Death Benefit Coverage - 3 VUL Policies

Based Upon a \$863,609 Normal Annual Premium Payment

| | | CONTINUE CURRENT SPLIT-DOLLAR PLAN | | | ANOTHER TRUST PURCHASES THE POLICIES & TERMINATES THE SPLIT-DOLLAR PLAN | | |
|------|---------|------------------------------------|------------------------------|---------------------------------------------|-------------------------------------------------------------------------|------------------------------|---------------------------------------------|
| | | CORPORATION | EXECUTIVE | CORPORATION | EXECUTIVE | CORPORATION | EXECUTIVE |
| Year | His Age | Annual Premium + Recovery | Trust Death Benefit Coverage | Annual Gift + Incoming Trust Death Proceeds | Annual Premium + Recovery | Trust Death Benefit Coverage | Annual Gift + Incoming Trust Death Proceeds |
| 1999 | 48 | 821,004 | 50,014,178 | 42,605 | 821,004 | 50,014,178 | 42,605 |
| 2000 | 49 | 819,621 | 48,961,588 | 43,988 | 819,621 | 48,961,588 | 43,988 |
| 2001 | 50 | 818,242 | 48,466,260 | 45,367 | 818,242 | 48,466,260 | 45,367 |
| 2002 | 51 | 816,807 | 48,529,954 | 46,802 | 816,807 | 48,529,954 | 46,802 |
| 2003 | 52 | 814,613 | 48,342,621 | 48,996 | 814,613 | 48,342,621 | 48,996 |
| 2004 | 53 | 811,444 | 48,318,209 | 52,165 | 811,444 | 48,318,209 | 52,165 |
| 2005 | 54 | 811,444 | 48,283,943 | 52,165 | 811,444 | 48,283,943 | 52,165 |
| 2006 | 55 | 801,954 | 48,696,486 | 61,655 | 801,954 | 48,696,486 | 61,655 |
| 2007 | 56 | 797,040 | 47,238,285 | 66,569 | 797,040 | 47,238,285 | 66,569 |
| 2008 | 57 | 790,702 | 46,399,128 | 72,907 | 790,702 | 46,399,128 | 72,907 |
| 2009 | 58 | 783,973 | 47,129,584 | 79,636 | 783,973 | 47,129,584 | 79,636 |
| 2010 | 59 | 789,957 | 46,932,191 | 73,652 | 789,957 | 46,932,191 | 73,652 |
| 2011 | 60 | 783,131 | 46,897,480 | 80,478 | 783,131 | 46,897,480 | 80,478 |
| 2012 | 61 | 777,169 | 46,872,328 | 86,440 | (6,718,901) ¹ | 52,175,103 | 871,885 ² |
| 2013 | 62 | 770,687 | 46,851,150 | 92,922 | - | 52,405,417 | 871,885 |
| 2014 | 63 | 762,118 | 46,851,734 | 101,491 | - | 52,638,439 | 871,885 |
| 2015 | 64 | 752,889 | 46,869,569 | 110,720 | - | 52,873,112 | 871,885 |
| 2016 | 65 | 742,214 | 46,936,950 | 121,395 | - | 53,147,660 | 871,885 |
| 2017 | 66 | 730,594 | 47,019,778 | 133,015 | - | 53,424,398 | 871,885 |
| 2018 | 67 | 717,818 | 47,118,029 | 145,791 | - | 53,713,743 | 871,885 |
| 2019 | 68 | 704,233 | 47,221,657 | 159,376 | - | 54,033,057 | 871,885 |
| 2020 | 69 | 689,262 | 47,296,829 | 174,347 | - | 54,356,256 | 871,885 |
| 2021 | 70 | 672,846 | 47,328,701 | 190,763 | - | 54,681,898 | 871,885 |
| 2022 | 71 | 648,085 | 47,306,100 | 215,524 | - | 55,007,819 | 795,142 |
| 2023 | 72 | 621,140 | 47,210,548 | 242,469 | - | 55,007,819 | 369,550 |
| 2024 | 73 | 590,917 | 47,043,260 | 272,692 | - | 55,007,819 | 104,656 |
| 2025 | 74 | 556,699 | 46,849,180 | 306,910 | - | 55,007,819 | 104,656 |
| 2026 | 75 | 518,663 | 46,679,170 | 344,946 | - | 55,007,819 | 104,656 |
| 2027 | 76 | 489,574 | 46,189,596 | 374,035 | - | 55,007,819 | 104,656 |
| 2028 | 77 | 393,344 | 42,540,144 | 373,885 | - | 55,007,819 | 104,656 |
| 2029 | 78 | 362,999 | 42,177,146 | 404,230 | - | 55,007,819 | 104,656 |
| 2030 | 79 | 229,364 | 41,947,781 | 438,479 | - | 55,007,819 | 104,656 |
| 2031 | 80 | 204,926 | 41,742,855 | 476,152 | - | 55,007,819 | 104,656 |
| 2032 | 81 | 177,132 | 41,565,723 | 517,941 | - | 55,007,819 | 104,656 |
| 2033 | 82 | 145,114 | 41,420,609 | 563,498 | - | 55,007,819 | 104,656 |
| 2034 | 83 | 108,752 | 41,311,857 | 613,095 | - | 55,007,819 | 104,656 |
| 2035 | 84 | 68,658 | 41,243,199 | 692,588 | - | 55,007,819 | 104,656 |
| 2036 | 85 | 24,862 | 41,218,337 | 843,782 | - | 55,007,819 | 104,656 |
| 2037 | 86 | (20,460,853) | - | (41,218,337) | - | - | (55,007,819) |
| 2038 | 87 | - | - | - | - | - | - |
| 2039 | 88 | - | - | - | - | - | - |

NPV of Corporate Cash Flow @ 6.00%: **9,101,879**

4,426,363

Leon's Gift Amount
2012 & Thereafter: **7,996,488**
Total Gift Amount: **8,763,473**

Leon's Gift Amount
Future Premium Payments: **11,244,063**²
Total Gift Amount: **12,011,048**

Executive's Internal Rate of Return: **10.38%**

Executive's Internal Rate of Return: **7.73%**

¹ Company recovers \$6,718,901 of the \$10,459,932 Split-Dollar Advance.

² In the event the trust has sufficient cash to meet the premium payments, additional gifts may NOT be needed.

Review of \$150 mil Life Insurance purchased through Bryant Group

Rationale for the \$50mil life insurance policy on Leon:

Proceeds would be available at time of death to pay off some of indebtedness related to your art collection

Rationale for the second-to-die policy on Debra and Leon:

Proceeds would be available at time of death to pay estate taxes

These policies are owned in irrevocable life insurance trusts (the Leon D Black Insurance Trusts #1 and #2). The policies purchased were set up in a split-dollar structure to minimize gift tax. The split-dollar entity, AIF IV Management Inc (now part of BFP), advances the annual premiums (in lieu of compensation to Leon). Fortunately, these variable universal life policies were purchased from top carriers who have fared relatively well in the recent financial crisis. Investments in various mutual funds were elected at the time of the purchase of the policies by John Hannan. The goal in a structure like this is to have the policy assets invested in a way that they will appreciate enough to have sufficient equity to allow for a cash withdrawal to both repay premiums previously advanced by the split dollar entity (at which point the split \$ arrangement is terminated) and cover premiums going forward. The death benefit, when ultimately paid to the Trust, is income tax-free and estate tax free. In 2009, you paid gift tax on a reportable income and gift of \$90,639 compared with the full amount of \$1.8 mil of premiums paid annually which would otherwise have been considered gifts to the trusts.

These policies were initiated in September 1999. You have paid in \$19.5 mil in premiums (shown in the 'split-dollar advance' column on the attached 12/31/09 Summary of Coverage). The cash surrender value (which is tied to the underlying value of the assets invested) was valued at \$14.2 mil at 12/31/09. This reflects a difficult decade for stocks generally. Also, the investment options chosen were heavily growth oriented. Think back to 1999 in the midst of the tech bubble in the making. At that time growth was the only thing working and the only thing people wanted to own. The other side of the bubble ie. 2000-2002 was quite painful. In the period 1/1/00-12/31/09 the Russell 1000 Growth index declined 33% cumulatively. The original options have not been revised or rebalanced along the way. While in the currently slow growing economy growth style portfolios are likely to do well, I have a review of the funds owned on my to-do list and will work to add some international options and rebalance a bit from the existing funds. **Whereas the original plan called for an equity build in the underlying assets that would have allowed premium recovery to begin next year, it looks as though we face another decade of premium payments before we begin that process.** Assuming an average return of 9%, it will be 2020 before we get to the point of the premium advances being covered. The death benefits are fully intact at the \$150 mil face value of the policies and will service their intended purposes. The terms of the structure stipulate that if the needed equity appreciation is not achieved before the death of the insured, the repayment of premiums advanced by the split-dollar entity is paid from the death benefit.

Additional planning suggestion from Roger Cammon for consideration:
Make an additional gift to the trust of a 'lowly valued, likely to appreciate' asset which, once contributed and appreciated, could be used to accelerate the process of terminating the split \$ arrangement. I will give this idea additional consideration.

We also spoke about insurance as asset protection. There is definite appeal. For instance, let's use an example of a \$25mil life insurance policy purchased for asset protection purposes: Contrary to a purchase of insurance for the normal purpose of the death benefit, in this case, the death benefit is just the tax shield for the assets inside the policy. You want to buy as little death benefit as life insurance tax law will allow. Premiums would then be extremely small and, from the start, the cash value is accessible via a loan from the policy. Under NY State law, the cash value of life insurance is exempt from the claims of creditors. If housed in a trust as Weil Gotshal has suggested, there would be even greater surety of asset protection but you would have to pay the gift tax on the \$25mil or cost of the policy. The assets in the policy would grow tax free and can be invested in a choice from the carrier menu of investment options or it is possible to buy a customized policy allowing a hedge fund or any other alternative asset.

Background

Original intention: build up enough cash in the policy to unwind the split dollar arrangement and have enough value left over to maintain the policy with no further premiums. Investment returns have been disappointing. Current projections imply a need to continue with premium payments for another 10 years (@ \$1.8mil/yr)

AIF IV is a LP of Black Family Partners LP and Leon is the sole shareholder of AIF IV Mgmt

I began with the question of what's the appropriate amount of insurance for Leon & Debra to have but this is a bit of a moot point since amt already held is in line with max available. Est at \$165mil-lower than historically due to consolidation of reinsurers.

Possible Solutions:

Switch to guaranteed insurance plan

Trust gets stated DB, gives up opportunity for equity growth
?material modification, premiums required going forward?

Pay back the split dollar amt using GRAT or CLAT with favorable gift tax implications
Per Ada will take too long

Any change in carriers-considered a 'material modification'-would eliminate SD benefit
Per Gail Brannock and Jay Rabinowitz UST, Roger Cammon

amend current split \$ agreement to be a non equity split dollar where trust owes the company the greater of the CSV or premiums paid at termination or death

Split \$ entity has to stay in place until Leon's Death
Trust gets the death benefit less premium advances that go to AIF
Any equity policy growth above DB goes to AIF

Per memo from Carlyn: if the split \$ arrangement is terminated, AIF would receive only the current cash value now

AIF IV Mgmt under the split \$ agreements pays the premiums but Black Family Partners does now. Resulting question-is AIF owned by BFP or Leon?Per Lindsey Cei email AIF IV is an LP of Black Family Partners. Leon is the sole shareholder of AIF IV Mgmt

Since BFP did not become a party to the split \$ agreement but was just advancing funds to AIF for premiums then, perhaps, does AIF have to repay BFP the full amount of its outlays even if the it gets a cash surrender value less than premiums paid.

If we unwind the split \$ arrangement we will have a more palatable number years of premium payments and then the policies should at least be self sustaining.

Bad news, underlying investments dramatically underperformed expectations and so the original plan to repay AIF for the premium advances, unwind the split \$, and have \$150mil of policies which are self sustaining and require no additional premiums has failed. The good news is that if we proceed with the proposal from Carlyn to unwind the split \$ arrangement with resources already outside Leon's estate, these policies with substantial death benefits will be owned by trusts to benefit his children.

Unwinding the split \$ arrangement eliminates the reportable income and gifts of approx \$100,000/yr we have been incurring

Once unwound, the second to die policies require premium payments for a manageable number of years. Individual policies are in less good shape, may need to liquidate or exchange these policies.

Normally you would want to wait to terminate the SD until there is enough equity to repay advances and eliminate premiums

It has been suggested we should liquidate the Security of Denver policy or exchange for a new policy since even assuming a 9% return the policy only holds up until Leon is 77 yrs old

In exchange for AIF's agreement to pay the Planned Periodic Premiums, the Trustee agreed that when a policy matured by reason of the death of the insured or insureds he would pay AIF an amount equal to the sum of all the premiums paid by it on such policy less the amounts previously paid to it with respect to such policy (the "Net Aggregate Premiums"). The Trustee also agreed that if he terminated a split-dollar agreement before the death of the insured or insureds he would either pay AIF an amount equal to the Net Aggregate Premiums for the policies subject to the terminated agreement or would transfer the policies to AIF. To secure his obligations under the split-dollar agreements, the Trustee assigned the insurance policies to AIF as collateral.

The total Planned Periodic Premiums with respect to all of the policies held in the trusts is approximately \$1.8 million each year. For each year that the split dollar arrangement is in effect you have been treated as having received compensation equal to the cost of the current life insurance protection offered by each policy and as having made a gift of this amount to the 1999 Life Insurance Trusts. Tom Turrin has been properly reporting these amounts on your annual income and gift tax returns. For 2011, the amount of compensation/gift was approximately \$97,652. However, as the premiums continue to increase over the term of the policies, the amount of taxable income you will be deemed to have received and the size of your taxable gifts to the insurance trusts will increase.

Since 1999, when the parties initiated the split-dollar arrangements, AIF has paid about \$20.1 million in premiums. In recent years AIF had been borrowing from the Black Family Partners in order to make these premium payments. In 1999, at the commencement of the split-dollar arrangements, it was estimated that by 2010 the cash surrender value of the policies would be about \$22 million. However, because of poor market performance, as of March 31, 2010, the cash surrender value of the policies together was about \$15 million.

Given the poor performance of the policies over the past decade and the fact that the \$150 million death benefit will not come close to fully covering your anticipated estate taxes, it makes sense to evaluate whether it is appropriate for the insurance trusts to continue to maintain the existing policies. Eileen is analyzing whether to continue the existing policies. In the interim, we think it is important to restructure the split-dollar arrangements in order to minimize the ongoing tax consequences to you. To that end, we have proposed the transaction described below.

Proposed Transaction

Acquisition of Rights Under Split-Dollar Agreements by The Black 2006 Family Trust. The Black 2006 Family Trust (the “2006 Trust”) will purchase AIF’s rights under the split-dollar agreements from AIF for cash. The purchase price will be based on an appraisal of the value of such rights to be obtained by the trustees of the 2006 Trust and by AIF. Because the rights of AIF under the split-dollar agreements are limited to the right to receive the Net Aggregate Premiums on your death or on the death of the survivor of you and Debra (unless the owners of the policies elect to terminate the split-dollar agreements), the appraised value is likely to be substantially less than the current cash value of the policies. Eileen will arrange for the appraisals.

Once this step has been completed, you will no longer have any income or gift tax liability on account of the annual cost of the current life insurance protection offered by each policy.

Repayment of Loans to Black Family Partners. AIF will use the funds it receives from the trustees of the 2006 Trust to repay any outstanding loans to Black Family Partners. It will then liquidate. AIF’s remaining cash, if any, will be distributed to you.

Termination of Split-Dollar Agreements. The Trustee of the 1999 Life Insurance Trusts may then decide to terminate the split-dollar agreements in order to avoid any further potential liability for the annual cost of the current life insurance protection offered by the policies. Upon termination, because the Trustee lacks sufficient resources to pay the trustees of the 2006 Trust an amount equal to the Net Aggregate Premiums, he will transfer his interests in the policies to the trustees of the 2006 Trust.

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If you have any questions, please call Carlyn at (212) 547-5324 or Elyse at (212) 547-5327.

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CSMCC/EGK

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