

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ SEE ATTACHED STATEMENT

18 Can any resulting loss be recognized? ▶ SEE ATTACHED STATEMENT

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ SEE ATTACHED STATEMENT

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature ▶ Ray Lopez Date ▶ 9-4-18
Print your name ▶ RAY LOPEZ Title ▶ CFO

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	CINDY B KUSHNER	<u>Cindy Kushner</u>	2018.08.30 16:13:07 -04'00		P00739493
	Firm's name ▶ CROWE LLP			Firm's EIN ▶ 35-0921680	
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Part II, Question 14: Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action

On April 19, 2018, BBX Capital Corporation ("BBX" or the "Company") completed a tender offer for shares of the Company's Class A common stock for \$9.25 per share, net to the seller in cash (less any applicable withholding taxes and without interest), in accordance with the terms and subject to the conditions described in the Offer to Purchase dated March 20, 2018 (the "Tender Offer"). In total, BBX repurchased 6,486,486 shares of its Class A common stock for aggregate consideration of approximately \$60 million.

Part II, Question 15: Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis

Pursuant to Internal Revenue Code (IRC) Section 317(b), stock shall be treated as redeemed by a corporation if the corporation acquires its stock from a shareholder in exchange for property, whether or not the stock so acquired is cancelled, retired, or held as treasury stock. Accordingly, the repurchase of BBX shares by the Company in exchange for cash shall be treated as a redemption transaction for U.S. federal income tax purposes.

Pursuant to IRC Section 302, a redemption of stock is either treated as a sale or exchange of the redeemed stock or as a Section 301 distribution of property with respect to the redeemed stock, depending upon the facts and circumstances. Accordingly, depending upon a shareholder's specific facts and circumstances, the redemption will be treated either as a sale/exchange of the tendered shares or as a distribution with respect to stock. The redemption transaction likely qualifies for sale/exchange treatment under IRC Section 302(b) for some shareholders and as a distribution under IRC Section 301 for other shareholders.

What follows is a general overview of the criteria for determining whether a redemption transaction is treated as a sale/exchange of stock or as a distribution with respect to stock for U.S. federal income tax purposes. It should be emphasized that the analysis required under IRC Section 302 is applied on a shareholder-by-shareholder basis. It should additionally be noted that certain attribution rules must be considered in applying these rules. Accordingly, different shareholders may have different tax consequences as a result of the Tender Offer transaction. ***Each shareholder should consult a tax advisor with respect to the specific application of IRC Section 302.***

Redemptions Treated as Sale/Exchange of Shares

Pursuant to IRC Section 302(a), a redemption of stock is generally treated as a sale or exchange of redeemed stock for U.S. federal income tax purposes if:

1. The redemption is not essentially equivalent to a dividend;
2. The redemption is substantially disproportionate with respect to the redeemed shareholder;
or
3. The redemption results in complete termination of the redeemed shareholder's ownership interest in the corporation.¹

Each of these standards are addressed in more detail below. ***However, this is intended as a general overview only, and it should be reiterated that shareholders should consult their tax advisors to determine the proper federal income tax treatment of the tender offer transaction.***

¹ See IRC Section 302(b)(1) through (3). Note that there are also other circumstances in which a redemption may be treated as a sale/exchange for U.S. federal income tax purposes, pursuant to IRC Section 302(b)(4) (redemption from noncorporate shareholder in partial liquidation) or IRC Section 302(b)(5) (redemptions by certain regulated investment companies). However, those circumstances are not applicable here.

Not Essentially Equivalent to a Dividend

Shareholders who do not qualify for sale/exchange treatment under the IRC Section 302(b)(3) (complete termination of interest) or IRC Section 302(b)(2) (substantially disproportionate distribution) criteria outlined above may still qualify for sale/exchange treatment under IRC Section 302(b)(1) if the redemption is "not essentially equivalent to a dividend."

An exchange of shares for cash pursuant to the Tender Offer will be treated as "not essentially equivalent to a dividend" if, taking into account the applicable constructive ownership rules, it results in a "meaningful reduction" in the shareholder's stock interest in the Company. Whether such a meaningful reduction of a shareholder's stock interest in the Company results will depend on each shareholder's particular facts and circumstances. If, as a result of an exchange of shares for cash pursuant to the Tender Offer, a shareholder whose relative stock interest in the company is minimal (for example, less than 1%) and who exercises no control over the corporate affairs of the Company suffers any reduction in its proportionate stock interest in the Company (including any shares constructively owned), the shareholder should generally be regarded as having experienced a meaningful reduction in its stock interest in the Company. Note, however, that in the event that other shareholders exchange a greater percentage of their shares pursuant to the Tender Offer than a particular shareholder, the shareholder's proportionate stock interest in the Company may increase immediately following the share repurchase transaction, even if the shareholder exchanges shares for cash pursuant to the Tender Offer and does not actually or constructively acquire any additional shares.

Substantially Disproportionate Distribution

Shareholders who do not transfer 100% of their BBX shares in the Tender Offer transaction may qualify for sale/exchange treatment if the redemption constitutes a "substantially disproportionate distribution" under IRC Section 302(b)(2). For this purpose, a distribution is "substantially disproportionate" if:

1. The percentage of the voting stock actually and constructively owned by the shareholder immediately after the redemption is less than 80-percent of the percentage of the voting stock actually and constructively owned by such shareholder immediately before the redemption; and
2. After the redemption, the shareholder owns less than 50-percent of the total combined voting power of all classes of stock entitled to vote (taking into account applicable attribution rules).

In addition, a shareholder's ownership of the common stock of the corporation (whether voting or nonvoting) after and before redemption must also meet the 80 percent requirement outlined above.

Complete Termination of Interest

Shareholders who transfer 100% of their BBX shares in the Tender Offer transaction and have no ownership interest in the Company following the Tender Offer transaction will generally satisfy the "complete termination" test under IRC Section 302(b)(3) and qualify for sale/exchange treatment.

Qualification for sale/exchange treatment under IRC Section 302(b)(1) is fact-intensive, and should be evaluated by a tax advisor.

If a shareholder qualifies for sale/exchange treatment under IRC Section 302(b) with respect to the Tender Offer transaction, the shareholder will recognize gain or loss for U.S. federal income tax purposes equal to the difference between the amount of cash received for the tendered shares and the shareholder's tax basis in the tendered shares.

Redemptions Treated as Distributions

Pursuant to IRC Section 302(d), a redemption transaction that does not qualify for sale/exchange treatment under IRC Section 302(b) is treated as a distribution of property to which IRC Section 301 applies.

Any such distribution would constitute a taxable dividend to the shareholder to the extent of the Company's earnings and profits ("E&P"), with no effect on the shareholder's tax basis in the shares.

Any distribution in excess of E&P would constitute a non-taxable return of capital to the shareholder, requiring reduction of stock basis (to the extent thereof) and/or recognition of capital gain to the extent (if any) that the non-dividend portion of the distribution exceeds the shareholder's tax basis in the redeemed shares.

Part II, Question 16: Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates

Redemptions Treated as Sale/Exchange of Shares

As noted above in the response to Part II, Question 15, if a shareholder qualifies for sale/exchange treatment with respect to the Tender Offer transaction, the shareholder will recognize gain or loss for U.S. federal income tax purposes equal to the difference between the amount of cash received for the tendered shares and the shareholder's tax basis in such shares.

Tax basis in retained shares will be unaffected by the redemption.

**Note that special, more complex considerations may apply to the extent that a shareholder owns multiple blocks of BBX stock acquired on different dates with different basis amounts. Separate gain/loss determinations are generally required, and special rules may apply relative to identification of shares redeemed for purposes of determining the applicable tax basis amount to be applied. The manner in which a shareholder calculates gain or loss can be complex, and shareholders should consult with their tax advisor.*

Redemptions Treated as Distributions

The Company is in the process of completing an E&P study through December 31, 2018. It is anticipated that any redemption treated as distribution will receive dividend treatment based on the Company's anticipated current year E&P. Accordingly, shareholders who receive Section 301 distribution treatment in connection with the Tender Offer transaction will likely treat the amount received as a taxable dividend. However, this analysis cannot be finalized until the December 31, 2018 tax return is filed.

Part II, Question 17: List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based.

IRC Section 317
IRC Section 302
IRC Section 301
IRC Section 312²
Treasury Regulation Section 1.1502-33 (E&P in consolidated return group context)

² Including IRC Section 312(n)(7) (relating to impact of IRC Section 302 redemption treated as a sale or exchange on a company's E&P).

Part II, Question 18: Can any resulting loss be recognized?

Shareholders who qualify for sale/exchange treatment could potentially recognize loss if the tax basis in the tendered shares is greater than the amount of cash received. The character and classification of any such loss is dependent upon a shareholder's particular circumstances and may be subject to limitation. As emphasized previously, shareholders are urged to consult their tax advisors for purposes of determining the tax treatment of the repurchase transaction.

Part II, Question 19: Provide any other information necessary to implement the adjustment, such as the reportable tax year.

The Tender Offer transaction should be taken into account in the taxable year of the shareholder during which the redemption occurred – i.e. 2018 for calendar year taxpayers.

For additional discussion of U.S. federal income tax consequences to shareholders as a result of the Tender Offer transaction, please refer to Section 13 of the Offer to Purchase dated March 20, 2018.

This information does not constitute tax advice. This form provides a description of common tax consequences, but does not purport to describe all tax consequences that may apply to all types of shareholders. Shareholders should consult a qualified tax advisor for any specific questions related to their specific tax treatment.