

Lehman Brothers Derivative Products Inc.
Operating Guidelines

Dated July 16, 1998

LBDP OPERATING GUIDELINES

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LBDP OPERATING GUIDELINES

These OPERATING GUIDELINES dated July 16, 1998 of LEHMAN BROTHERS DERIVATIVE PRODUCTS INC. ("LBDP"), a corporation duly organized and existing under the laws of the State of Delaware, having its principal office at Three World Financial Center, New York, New York 10285.

RECITALS OF LBDP

LBDP has duly authorized the execution and delivery of the Operating Agreements to govern its business and operations. This document, which has been approved by LBDP's Board of Directors, is intended to provide Operating Guidelines consistent with LBDP's business activities and legal arrangements.

LBDP's business practices and operations are governed by its Operating Agreements, which provide additional details concerning certain legal and operational requirements regarding LBDP.

ARTICLE ONE

Definitions and Other Provisions of General Application

SECTION 1.1 Definitions. For all purposes of these Operating Guidelines, except as otherwise expressed provided or unless the context otherwise requires:

- (i) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (ii) all other terms used herein which are defined in any of the Operating Agreements, either directly or by reference therein, have the meanings assigned to them therein;
- (iii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States of America at the date of such computation; and
- (iv) the words "herein", "hereof" and "hereunder" and other words of similar import refer to these Operating Guidelines as a whole and not to any particular Article, Section or other subdivision.

“Administration Agreement” means the Administration Agreement between LBDP and Lehman Brothers Inc., dated July 16, 1998, as such agreement may be amended or modified from time to time.

“Affiliate Guarantees” means a guarantee issued by LBDP in respect of the obligations of an affiliate, as contemplated by Section 2.8.

“Affected Party” has the meaning specified in Section 5(b) of the Qualified Counterparty Master Agreement and Offsetting Transaction Master Agreement, as applicable.

“Agency Agreements” means the Agency Agreement between LBDP and Lehman Brothers International (Europe), dated July 16, 1998 and the Agency Agreement to be entered into between LBDP and Lehman Brothers Japan Inc. as promptly as practicable following the closing, in the form of the draft thereof dated July 16, 1998, in each case as amended or modified from time to time, under which each of the LBDP Agents will act as LBDP’s exclusive agent during the time periods and for the geographical territories set forth therein.

“Aggregate Concentration” means, (A) with respect to Moody’s, the sum of the notional amount of all Qualified Transactions based on any Specified Approved Index divided by the sum of the notional amount of all Qualified Transactions in the portfolio and (B) with respect to S&P, the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions based on any Specified Approved Index divided by the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions in the portfolio.

“Approved Currency” means any one or combination of the currencies specified in Exhibit A-1.

“Approved Index” means any one or combination of the indices specified in Exhibit A-2.

“Approved Structure” means (i) Swap Transaction, (ii) Option Transaction or (iii) Compound Transaction.

“Assignment Date” has the meaning specified in Section 4.3.

“Board” or “Board of Directors” means LBDP’s Board of Directors as specified in LBDP’s Amended and Restated Certificate of Incorporation, dated July 16, 1998, as such certificate may be amended or restated from time to time.

“Business Day” means any day other than a Saturday or Sunday on which banks in New York are not required or authorized by law to be closed.

“Capital Requirement” has the meaning set forth in Section 6.2.

“Capital Requirement Calculation Date” means the Business Day following each Capital Requirement Date.

“Capital Requirement Date” means each Tuesday, or if such day is not a Business Day, the next succeeding Business Day; *provided, however*, that on any day on which the Credit Model is required to be run daily pursuant to Section 6.3, the Capital Requirement Date means each Business Day.

“Capital Resources” has the meaning set forth in Section 6.4.

“Cash Capture Amount” means the amount, if greater than zero, equal to the aggregate of the net cashflows payable to LBDP for all Offsetting Transactions for four Business Days as measured from the day of calculation through the next three Business Days.

“Collateral Adjusted Value” means (i) with respect to a security constituting Qualified LBSF Collateral or Qualified Counterparty Collateral, the Collateral Market Value of a security multiplied by the appropriate Collateral Discount Factor, plus accrued interest; and (ii) with respect to cash constituting Qualified LBSF Collateral or Qualified Counterparty Collateral, 100%.

“Collateral Cure Period” means the period commencing when LBDP or the Independent Verifier notifies LBSF of the existence of a Collateral Cure Period and ending on the earlier of (i) the close of business on the second Business Day next succeeding the Collateral Posting Date, or (ii) when LBDP or the Independent Verifier notifies LBSF that the Collateral Cure Period has ceased to be in effect.

“Collateral Custody Agreement” means the Collateral Custody Agreement, dated July 16, 1998, among LBDP, the Custodian and the Surety Bond Provider, as such agreement may be amended or modified from time to time.

“Collateral Deficiency” means the amount, if greater than zero, that is equal to (i) the Collateral Formula Amount if positive, less (ii) the Collateral Adjusted Value of Qualified LBSF Collateral.

“Collateral Discount Factor” means with respect to:

- (i) Qualified LBSF Collateral; (a) 100% for Eligible Cash, (b) the percentage adjustment of the market value of a given type of security with a given remaining maturity, as specified in Exhibit C-2, and (c) any other collateral posted that is approved in writing by S&P and not disapproved by Moody’s within ten days of presentation;
- (ii) Qualified Counterparty Collateral posted by a Qualified Counterparty domiciled in a country specified in Exhibit G-1; (a) 100% for Eligible Cash, and (b) the percentage adjustment of the market value of a given type of security with a given remaining maturity, as specified in Exhibit C-2; and

- (iii) Qualified Counterparty Collateral posted by a Qualified Counterparty domiciled in a country not specified in Exhibit C-1 unless approved in writing by S&P and not disapproved by Moody's within ten days of presentation: 0%.

“Collateral Excess” means the amount, if less than zero (expressed as a positive amount) that is equal to (i) the Collateral Formula Amount if positive, less (ii) the Collateral Adjusted Value of Qualified LBSF Collateral.

“Collateral Formula Amount” means the aggregate of (i) the Net Exposure Amount, (ii) the Valuation Adjustment Amount and (iii) the Cash Capture Amount.

“Collateral Market Value” means the fair market price of a security constituting Qualified LBSF Collateral or Qualified Counterparty Collateral, as applicable.

“Collateral Posting Date” means the Business Day next succeeding each Collateral Valuation Date.

“Collateral Valuation Date” means each Business Day, and refers to the valuations of LBDP's positions at the close of the previous Business Day.

“Compound Transaction” means a structure in which a specified premium or other value is paid in exchange for the right to enter into, terminate, or cash settle a Swap Transaction or an Option Transaction, or any combination thereof, on a specified date or on any date during a specified period. With respect to premium, “specified” means a stated amount or an amount determined according to a schedule.

“Concentration Limit” means any one of the limits for a Specified Approved Index or Indices as specified in Exhibit A-4.

“Counterparty Exposure Reduction Transactions” has the meaning set forth in Section 3.4.

“Credit Model” means the LBDP computer-based model, used to determine one of the components of the Capital Requirement as specified in the Moody's Appendix and the S&P Appendix.

“Credit-Risk Reducing Transaction” means with respect to an existing counterparty, a transaction that when added to such counterparty's existing transactions results in a lower maximum potential exposure.

“Credit Support and Netting Agreement” means the Credit Support and Netting Agreement between LBSF and LBDP, dated July 16, 1998, as such agreement may be amended or modified from time to time.

“Current Intermediation Fee” has the meaning set forth in Section 2.7(ii).

“Custodian” means The Chase Manhattan Bank. A successor may be appointed pursuant to the applicable provisions of these Operating Guidelines, and thereafter the Custodian shall be such successor.

“Custody Agreement” means the Custody Agreement, dated July 16, 1998, between LBDP and the Custodian, as such agreement may be amended or modified from time to time.

“Dealer Group” has the meaning set forth in Section 10.5(c).

“Defaulting Party” has the meaning specified in the Qualified Counterparty Master Agreement and the Offsetting Transaction Master Agreement.

“Deferred Intermediation Fees” means the aggregate of the Prepaid Intermediation Fees received by LBDP from LBSF pursuant to Section 2.7(i) hereunder which have not been recognized as revenue by LBDP as of the date of measurement.

“Early Termination Date” has the meaning specified in Section 10.4(a).

“Eligible Cash” means the legal tender of the United States.

“Eligible Counterparty” means any entity which is a Moody’s Eligible Counterparty and an S&P Eligible Counterparty.

“Eligible Investments” means a United States dollar denominated investment that is one or more of the following types of obligations or securities:

- (i) a direct registered obligation of, and registered obligations the timely payment of principal of and interest on which is fully and expressly guaranteed by, the United States of America or any agency or instrumentality of the United States of America, the obligations of which are expressly backed by the full faith and credit of the United States of America; or
- (ii) the obligation of, or an investment in (as applicable), an entity having a long-term credit rating from Moody’s of Aaa and S&P of AAA in the case of long-term obligations, or a short-term credit rating of P-1 from Moody’s and A-1+ from S&P in the case of short term obligations with a maturity of 365 days or less and:
 - (a) a demand and time deposit in, certificate of deposit of, bankers’ acceptance issued by, or federal funds sold by any depository institution or trust company incorporated under the laws of the United States of America or any State thereof and subject to supervision and examination by federal and/or State banking authorities;

- (b) a repurchase obligation with respect to (A) any security described in clause (i) above or (B) any other security issued or guaranteed by an agency or instrumentality of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause (ii) above or entered into with a corporation acting as principal;
- (c) a registered security bearing interest or sold at a discount issued by any corporation incorporated under the laws of the United States or any State;
- (d) commercial paper with a maturity of less than 180 days or other Short-Term Security;
- (e) a Guaranteed Investment Contract, provided that it is payable upon demand with no breakage costs;
- (f) units of money funds rated “Aaa” by Moody’s and “AAA” or “AAAm” by S&P provided that they are payable upon demand with no breakage costs; or
- (g) any other demand, money market or time deposit, obligation, security or other investment that the Rating Agencies confirm in writing would be acceptable to be included as an Eligible Investment;

provided, however, that Eligible Investments shall not include any interest-only security, any security purchased at a price in excess of 103% of par, any security subject to withholding or similar taxes, or any security whose repayment is subject to substantial non-credit related risk. Eligible Investments may include, without limitation, those investments meeting the above definition which are issued by the Custodian.

“Eligible Investment Discount Factor” means with respect to the above-listed Eligible Investments the percentage adjustment of the market value of a given type of security with a given exposure period, as specified in Exhibit C-3.

“Eligible Non-Assignable Counterparty” means a counterparty specified in Exhibit B-2 not subject to assignment to LBSE, which list may be amended from time to time by LBSE, as approved in writing by S&P or not disapproved by Moody’s within ten Business Days of proposing such changes to Moody’s.

“Executive Committee” means any committee duly authorized by the Board of Directors to act on its behalf as contemplated by Section 14.3.

“Exotic Product” means any of the products listed on Exhibit A-3.

“Guaranteed Investment Contract” means a contract to receive a pre-determined rate of return from an entity rated AAA by S&P and Aaa by Moody’s and is payable to the holder upon demand.

“Holdings” means Lehman Brothers Holdings Inc.

“Independent Director” means a director who is not and has not been within the past 12 months a director, officer, employee or beneficial owner of 10% or more of the stock of any affiliate of LBDP.

“Independent Verification Agreement” means the Independent Verification Agreement, dated July 16, 1998, between LBDP and the Independent Verifier, as such agreement may be amended or modified from time to time.

“Independent Verification Report” has the meaning set forth in Section 9.2.

“Independent Verifier” means, initially, Ernst & Young, until a successor shall have been appointed, and thereafter shall mean and include such successor.

“Index Concentration” means, for each of the Specified Approved Indices, (A) with respect to Moody’s the sum of the notional amount of all Qualified Transactions based on a given Specified Approved Index divided by the sum of the notional amount of all Qualified Transactions in the portfolio and (B) with respect to S&P, the sum of absolute value of the gross negative and the gross positive exposures of all Qualified Transactions based on such Specified Approved Index divided by the sum of the absolute value of the gross negative and the gross positive exposures of all Qualified Transactions in the portfolio.

“Insurance Agreement” has the meaning set forth in Section 7.1.

“Intermediation Agreement” means the Intermediation Agreement, dated July 16, 1998, between LBDP and LBSF, as such agreement may be amended or modified from time to time.

“LBDP” means Lehman Brothers Derivative Products Inc., a corporation organized under the laws of the state of Delaware.

“LBDP Agent” means any Person authorized to bind LBDP with respect to Qualified Transactions as specified in any of the Agency Agreements.

“LBDP Payment Amount” has the meaning set forth in Section 3.3.

“LBDP Specified Amount” has the meaning set forth in Section 3.3.

“LBSF Payment Amount” has the meaning set forth in Section 3.3.

“LBSF Specified Amount” has the meaning set forth in Section 3.3.

“**LBSF**” means Lehman Brothers Special Financing Inc., a corporation organized under the laws of the state of Delaware, or upon expiration or termination of the Intermediation Agreement, such other party or parties for whom LBDP then acts as intermediary pursuant to the then effective intermediation agreement as approved by the Surety Bond Provider.

“**LBSF Collateral**” means the collateral LBSF transfers to the Custodian for the benefit of LBDP pursuant to the LBSF Collateral Agreement.

“**LBSF Collateral Agreement**” means the LBSF Collateral Agreement, dated July 16, 1998, between LBDP and LBSF, as such agreement may be amended or modified from time to time.

“**Long-Form Confirmation**” means the Long-Form Confirmation between LBDP and a Qualified Counterparty, which shall be in the form set forth as an exhibit to the Intermediation Agreement.

“**Market Disruption Event**” means any of the following events, the existence of which shall be determined by LBDP: (i) any suspension or material limitation of trading (excluding daily settlement limits in the normal course of trading) on the New York Stock Exchange, London Stock Exchange or other recognized stock exchange the effect of which on financial markets makes it impracticable or inadvisable, in the view of LBDP, to proceed with the determination of any Termination Amount, (ii) the declaration of a banking moratorium by the Bank of England, United States federal authorities, New York State or other recognized international, national or regional banking authority, the effect of which on financial markets makes it impracticable or inadvisable, in the view of LBDP, to proceed with the determination of any Termination Amount, (iii) the occurrence of any outbreak or escalation of hostilities or a declaration by the United States of a national emergency or war the effect of which on financial markets makes it impracticable or inadvisable, in the view of LBDP, to proceed with the determination of any Termination Amount, or (iv) the occurrence of any other calamity or crisis or any other event the effect of which, in the view of LBDP and a majority of eleven randomly selected unaffiliated Qualified Counterparties who are not affiliates of LBDP whose Termination Amounts otherwise would have been determined on such Early Termination Date, makes it impracticable or inadvisable to proceed with the determination of such Termination Amounts on such Early Termination Date.

“**Market Rates and Volatilities**” has the meaning set forth in Section 10.5(c).

“**Moody’s**” means Moody’s Investors Service Inc.

“**Moody’s Appendix**” refers to the exhibits relating to the calculation of the (i) Valuation Adjustment Amount and (ii) Capital Requirements pursuant to Moody’s, and the Credit Model, which are included as an attachment to these Operating Guidelines.

“**Moody’s Counterparty Rating**” means for each Qualified Counterparty:

- (a) if the Counterparty is rated by Moody's, the highest of the following assigned to such Counterparty:
- (1) the long-term senior unsecured debt rating;
 - (2) the counterparty rating;
 - (3) the long-term deposit-paying rating;
 - (4) the financial strength rating, lowered by one numeric rating modifier; or
- in the event that none of the above-listed rating categories (1) through (4) is available, the commercial paper rating or short-term rating;
- (b) if the Counterparty is subject to a guarantee, the Moody's Counterparty Rating of its guarantor, so long as the guarantee is either:
- (1) substantially in the form of Exhibit B-1; provided that any changes do not materially affect the parties' respective rights and obligations under such guarantee; or
 - (2) another guarantee or form of guarantee which is (a) in a form acceptable to LBDP and (b) not disapproved by Moody's within ten Business Days of presentation of such guarantee to Moody's.
- (c) if the Counterparty is not rated by Moody's and is rated by S&P, at the option of LBDP either (x) (i) one subcategory below the Moody's equivalent of the rating assigned by S&P if such S&P Counterparty Rating is "BBB-" or higher or (ii) two subcategories below the Moody's equivalent of the rating assigned by S&P if such S&P Counterparty Rating is "BB+" or lower or (y) Moody's may perform a credit evaluation of the Counterparty and assign a Moody's Counterparty Rating at Moody's discretion of "Aaa," "Aa3," "A3," "Baa3" or unrated;
- (d) if neither (a) nor (b) of the above-listed Moody's Counterparty Rating categories is available nor is the Counterparty rated by S&P, Moody's may perform a credit evaluation of the Counterparty and assign a Moody's Counterparty Rating at Moody's discretion of "Aaa," "Aa3," "A3," "Baa3" or unrated.

"Moody's Eligible Counterparty" means any Counterparty whose (a) Moody's Counterparty Rating is equal to or greater than Baa3; or (b) in the event that (a) is not available, commercial paper rating or short-term rating is equal to or greater than P-3 by Moody's.

"Moody's Valuation Adjustment Amount" means the amount calculated as specified in Exhibit M-1 of the Moody's Appendix.

“Net Exposure Amount” means the positive or negative amount equal to LBDP’s net exposure to LBSF based on mid-market valuation of all transactions under the Offsetting Transaction Master Agreement.

“Non-Defaulting Party” has the meaning specified in Section 6(a) the Offsetting Transaction Master Agreement.

“Non-rated Counterparty” means any entity that does not fall within the definition of a Moody’s Counterparty Rating or an S&P Counterparty Rating.

“Notice Date” has the meaning specified in Section 10.4(a).

“Offsetting Transaction” means a transaction consisting of an Approved Structure between LBDP and LBSF, pursuant to the Offsetting Transaction Master Agreement.

“Offsetting Transaction Master Agreement” means the Offsetting Transaction Master Agreement, dated July 16, 1998, between LBDP and LBSF, as such agreement may be amended or modified from time to time.

“Operating Agreements” means the Administration Agreement, Agency Agreements, Custody Agreement, Collateral Custody Agreement, Independent Verification Agreement, Intermediation Agreement, LBSF Collateral Agreement, Offsetting Transaction Master Agreement, Qualified Counterparty Collateral Agreement, Qualified Counterparty Master Agreement, Credit Support and Netting Agreement, and the Subordinated Loan Facility Agreement.

“Operating Guidelines” means this document as originally approved by the Board of Directors, as it may be amended or modified from time to time.

“Operating Procedures” means LBDP’s Operating Procedures as originally approved by the Board of Directors as such document may be amended or modified from time to time.

“Option Transaction” means an option in which a specified premium or other value is paid for the right to receive one of or any combination of specified payments denominated in an Approved Currency, determined by reference to the level of an Approved Index and/or an Approved Currency above or below a specified level on a specified date, dates or on any date during a specified period, as applied to a specified notional amount. With respect to premium, payment and notional amount, “specified” means a stated amount or an amount determined according to a formula or schedule.

“Person” means any corporation, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated organization or government or any agency or political subdivision thereof.

“Prepaid Intermediation Fees” shall have the meaning set forth in Section 2.7(i).

“Qualified Counterparty” means a counterparty meeting the requirements set forth in Section 2.4 who is introduced to LBDP by LBSF and with respect to whom LBSF requests that LBDP enter into a Qualified Transaction.

“Qualified Counterparty Collateral” means (i) Eligible Cash, (ii) U.S. Government Security, (iii) debt issued by an agency or an instrumentality of the U.S. Government rated AAA by S&P and Aaa by Moody’s, or (iv) Short-Term Security, pledged by a Qualified Counterparty.

“Qualified Counterparty Collateral Agreement” means each of the collateral agreements between LBDP and a Qualified Counterparty, as any such agreement may be amended or modified from time to time.

“Qualified Counterparty Master Agreement” means the Qualified Counterparty Master Agreement between LBDP and a Qualified Counterparty, which shall be in the forms set forth as exhibits to the Intermediation Agreement (including forms of ISDA, Rahmenvertrag, LanderRahmenvertrag and AFB agreements), or such other forms which are approved by S&P and not disapproved by Moody’s within ten Business Days of presentation of such forms to Moody’s.

“Qualified Credit Enhancement” means a form of credit enhancement (including a Qualified Surety Bond) which is approved in writing by S&P, and not disapproved by Moody’s within ten Business Days of presentation to Moody’s, to be included in Capital Resources. For the avoidance of doubt, Specified Credit Support does not constitute Qualified Credit Enhancement.

“Qualified Environment” has the meaning set forth in Section 2.3.

“Qualified LBSF Collateral” means (i) Eligible Cash, (ii) U.S. Government Security, (iii) debt issued by an agency or an instrumentality of the U.S. Government that is rated “AAA” by S&P and “Aaa” by Moody’s, (iv) Short-Term Security, pledged by LBSF, that is (A) either rated P-1 by Moody’s or not disapproved by Moody’s within ten Business Days of notification to Moody’s requesting approval of such entity and (B) is either rated at least A-1+ by S&P or approved by S&P in writing.

“Qualified Surety Bond” means a surety bond or insurance policy issued to LBDP by an issuer whose claims paying rating is “AAA” by S&P and “Aaa” by Moody’s. The Qualified Surety Bond must be in a form approved in writing by S&P and not disapproved by Moody’s within ten Business Days of presentation of the form to Moody’s.

“Qualified Transaction” means a transaction consisting of an Approved Structure between LBDP and a Qualified Counterparty, or such other transactions which are approved by S&P and reviewed by Moody’s from time to time.

“Rating Agencies” means S&P and Moody’s.

“S&P” means Standard & Poor’s Rating Group, a division of The McGraw-Hill Companies, Inc.

“**S&P Appendix**” refers to the exhibits relating to (i) the calculation of the (A) Valuation Adjustment Amount and (B) Capital Requirements as evaluated by S&P and (ii) the Credit Model, as evaluated by S&P, which are included as an attachment to these Operating Guidelines.

“**S&P Counterparty Rating**” means for each Qualified Counterparty:

- (a) if the Counterparty is rated by S&P, the highest of the following assigned to such Counterparty:
 - (1) the long-term senior unsecured debt rating;
 - (2) the counterparty rating;
 - (3) the financial program rating;
 - (4) the certificate of deposit rating;
 - (5) the financial strength rating, lowered by one rating modifier; or

in the event that none of the above-listed rating categories (1) through (5) is available, the commercial paper rating or short-term rating;
- (b) if the Counterparty is subject to a guarantee, the S&P Counterparty Rating of its guarantor, so long as the guarantee is either:
 - (1) substantially in the form of Exhibit B-1; provided that any changes do not materially affect the parties’ respective rights and obligations under such guarantee; or
 - (2) another guarantee or form of guarantee which is (a) in a form acceptable to LBDP and (b) approved in writing by S&P.
- (c) if the Counterparty is not rated by S&P and is rated by Moody’s, (i) with the consent of S&P, one subcategory below the S&P equivalent of the rating assigned by Moody’s however, if the notional amount of LBDP transactions with such Counterparties exceeds 7% of the total LBDP portfolio notional amount, such Counterparties will be treated as Non-rated Counterparties only in excess of the 7% notional amount; or (ii) LBDP may request S&P to perform a credit evaluation of the Counterparty and, if approved, assign an S&P Counterparty Rating of “A”. LBDP has the option to apply (i) or (ii).

“**S&P Eligible Counterparty**” means any Counterparty whose (a) S&P Counterparty Rating is equal to or greater than BBB-; (b) financial strength rating is equal to or greater than BBB by S&P; or (b) in the event that (a) is not available, commercial paper rating or short-term rating is equal to or greater than A-2 by S&P.

“S&P Valuation Adjustment Amount” means the amount calculated as specified in Exhibit S-1 of the S&P Appendix.

“Secondary Capital Requirement” means the greater of the Moody’s Secondary Capital Requirement and the S&P Secondary Capital Requirement, as defined in the Moody’s Appendix and S&P Appendix, respectively.

“Secondary Capital Resources” has the meaning set forth in Section 7.4.

“Short-Term Security” means a bankers’ acceptance, certificate of deposit, commercial paper, demand or time deposit, eurodollar deposit, or next day federal funds issued or sold by a depository institution or trust company (A) either (i) rated P-1 by Moody’s or (ii) not disapproved by Moody’s within ten Business Days of notification to Moody’s requesting approval of such entity and (B) either (i) rated at least A-1+ by S&P or (ii) approved by S&P in writing; provided, however, that no obligations of Lehman Brothers or any of its affiliates shall constitute a Short-Term Security.

“Specified Approved Index” means any one of the indices specified in Exhibit A-2.

“Specified Counterparty” has the meaning set forth in Section 3.3.

“Specified Credit Support” has the meaning set forth in Section 3.3.

“Subordinated Loan Facility Agreement” means the Subordinated Loan Facility Agreement, dated July 16, 1998, between LBDP and Lehman Brothers Inc.

“Surety Bond Provider” means Ambac Assurance Corporation (“Ambac”), or upon expiration or termination of the Qualified Surety Bond provided by Ambac, such other party or parties providing credit enhancement to LBDP in the form of a Qualified Surety Bond.

“Swap Transaction” means a swap in which one or any combination of specified payments are made or exchanged which are denominated in an Approved Currency and determined by reference to the level of an Approved Index on a specified date or dates, as applied to a specified notional amount. With respect to payment and notional amount, “specified” means a stated amount or an amount determined according to a formula or schedule.

“Termination Account” means a segregated bank account maintained by the Custodian on behalf of LBDP which, upon the occurrence of a Trigger Event, will hold certain proceeds and payments as contemplated by Section 10.9.

“Termination Amount” means the amount payable in accordance with the provisions of Section 6(e) of the Qualified Transaction Master Agreement, or the Offsetting Transaction Master Agreement, as the case may be.

“Termination Event” has the meaning specified in Section 5(b) of the Qualified Counterparty Master Agreement or Offsetting Transaction Master Agreement, as applicable.

“**Termination Period**” means the period following a Trigger Event.

“**Trigger Event**” has the meaning set forth in Section 10.1.

“**Universal Business Day**” means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in Frankfurt, London, New York and Tokyo, and, in addition, solely with respect to the designation of an Early Termination Date and the payment date in respect thereof for each Qualified Counterparty if a Trigger Event occurs, the city in which such Qualified Counterparty’s head or home office is located. For the avoidance of doubt, the additional city which may be so taken into consideration with respect to a Qualified Counterparty is not cumulative with respect to all Qualified Counterparties.

“**U.S. Government Security**” means any security issued by the U.S. Government.

“**Valuation Adjustment Amount**” means the Moody’s Valuation Adjustment Amount or the S&P Valuation Adjustment Amount, as applicable.

“**Zero Exposure Transaction**” means an Option Transaction in which a counterparty pays LBDP a specified up-front premium or other value for the right to receive from LBDP one of or any combination of specified payments denominated in an Approved Currency, determined by reference to the level of an Approved Index and/or an Approved Currency above or below a specified level on a specified date, dates or on any date during a specified period, as applied to a specified notional amount. With respect to premium, payment and notional, “specified” means a stated amount or an amount determined according to a formula or schedule.

SECTION 1.2 *Conflict with Operating Agreements.* If any provision hereof limits, qualifies or conflicts with any provisions of the Operating Agreements, the Operating Agreements shall control.

SECTION 1.3 *Effect of the Heading and Table of Contents.* The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 1.4 *Separability Clause.* In case any provision in these Operating Guidelines shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 1.5 *Benefits of Operating Guidelines.* Nothing in these Operating Guidelines, express or implied, shall give to any Person any benefit or legal or equitable right, remedy or claim.

ARTICLE TWO

Qualified Transactions; Qualified Environment; Qualified Counterparties; Offsetting Transactions; Intermediation Fees

SECTION 2.1 *Qualified Transactions.* Pursuant to the Intermediation Agreement, LBSF may request that LBDP intermediate a Qualified Transaction. If so requested, and if a Qualified Environment exists, LBDP may enter into such Qualified Transaction.

SECTION 2.2 *Action of LBDP Agents.* Pursuant to the Intermediation Agreement and any Agency Agreements, only LBDP employees and LBDP Agents have the ability to bind LBDP with respect to Qualified Transactions and Offsetting Transactions.

Pursuant to any Agency Agreement, in the event that an LBDP Agent is deemed to have bound LBDP with respect to a transaction for which a Qualified Environment is not deemed to have existed, the LBDP Agent shall be required to compensate LBDP for the costs, if any, suffered by LBDP.

SECTION 2.3 *Qualified Environment.* LBDP may enter into a Qualified Transaction only if a Qualified Environment exists. A Qualified Environment is deemed to exist with respect to a proposed transaction if at the time the transaction is entered into:

- (i) the Intermediation Agreement is in effect;
- (ii) Capital Resources are in excess of the Capital Requirement;
- (iii) a Collateral Cure Period is not in existence, unless the transaction is designed to reduce the Collateral Formula Amount, if positive.
- (iv) the proposed counterparty to such transaction is a Qualified Counterparty;
- (v) the status of any documentation with such Qualified Counterparty is in compliance with LBDP's documentation policy as specified in Article Twelve herein;
- (vi) the proposed transaction is a Qualified Transaction;
- (vii) if such proposed transaction involves a Specified Approved Index, (a) the Index Concentration is not in excess of the applicable Concentration Limit for such Specified Approved Index, or with respect to a proposed off-market transaction, the Index Concentration would not exceed the applicable Concentration Limit for such Specified Approved Index with the inclusion of such proposed off-market transaction, and (b) the Aggregate Concentration is not in excess of the Concentration Limit for the Aggregate Specified Approved Indices, or with respect to a proposed off-market transaction, the Aggregate Concentration would not exceed the applicable Concentration Limit for the Aggregate Specified Approved Indices with the inclusion of such proposed off-market transaction; and
- (viii) the tenor does not exceed the maximum permitted tenor specified in Exhibit A-3.

provided, however, that if the proposed transaction is (A) a Credit-Risk Reducing Transaction, the conditions specified in subsections (ii), (iii) and (v) do not need to be in existence in order for a Qualified Environment to exist, or (B) a Zero Exposure Transaction, the condition specified in subsection (v) does not need to be in existence in order for a Qualified Environment to exist; in each case as long as the events which have caused such condition(s) not to be met have not resulted in the occurrence of a Trigger Event.

SECTION 2.4 *Qualified Counterparties.* Qualified Counterparties include S&P Eligible Counterparties, Moody's Eligible Counterparties and any other counterparties which do not fulfill the requirements of S&P Eligible Counterparties or Moody's Eligible Counterparties.

SECTION 2.5 *Offsetting Transactions.* If LBDP enters into a Qualified Transaction, LBDP will simultaneously enter into an Offsetting Transaction with LBSF.

Upon the termination, whether by default, mutual agreement, assignment (whether to a third party or to LBSF), or any other means, of an existing Qualified Transaction, LBDP shall have the right to and shall simultaneously terminate the corresponding Offsetting Transaction.

SECTION 2.6 *Unwinding of Transactions.* If it is determined that LBDP entered into a transaction and a Qualified Environment did not exist with respect to such transaction, LBDP is required to unwind such transaction and the corresponding Offsetting Transaction immediately.

Exposures relative to non-qualifying transactions will be included in the Capital Requirement formula at an exposure rate of 100% under the Credit Model.

SECTION 2.7 *Intermediation Fees.* As compensation for its services, LBDP shall receive an intermediation fee from LBSF for all Qualified Transactions. Such intermediation fees may be paid to LBDP by LBSF:

- (i) upfront (a "Prepaid Intermediation Fee"), in which case LBDP shall receive an intermediation fee in an amount calculated as the present value of three basis points *per annum* multiplied by the notional amount of the corresponding outstanding Offsetting Transaction entered into with LBSF. Prepaid Intermediation Fees will be paid on the second Business Day following the trade date of the Offsetting Transaction, and accrued to income over the life of the Offsetting Transaction, subject to a grace period of five Business Days. In the event of an early termination of an Offsetting Transaction, any Prepaid Intermediation Fee which has not yet been accrued to income will be retained by LBDP and credited to income; and
- (ii) on a current basis (a "Current Intermediation Fee") in an amount calculated as three basis points *per annum* multiplied by the outstanding notional amount of the portfolio of Offsetting Transactions entered into with LBSF excluding the notional amounts of any transactions for which LBSF has received Prepaid Intermediation Fees. The Current Intermediation Fee will be paid quarterly on the first day of March, June, September and December, or if such date is not a Business Day, on the next succeeding Business Day, subject

to a grace period of five Business Days. In the event of an early termination of an Offsetting Transaction, any Current Intermediation Fee which has not yet been accrued to income will be retained by LBDP and credited to income.

The determination of whether intermediation fees shall be paid on a current basis or upfront shall be made by LBSF. LBSF may determine at any time whether to prepay in full the remaining intermediation fees due relating to specified transactions which were previously being paid for by LBSF on a current basis, provided that to the extent such election is made for specified transactions, such prepayment shall be non-refundable to LBSF. The amount of intermediation fees may be changed with the consent of both LBSF and LBDP.

SECTION 2.8 *Affiliate Guarantees.* LBDP may from time to time and at the sole discretion of LBDP, guarantee the obligations of certain LBDP affiliates to third parties in connection with certain transactions. Any such guarantee shall be issued individually for specific transactions. LBDP may only issue such a guarantee if the proposed guarantee transaction is in respect of such affiliate's obligations under a Qualifying Transaction. The criteria for Qualifying Transactions, the effect of such transactions in the calculation of LBDP's Capital Requirement, and the forms of such guarantees must be approved in writing by S&P, Moody's and the Surety Bond Provider prior to the issuance of any such guarantee.

ARTICLE THREE

Counterparty Exposures and Collateral

SECTION 3.1 *Qualified Counterparties.* Any counterparty shall be required, at the time of entering into a Qualified Transaction with LBDP, to be a Qualified Counterparty.

SECTION 3.2 *Qualified Counterparty Collateral Agreements.* LBDP may from time to time enter into collateral agreements with Qualified Counterparties. Collateral pledged by a Qualified Counterparty shall only offset LBDP's exposure to such Qualified Counterparty to the extent that such collateral constitutes Qualified Counterparty Collateral. LBDP shall use its best efforts to ensure that all its rights to receive collateral under such collateral agreements are fully realized. To the extent that LBDP has the right to rehypothecate such collateral, LBDP will be permitted to rehypothecate such collateral. LBDP shall, prior to reflecting the benefit to LBDP of Qualified Counterparty Collateral in the Credit Model, obtain an opinion of counsel with respect to the perfection and priority of LBDP's security interest in such collateral. Such opinion need not refer to any specific Qualified Counterparty by name, unless requested by a Rating Agency.

SECTION 3.3 *Credit Support and Netting Agreement.* (a) Pursuant to the Credit Support and Netting Agreement, LBSF is obligated to pay to LBDP an amount (the "LBSF Payment Amount") equal to the aggregate amount, if any, which Qualified Counterparties are obliged to pay to LBDP upon the occurrence of a Trigger Event which has not been received by LBDP within five Universal Business Days following the applicable Early Termination Date(s) as contemplated by Section 10.6(a) (net of any

applicable Qualified Counterparty Collateral and any applicable LBDP Specified Amounts referred to in Section 3.3(b) below). LBDP's obligation to pay to LBSF an amount equal to the excess of LBSF Collateral over the obligation of LBSF to LBDP under the Offsetting Transaction Master Agreement (the "LBDP Payment Amount") will be net and set off against LBSF's obligation to pay the LBSF Payment Amount. To the extent that the LBDP Payment Amount exceeds the LBSF Payment Amount, LBDP shall pay such net excess to LBSF. LBSF's obligation to LBDP in respect of the LBSF Payment Amount is recourse solely to the LBDP Payment Amount. Accordingly, to the extent that the LBSF Payment Amount exceeds the LBDP Payment Amount, LBSF shall not be obligated to pay such net excess to LBDP.

(b) LBSF may from time to time agree to provide an undertaking and credit support with respect to certain Qualified Counterparties. Whenever LBSF and LBDP so agree with respect to a specific Qualified Counterparty (each, a "Specified Counterparty") (i) LBSF shall have an obligation to pay to LBDP an amount equal to the payment due to LBDP by such Specified Counterparty upon the occurrence of a Trigger Event which is not paid when due (the "LBSF Specified Amount"), (ii) LBSF shall transfer to the Custodian such credit support in respect thereof as LBSF and LBDP may agree (the "Specified Credit Support"), (iii) LBDP shall have an obligation to pay to LBSF an amount equal to such Credit Support (the "LBDP Specified Amount"), and (iv) the LBDP Specified Amount shall be net and set off against the LBSF Specified Amount. To the extent that the LBDP Specified Amount exceeds the LBSF Specified Amount, LBDP shall pay such net excess to LBSF. LBSF's obligation to LBDP in respect of the LBSF Specified Amount is recourse solely to the LBDP Specified Amount. Accordingly, to the extent that the LBSF Specified Amount exceeds the LBDP Specified Amount, LBSF shall not be obligated to pay such net excess to LBDP.

SECTION 3.4 *Use of Counterparty Exposure Reduction Transactions.* LBDP may from time to time enter into insurance arrangements or credit derivative transactions with LBSF or other issuers of credit derivatives that are not affiliated with LBDP, which transactions are designed to reduce LBDP's exposure to a counterparty (a "Counterparty Exposure Reduction Transaction"). The criteria for such Counterparty Exposure Reduction Transactions and the effect of such transactions in the calculation of LBDP's Capital Requirement must be approved in writing by S&P, Moody's and the Surety Bond Provider prior to LBDP entering into any such transaction.

ARTICLE FOUR

Counterparty Credit Events; Automatic Assignment

SECTION 4.1 *Termination Pursuant to Qualified Counterparty Master Agreement.* LBDP may from time to time include in its master agreements with Qualified Counterparties, a provision which permits one or both parties to terminate the agreement in the event of a ratings downgrade of the other party. LBDP shall use its best efforts to exercise its right to terminate under such agreements as soon as practicable following the downgrade of a Qualified Counterparty to which LBDP has a positive exposure.

SECTION 4.2 Counterparty Credit Events. In the event that a previously Eligible Counterparty is no longer an Eligible Counterparty, LBDP shall attempt, on a best efforts basis, to terminate or assign, at no net cost to LBDP, all of the transactions with such previously Eligible Counterparty; provided, however, that if LBDP's master agreements with such previously Eligible Counterparty include a termination provision as contemplated by Section 4.1, LBDP shall use its best efforts to exercise its right to terminate under such agreements as soon as practicable following the downgrade of a Qualified Counterparty to which LBDP has a positive exposure. If LBDP is unable to so terminate or assign such transactions within three Business Days after the downgrade causing such Counterparty to cease being an Eligible Counterparty, and such transactions are assignable to LBSF pursuant to Section 4.3 below, then LBDP shall exercise its right to assign such transaction to LBSF pursuant to Section 4.3. To the extent that any such transaction was, at its inception, not assignable, and does not fit any of the exceptions contained in Section 4.4, then the exposure relative to such transaction will be included in the Capital Requirement formula at an exposure rate of 100% under the Credit Model.

SECTION 4.3 Automatic Assignment. Except as provided in Section 4.4 below, pursuant to the Intermediation Agreement, in the event that an Eligible Counterparty is downgraded below the applicable threshold such that the counterparty is no longer an Eligible Counterparty, LBDP shall immediately notify LBSF and such counterparty that LBDP is exercising its right to assign all of the transactions with such counterparty to LBSF. Such assignments shall be made and shall be effective on the third Business Day following such notification by LBDP of such assignment to such counterparty and LBSF (the "Assignment Date").

SECTION 4.4 Exceptions to Automatic Assignment. Notwithstanding the foregoing, such automatic assignment of a transaction to LBSF shall not occur if:

- (i) the counterparty was previously an Eligible Non-Assignable Counterparty;
- (ii) the counterparty was not a Moody's Eligible Counterparty or an S&P Eligible Counterparty immediately prior to entering into transactions with LBDP;
- (iii) the counterparty is a counterparty only to Zero Exposure Transactions; or
- (iv) prior to the Assignment Date the counterparty subject to assignment notifies LBDP (which in turn shall notify LBSF) that such counterparty agrees to either:
 - (a) terminate, on or prior to the Assignment Date, its transactions with LBDP on a full two-way payment basis as though a Termination Event had occurred and such counterparty was the Affected Party; or
 - (b) assign, on or prior to the Assignment Date, its existing transactions with LBDP to a third party on terms acceptable to such counterparty, LBDP and LBSF. Any termination or assignment of transactions pursuant to this subparagraph shall be executed on terms that result in no net cost to LBDP when combined with the termination of the corresponding Offsetting Transaction.

SECTION 4.5 *Termination of Right of Automatic Assignment.* LBDP's right of automatic assignment shall terminate upon the occurrence of a Trigger Event.

ARTICLE FIVE

Collateral

SECTION 5.1 *Pledge of LBSF Collateral; LBSF Collateral Agreement.*

(a) Pursuant to the LBSF Collateral Agreement, LBSF is required to transfer to the Custodian for the benefit of LBDP Qualified LBSF Collateral in an amount not less than the Collateral Formula Amount if positive as security for its obligations under the Offsetting Transaction Master Agreement.

(b) If the Collateral Formula Amount is negative, LBDP shall, pursuant to the LBSF Collateral Agreement, transfer collateral to LBSF in an amount up to such negative Collateral Formula Amount (expressed as a positive number) if and to the extent LBDP has available Qualified Counterparty Collateral which LBDP is permitted to rehypothecate to LBSF.

SECTION 5.2 *Two-Way Collateral Agreements.* LBDP, may at its own discretion and from time to time, enter into two-way collateral agreements with a limited number of Qualified Counterparties which allow such counterparties to post collateral to the other party when exposure reaches or exceeds a specified threshold. The threshold levels may vary among counterparties and transactions. The amount of collateral to be posted to or by counterparties with whom two-way collateral agreements are in place is calculated daily based on the counterparty's mark-to-market and the threshold for the collateral. The amount of collateral is netted against the amount of collateral required to be posted to LBDP by such counterparties. For purposes of calculations under the Credit Model, cashflows posted to or by LBDP under this Section 5.2 are included in the net sum of total collateral. LBDP will not enter into any such two-way collateral agreements with any of its affiliates, except with respect to LBSF as described in Section 5.1(b).

SECTION 5.3 *Determination of Collateral Formula Amount and Collateral Adjusted Value of Qualified LBSF Collateral.* Pursuant to the LBSF Collateral Agreement, by 12:30 p.m. (New York time) on each Collateral Valuation Date, LBDP shall determine, in each case as of the close of the previous Business Day, and shall notify LBSF of (i) the Collateral Formula Amount, (ii) the aggregate Collateral Adjusted Value of Qualified LBSF Collateral, and (iii) the Collateral Excess, if any, or the Collateral Deficiency, if any.

SECTION 5.4 *Collateral Excess.* Pursuant to the LBSF Collateral Agreement, if there is a Collateral Excess, LBDP shall direct the Custodian to release to LBSF an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value not greater than such Collateral Excess. If a request for the release of collateral is given by LBSF prior to 1:00 p.m. (New York time) on any Business Day, then delivery shall be made prior to the close of the Federal Funds wire in New York, New York (New York time), on the next succeeding Business Day. If the request is given after 1:00

p.m., then delivery shall be made prior to the close of the Federal Funds wire on the second succeeding Business Day.

SECTION 5.5 *Collateral Deficiency.* Pursuant to the LBSF Collateral Agreement, if there is a Collateral Deficiency, LBSF shall deliver to the Custodian, by the close of business on the Collateral Posting Date, an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value not less than such Collateral Deficiency.

SECTION 5.6 *Commencement of Collateral Cure Period.* Pursuant to the LBSF Collateral Agreement, unless an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is received by the Custodian by 9:00 a.m. (New York time) on the Business Day next succeeding the Collateral Posting Date, a Collateral Cure Period shall commence. LBDP shall immediately notify LBSF of the existence of a Collateral Cure Period.

SECTION 5.7 *Ending of Collateral Cure Period.* Pursuant to the LBSF Collateral Agreement, if an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is received by the Custodian by the close of business on the second Business Day next succeeding the Collateral Posting Date, the Collateral Cure Period shall be deemed to have ended upon receipt of such Qualified LBSF Collateral. If the foregoing condition is met, LBDP shall immediately notify LBSF that the Collateral Cure Period is no longer in effect.

SECTION 5.8 *Review by Independent Verifier.* Pursuant to the Independent Verification Agreement, the Independent Verifier will review the LBSF Collateral as part of the Independent Verifier's Independent Verification Report. The Independent Verifier will independently review, on a periodic basis, the accuracy of LBDP's calculation of the Collateral Adjusted Value of Qualified LBSF Collateral and the Collateral Formula Amount. If the Independent Verifier determines that a Collateral Deficiency exists, the Independent Verification Report will state the amount of the Collateral Deficiency and the existence and date of expiration of a Collateral Cure Period. The Independent Verification Report will be prepared as frequently as is required by the Rating Agencies, but no less frequently than monthly. Until otherwise agreed by S&P, the Independent Verification Report will be prepared weekly.

SECTION 5.9 *Occurrence of a Trigger Event due to Collateral Deficiency.* If an amount of Qualified LBSF Collateral with an aggregate Collateral Adjusted Value equal to or greater than such Collateral Deficiency is not received by the Custodian by the close of business on the second Business Day next succeeding the Collateral Posting Date, a Trigger Event shall be deemed to have occurred, and the provisions of Article Ten shall apply.

ARTICLE SIX

Capital

SECTION 6.1 *Maintenance of Adequate Capital.* On each Capital Requirement Calculation Date, LBDP shall determine LBDP's Capital Resources and Capital Requirement as of the related Capital Requirement Date. LBDP shall at all times maintain Capital Resources at least equal to the Capital Requirement for the immediately preceding Capital Requirement Date.

SECTION 6.2 *Capital Requirement.* LBDP's "Capital Requirement" shall mean the amount calculated under Exhibits M-2 and S-2 of the Moody's Appendix and S&P Appendix, respectively.

SECTION 6.3 *Credit Model.* In determining the Capital Requirement, LBDP shall run the Credit Models (Moody's and S&P versions) weekly based on then-current market conditions and LBDP's then-current portfolio; provided however that LBDP shall run the Credit Model daily in the event that:

- (i) the Capital Requirement is greater than 90% of LBDP's Capital Resources;
- (ii) the rating of LBDP is lower than Aaa by Moody's or AAA by S&P, or
- (iii) the short-term rating of Holdings is lower than P-2 by Moody's or A-2 by S&P.

SECTION 6.4 *Capital Resources.* LBDP's "Capital Resources" shall mean the amount calculated under Exhibits M-2 and S-2 of the Moody's Appendix and S&P Appendix, respectively.

SECTION 6.5 *Capital Deficiency and Cure.* In the event LBDP's Capital Resources are less than the Capital Requirement, LBDP shall (i) immediately notify the Rating Agencies, the Independent Verifier, the Board of Directors and the provider of any Qualified Credit Enhancement of such Capital Resource deficiency (as well as any subsequent cure) and (ii) be prohibited from entering into any new transactions except Credit Risk-Reducing Transactions and Zero Exposure Transactions.

A Capital Resource deficiency may be cured at any time within two Business Days, and if cured, LBDP is no longer restricted from entering into new transactions. A Capital Resource deficiency is deemed cured if LBDP runs the Credit Model during such cure period and it is determined that LBDP's Capital Resources are at least equal to the then current Capital Requirement. In the event that such Capital Resource deficiency is not cured within the two Business Day cure period, a Trigger Event shall be deemed to have occurred, and the provisions of Article Ten shall apply.

ARTICLE SEVEN

Surety Bond

SECTION 7.1 *Qualified Surety Bond; Insurance Agreement.* In connection with a Qualified Surety Bond, LBDP will enter into an Insurance Agreement with the issuer of such Qualified Surety Bond (the “Insurance Agreement”). If such Insurance Agreement should ever be terminated or not be renewed upon expiration for any reason, LBDP shall immediately notify the Rating Agencies and the Independent Verifier.

SECTION 7.2 *Maintenance of Adequate Secondary Capital.* Pursuant to the Insurance Agreement, LBDP shall at all times maintain Secondary Capital Resources at least equal to the Secondary Capital Requirement for the immediately preceding Capital Requirement Date. On each Capital Requirement Calculation Date, LBDP shall determine LBDP’s Secondary Capital Resources and Secondary Capital Requirement as of the related Capital Requirement Date.

SECTION 7.3 *Secondary Capital Requirement.* LBDP’s Secondary Capital Requirement at any time shall be the greater of Moody’s Secondary Capital Requirement or S&P’s Secondary Capital Requirement.

SECTION 7.4 *Secondary Capital Resources.* LBDP’s “Secondary Capital Resources” at any time are equal to the sum of:

- (i) LBDP’s Stockholder’s Equity (Capital Stock, Additional Paid-In Capital, and Retained Earnings) as reported on its balance sheet for the month-end immediately preceding the relevant Capital Requirement Date;
- (ii) the balance of LBDP’s Deferred Intermediation Fees, if any, outstanding on the Capital Requirement Date, reduced for income taxes at the combined federal, state and local tax rates in effect for LBDP as of the month-end immediately preceding the relevant Capital Requirement Date;
- (iii) the amount of any debt or preferred stock issued by LBDP which is subordinated to counterparty claims upon the occurrence of a Trigger Event;

SECTION 7.5 *Secondary Capital Deficiency and Cure.* In the event that LBDP’s Secondary Capital Resources are less than the Secondary Capital Requirement, LBDP shall immediately notify the Rating Agencies and the provider of any Qualified Credit Enhancement of such Secondary Capital Resources deficiency (as well as any subsequent cure).

ARTICLE EIGHT

The Custodian

SECTION 8.1 *Retention of Custodian.* LBDP shall be required to retain a Custodian pursuant to the Custody Agreement.

SECTION 8.2 *Ratings Requirement.* The Custodian and any sub-custodian shall be required, at the time of entering into such agreement with LBDP, to have a short-term rating of at least P-1 by Moody's and A-1 by S&P. If the short-term rating of the Custodian falls below P-1 by Moody's or A-1 by S&P, LBDP shall be required to replace the existing Custodian with a new qualified Custodian as soon as practicable within 90 Business Days, unless the Custodian provides credit enhancement acceptable to the Rating Agencies and LBDP prior to the end of such period.

SECTION 8.3 *Holding of Securities and Collateral.* All securities held by the Custodian on behalf of LBDP shall be held in a segregated account. All Qualified LBSF Collateral and Qualified Counterparty Collateral shall be held by the Custodian (or the sub-custodian, if any) in New York.

SECTION 8.4 *Collateral Custody Agreement.* Pursuant to the Collateral Custody Agreement, LBDP will pledge, for the benefit of Qualified Counterparties and LBSF to the extent they are owed Termination Payments following the occurrence of a Trigger Event, all of LBDP's rights under and with respect to all Qualified Counterparty Master Agreements and the Offsetting Transaction Master Agreement.

ARTICLE NINE

The Independent Verifier

SECTION 9.1 *Retention of Independent Verifier.* LBDP shall be required at all times to retain an Independent Verifier. Pursuant to the Independent Verification Agreement, the Independent Verifier shall be a recognized accounting firm with significant experience in derivative product matters.

SECTION 9.2 *Responsibilities of Independent Verifier.* (a) Pursuant to the Independent Verification Agreement, the Independent Verifier shall, on a periodic basis, perform the agreed-upon procedures set forth in Exhibit A of the Independent Verification Agreement and report its findings (the "Independent Verification Report") to LBDP's Board of Directors with a copy sent to the Rating Agencies, the Surety Bond provider and the provider of any Qualified Credit Enhancement.

(b) Upon becoming aware of the occurrence of a Trigger Event, the Independent Verifier shall immediately notify LBDP's Board of Directors, LBSF, the Rating Agencies, and the provider of any Qualified Credit Enhancement.

SECTION 9.3 LBDP Cooperation. LBDP shall cooperate fully with the Independent Verifier in order to facilitate the fulfillment of the Independent Verifier's responsibilities.

ARTICLE TEN

Trigger Events; Effect of Trigger Event

SECTION 10.1 Trigger Events. A Trigger Event shall be deemed to have occurred if any of the following events occurs:

- (i) Downgrade. LBDP ceases to maintain a single A financial program, counterparty or similar rating from both of the Rating Agencies;
- (ii) Failure to Deliver Collateral. LBSF shall fail to deliver, or procure delivery of, Qualified LBSF Collateral to the Custodian for the benefit of LBDP in the amounts and within the time required by the LBSF Collateral Agreement;
- (iii) Capital Requirement. LBDP shall fail to maintain the Capital Requirement, subject to the cure period specified in Section 6.5; or
- (iv) Bankruptcy. Holdings or LBSF: (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (A) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (B) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (h) causes or is subject to any event with respect to it which, under

the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) through (g) (inclusive); or (i) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

SECTION 10.2 *Notifications.* On the day that a Trigger Event occurs (or if such day is not a Business Day, on the first Business Day thereafter), LBDP shall be required to notify LBDP's Board of Directors, the Independent Verifier, LBSF, the Rating Agencies and the provider of any Qualified Credit Enhancement that a Trigger Event has occurred. On the following Business Day, LBDP shall be required to make an announcement over Reuters and Telerate information wires that specifies the nature of the Trigger Event and designates the Early Termination Date. In addition, as promptly after the Notice Date as practicable, LBDP shall publish a notice specifying the nature of the Trigger Event and the Early Termination Date in The Wall Street Journal (New York edition), The Financial Times (London edition) and Nihon Keizai Shimbun (Tokyo edition).

SECTION 10.3 *Liquidation of Collateral and Eligible Investments.* Upon becoming aware that a Trigger Event has occurred, LBDP shall notify the Custodian that a Trigger Event has occurred. Upon receipt of such notice, the Custodian shall liquidate the Eligible Investments, the LBSF Collateral, the Qualified Counterparty Collateral, and the Specified Credit Support as contemplated in Section 10.9.

SECTION 10.4 *Qualified Transaction Master Agreement Termination.* (a) Pursuant to the Qualified Transaction Master Agreement, upon the occurrence of a Trigger Event, LBDP shall, within one Business Day (the "Notice Date"), notify each Qualified Counterparty and exercise LBDP's right to designate an early termination date under Section 6(a) of each such Agreement (the "Early Termination Date").

(b) The Early Termination Date shall be no later than the fifth Universal Business Day following the Notice Date unless a Market Disruption Event occurs. If a Market Disruption Event occurs, the valuation process will be delayed until the Market Disruption Event no longer exists, but no longer than eight Universal Business Days following the Notice Date. If a Market Disruption Event exists in isolated markets, LBDP will delay valuation of only those contracts related to the disrupted markets and proceed with the valuation of all other contracts.

(c) The Early Termination Date with respect to each Offsetting Transaction shall be the same date as the Early Termination Date under the corresponding Qualified Transaction Master Agreement.

SECTION 10.5 *Qualified Transaction Termination Amount.* (a) The Termination Amount with respect to each Qualified Transaction or group of Qualified Transactions shall be determined pursuant to Section 6(e) of the relevant Qualified Transaction Master Agreement.

(b) For purposes of determining the Termination Amount, the "Market Quotation" of a terminated transaction (which may be positive or negative) shall be the amount determined by

LBDP using Market Rates and Volatilities and by polling the Dealer Group as required (each, as defined below) (with all input data and procedures confirmed by the Independent Verifier) to be the mid-market value of the transaction at the close of business (New York time) on the Early Termination Date. LBDP shall perform such responsibilities in good faith in accordance with its usual operating procedures and pursuant to industry standards.

(c) If the Market Quotation represents an amount payable by LBDP, it shall be expressed as a positive number; if the Market Quotation represents an amount payable to LBDP, it shall be expressed as a negative number.

“Market Rates and Volatilities” means, in the case of interest rates and volatilities, the interest rates and volatilities obtained from the Telerate and Reuters screens where practicable and from polling the Dealer Group and, in the case of foreign exchange rates and volatilities and other pricing parameters, the foreign exchange rates and volatilities or other parameters obtained from polling the Dealer Group. In each case, for all rates, volatilities or other parameters obtained, at least five members of the Dealer Group shall be polled, the highest and lowest of such returns (including, in the case of interest rates and volatilities, the rates and volatilities obtained from the Telerate and Reuters screens, if any) shall be discarded and the simple mathematical average of the remaining values shall be used to perform the applicable determination.

The “Dealer Group” means the following entities and such other entities as may be selected by LBDP from time to time. J.P. Morgan, Citibank, N.A., Barclays Bank PLC, Bankers Trust Company, Merrill Lynch Capital Services, Inc., The Chase Manhattan Bank, Deutsche Bank, National Westminster Bank PLC, Banque Nationale de Paris, Hong Kong and Shanghai Bank, The Sumitomo Bank Ltd., Bank of Tokyo-Mitsubishi Bank Limited, Westpac Bank Corp., Goldman, Sachs & Co. and Banque Paribas. LBDP shall ensure that there are at least ten members of the Dealer Group at all times and that at least five members of the Dealer Group shall create a market in each type of product with which LBDP transacts.

Notwithstanding the definition of Dealer Group, (i) for U.S. dollar and Canadian dollar information, the dealers that may be polled shall be J.P. Morgan, Citibank, N.A., Bankers Trust Company, Merrill Lynch Capital Services, Inc., The Chase Manhattan Bank and Goldman, Sachs & Co.; and (ii) for European currency information, the dealers that may be polled shall be those listed in clause (i) of this paragraph and, in addition, Barclays Bank PLC, Deutsche Bank, National Westminster Bank PLC, Banque Nationale de Paris and Banque Paribas.

LBDP will also determine whether any unpaid amounts in respect of the terminated transaction are to be included or excluded from the Termination Amount, as provided in the Qualified Transaction Master Agreement.

(c) LBDP shall notify each Qualified Counterparty of the Market Quotation of each terminated transaction and the Termination Amount within two Business Days following the Early Termination Date.

SECTION 10.6 *Payment of Termination Amounts; Interest.* (a) Pursuant to the Qualified Transaction Master Agreement, if the Termination Amount is payable to LBDP then the Qualified Counterparty shall pay such amount to LBDP within five Universal Business Days following the Early Termination Date.

(b) Pursuant to the Qualified Transaction Master Agreement, if the Termination Amount is payable by LBDP then LBDP shall pay such amount to the Qualified Counterparty within ten Universal Business Days following the Early Termination Date.

(c) The party that is required to pay such amount shall be required to pay interest on such amount for the period from (and including) the Early Termination Date to (but excluding) the date payment is required to be made, at the overnight ask rate in effect for such day, as set forth opposite the caption “ON” under the heading “Euro-Dollar” on Telerate Page 4756 (or any successor page thereto), as of 11:00 a.m., New York time, on such day (the “Stated Interest Rate”). In the event of failure by either party to pay a Termination Amount, interest shall accrue at a termination rate, which is the Stated Interest Rate plus 3% *per annum*.

SECTION 10.7 *Offsetting Transaction Master Agreement Termination.*

(a) Upon the occurrence of a Trigger Event, LBSF shall not enter into any more Offsetting Transactions with LBDP.

(b) Pursuant to the Offsetting Transaction Master Agreement, upon the occurrence of a Trigger Event, LBDP shall, within one Business Day, notify LBSF of the Early Termination Date designated for each Offsetting Transaction, which shall be the same date as the Early Termination Date as the related Qualified Transaction.

(c) Pursuant to the Offsetting Transaction Master Agreement, if the Termination Amount is payable to LBSF, such payment will be made as soon as practicable.

SECTION 10.8 *Offsetting Transaction Termination Amount.* The Termination Amount with respect to each Offsetting Transaction shall be determined pursuant to Section 6(e) of the Offsetting Transaction Master Agreement; *provided, however, that*

- (i) for the purposes of determining the Termination Amount, the “Market Quotation” of a terminated transaction shall be equal to the Market Quotation determined in respect of the corresponding Qualified Transaction; and
- (ii) if the Market Quotation represents an amount payable by LBDP, it shall be expressed as a negative number and, if it represents an amount payable to LBDP, it shall be expressed as a positive number.

SECTION 10.9 *Application of Proceeds to Obligations.* (a) Upon receipt of notice that a Trigger Event has occurred, the Custodian shall apply and transfer the proceeds of the liquidation of the LBSF Collateral, the Qualified Counterparty Collateral and the Specified Credit Support as follows:

- (i) The Custodian shall transfer the proceeds of the liquidation of the LBSF Collateral to the Termination Account. LBSF's obligation to pay to LBDP the Termination Amount in respect of the Offsetting Transaction Master Agreement shall be reduced by the amount of such proceeds. To the extent the proceeds of the liquidation of the LBSF Collateral exceeds LBSF's obligation to LBDP in respect of such Termination Amount, LBDP shall have an obligation to pay to LBSF an amount equal to such excess (subject to the Credit Support and Netting Agreement).
 - (ii) The proceeds of the Qualified Counterparty Collateral shall be applied to reduce the obligations of the respective Qualified Counterparties that posted such collateral by applying such proceeds to, and setting off and netting such proceeds against, each relevant Qualified Counterparty's obligations to LBDP in respect of any Termination Amount under each relevant Qualified Counterparty Master Agreement, and any excess shall be returned to the relevant Qualified Counterparties. Proceeds in respect of the amount so set off and netted shall be transferred to the Termination Account.
 - (iii) Any Specified Credit Support transferred to the Custodian pursuant to the Credit Support and Netting Agreement shall be liquidated (or, in the case of Specified Credit Support consisting of a surety bond or a financial guaranty insurance policy, shall be drawn upon) and transferred to the Termination Account. To the extent that any Specified Counterparty fails to pay amounts due to LBDP when due, such amount shall be net and set off against the corresponding obligation of LBDP to pay the LBDP Specified Amount to LBSF. To the extent that the LBDP Specified Amount exceeds the LBSF Specified Amount, LBDP shall have an obligation to pay LBSF an amount equal to such net excess. However, to the extent that the LBSF Specified Amount exceeds the LBDP Specified Amount, LBSF shall not be obligated to pay such net excess to LBDP.
 - (iv) Pursuant to the Credit Support and Netting Agreement, LBDP's obligation under the Offsetting Transaction Master Agreement to pay to LBSF an amount equal to the excess LBSF Collateral shall be set off and netted against LBSF's obligation to pay the LBSF Payment Amount. To the extent that the LBDP Payment Amount exceeds the LBSF Payment Amount, LBDP shall have an obligation to pay LBSF an amount equal to such net excess. However, to the extent that the LBSF Payment Amount exceeds the LBDP Payment Amount, LBSF shall not be obligated to pay such net excess to LBDP.
- (b) All of LBDP's capital (including the proceeds of the liquidation of Eligible Investments) and any payments made by any counterparty to LBDP shall be held in the Termination Account.

(c) If the amounts in the Termination Account are insufficient to satisfy obligations to Qualified Counterparties (pursuant to the Qualified Counterparty Master Agreements) and LBSF (pursuant to the Offsetting Transaction Master Agreement), LBDP will make a demand on any existing Qualified Credit Enhancement in an amount necessary to satisfy such obligations. The funds received by LBDP in respect of any such demand shall be held in the Termination Account.

(d) All amounts in the Termination Account shall be applied to satisfy LBDP's obligations to pay Termination Amounts to Qualified Counterparties and LBSF, any LBDP payment obligations in respect of Qualified Credit Enhancement, and all other costs and expenses of terminating and winding up.

ARTICLE ELEVEN

Cash Management/Investments

SECTION 11.1 *Bank Accounts.* LBDP shall maintain its own bank accounts at all times and all of its transactions will be transacted through such accounts.

SECTION 11.2 *Eligible Investments.* The maturity of Eligible Investments shall be restricted as specified in Exhibit D-1. The market value of total Eligible Investments shall not be less than \$30 million.

In the event that a previously Eligible Investment is no longer an Eligible Investment, LBDP shall liquidate, as soon as practicable, such investment and reinvest the proceeds in an Eligible Investment.

ARTICLE TWELVE

Documentation Policy

SECTION 12.1 *Qualified Counterparty Master Agreement.* LBDP shall execute, on a best efforts basis, a Qualified Counterparty Master Agreement before entering into any Qualified Transaction. To the extent that an executed Qualified Counterparty Master Agreement is not in place, LBDP may utilize a Long-Form Confirmation.

SECTION 12.2 *Confirmations.* Upon the execution of a Qualified Transaction, LBDP shall send a confirmation to the relevant Qualified Counterparty as soon as practicable but in no event later than the second Business Day after the trade date of such transaction. All Qualified Counterparties shall be directed to sign and return the confirmation to LBDP promptly.

SECTION 12.3 *Payments.* LBDP shall be prohibited from making payments, including initial or reset, to a Qualified Counterparty until (i) a confirmation relating to any transaction with such Counterparty has been executed, and a Qualified Counterparty Master Agreement has been

executed with such Qualified Counterparty; or (ii) a Long-Form Confirmation for such Qualified Transaction is signed and returned to LBDP.

SECTION 12.4 *Exemption for Zero Exposure Transactions.* Notwithstanding the foregoing, LBDP may enter into Zero Exposure Transactions without a Qualified Counterparty Master Agreement or a Long-Form Confirmation.

SECTION 12.5 *Offsetting Transaction Master Agreement.* LBDP shall utilize the Offsetting Transaction Master Agreement for all Offsetting Transactions with LBSF.

SECTION 12.6 *Offsetting Transaction Confirmations.* Upon the execution of an Offsetting Transaction, LBDP shall send a confirmation to LBSF as soon as practicable, but in no event later than the second Business Day after the trade date of such transaction. LBSF shall be directed to sign and return the confirmation to LBDP as soon as practicable but in no event later than the third Business Day after the trade date of such transaction. If the confirmation is not signed and returned within three Business Days of the trade date, LBDP shall be prohibited from entering into any new transactions until such time as the confirmation is signed and returned.

ARTICLE THIRTEEN

Accounting and Reporting

SECTION 13.1 *Accounting.* LBDP will provide quarterly and annual financial statements, which will be sent to the Rating Agencies. The annual financial statements will be audited by the Independent Verifier.

SECTION 13.2 *Reporting.* LBDP will prepare weekly reports, which will include information about LBDP's capital and collateral statuses, to be sent to the Board of Directors and the Rating Agencies and the provider of any Qualified Credit Enhancement.

The Independent Verifier will provide the Independent Verification Report attesting to the accuracy of certain reported items and calculation procedures for the relevant period. The reports will include information on counterparties, transactions, exposures, limits, capital, collateral and executed and unexecuted documentation with respect to all of LBDP's counterparties and all transactions entered into by LBDP, which shall be marked with original dates of trade completion. A copy of the Independent Verification Report will be sent to the Rating Agencies and the provider of any Qualified Credit Enhancement. The Independent Verification Report will be prepared as frequently as is required by the Rating Agencies, but no less frequently than monthly. Until otherwise agreed by S&P, the Independent Verification Report will be prepared weekly.

SECTION 13.3 *Counterparty Valuation Reports.* (a) Beginning for the quarter ended August 31, 1998, LBDP will send to counterparties a quarterly summary of outstanding transactions, including mid-market valuations of all transactions with LBDP, as of such date. The reports will be substantially in the form as Exhibit 10.3 in the Operating Procedures, and will include

with respect to each transaction the identification code, the trade date, the effective date, the maturity date, the notional amount of the transaction and the market value in U.S. currency.

(b) To be included in the report will be a request for the counterparty to provide notice to LBDP of any disagreements or disputes with the outstanding transactions or valuations thereof. To the extent that counterparties dispute certain transactions, LBDP and the LBDP Agents will use their best efforts to reconcile such differences. The Independent Verification Report will include a discussion of disputed transactions and/or valuations, and the status of the resolution of any such disputes.

ARTICLE FOURTEEN

Governance

SECTION 14.1 *Board of Directors.* LBDP's Board of Directors shall consist of up to twelve directors, of which at least three directors shall be Independent Directors.

SECTION 14.2 *Dividends.* Pursuant to LBDP's By-Laws, dividends may be declared by LBDP's Board of Directors at any regular quarterly meeting, at any special meeting, or by unanimous written consent. Dividends shall only be paid to the extent that such payment of dividends would not cause LBDP's capital to fall below the Capital Requirement based on a run of the Credit Model not earlier than five Business Days prior to the dividend declaration. Further, dividends shall be paid only from current income and retained earnings. No dividends shall be paid during the existence of a Collateral Cure Period.

SECTION 14.3 *Executive Committee.* The Board of Directors may appoint an Executive Committee to act on its behalf in certain ministerial duties, such as approving changes to the Operating Guidelines and the Operating Procedures. The Executive Committee will consist of members of the Board of Directors. All actions of the Executive Committee will be reported to the Board of Directors.

ARTICLE FIFTEEN

Miscellaneous

SECTION 15.1 *Amendment Procedure.* These Operating Guidelines may only be amended by the Executive Committee or by LBDP's Board, in each case with the written consent of the Surety Bond Provider. If approved by a majority of the Board or by the Executive Committee, such majority shall include a majority of the required number of Independent Directors. However, an amendment may be adopted without approval by a majority of the Independent Directors if LBDP (i) has not received disapproval of such proposed amendment from Moody's within ten Business Days of notification of such proposed amendment and (ii) has received prior written confirmation from S&P that its rating will not be lowered or withdrawn as a result of any such amendment.

If LBDP determines that a proposed amendment is desirable and not material to the overall operations of LBDP, and the requirements of the preceding sentence are met, then LBDP may implement such amendment and subsequently seek ratification to continue such amendment, by the consent of a majority of the members of the Board (without the consent of a majority of the Independent Directors) at the next regularly scheduled meeting of the Board.

No amendment shall be made to these Operating Guidelines unless such amendment is approved in writing by S&P, and not disapproved by Moody's within ten Business Days of proposing such amendment to Moody's; provided, however, that only notification shall be required for amendments which are not material to the overall operations of LBDP, or which are made for clarity.

SECTION 15.2 Notices. LBDP shall notify the Rating Agencies and relevant parties of any amendments to the Operating Agreements (in the case of the Qualified Counterparty Master Agreement and the Qualified Counterparty Collateral Agreement, to the form of the agreement) in a timely manner consistent with the requirements set forth herein.

Any notice shall be sufficiently given to a party if in writing and delivered in person, sent by recorded delivery or registered post or the equivalent (with return receipt requested) or by courier or given by facsimile transmission, at the address or fax number set forth below or to such other address or fax number as shall be set forth in writing by one party to the other.

If to LBDP: Lehman Brothers Derivative Products Inc.
3 World Financial Center
New York, New York 10285-900
Attention: LBDP Manager
Telephone: 212-526-6696
Fax: 212-528-7861

If to LBSF: Lehman Brothers Special Financing Inc.
3 World Financial Center
New York, New York 10285-0009
Attention: President
Telephone: 212-528-8755
Fax: 212-528-7920

If to Independent Verifier: Ernst & Young
787 Seventh Avenue
New York, New York 10019
Attention: Ed Goodman
Telephone: 212-773-1768
Fax: 212-773-2933

If to Custodian: The Chase Manhattan Bank
4 New York Plaza
New York, New York 10004
Attention: Brokers & Dealers Clearance Department
Telephone: 212-623-7219
Fax: 212-623-5959

If to Moody's: Moody's Investors Service
99 Church Street, 4th floor
New York, New York 10007
Attention: Derivatives Monitoring Group
Telephone: 212-553-1037
Fax: 212-553-0355

If to S&P: Standard & Poor's
25 Broadway
New York, New York 10004-1300
Attention: Derivative Products Group
Telephone: 212-208-8956
Fax: 212-412-0528

If to Surety Bond Provider:

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: Department Head, Specialized Finance
Telephone: 212-668-0340
Fax: 212-509-9190

EXHIBIT A

**Approved Currencies and Indices, Qualified
Transaction Limitations**

A-1: Approved Currencies..... A-1-1

A-2: Approved Indices A-2-1

A-3: Qualified Transaction Limitations A-3-1

A-4: Concentration Limits on Specified Approved Indices A-4-1

Exhibit A-1

Approved Currencies

An “Approved Currency” includes one or any combination of the following:

Australian Dollar
Austrian Schilling
Belgian Franc
Canadian Dollar
Danish Krone
Dutch Guilder
European Currency Unit
European Monetary Unit
Finnish Markka
French Franc
German Mark
Italian Lira
Japanese Yen
New Zealand Dollar
Norwegian Krone
Portuguese Escudo
Spanish Peseta
Swedish Krona
Swiss Franc
U.K. Sterling
U.S. Dollar

Exhibit A-2

Approved Indices

An “Approved Index” includes one or any combination of the following:

- any fixed rate or rates
- any rate based on the market price, yield, total rate of return, or any combination thereof of one or any combination of debt securities. Individual debt securities or a portfolio of debt securities include only those issued by or backed by the full faith and credit of a sovereign government, the official currency of which is listed under Approved Currencies above or those issued by or guaranteed by a supranational rated by the Rating Agencies, provided however, if such sovereign government or supranational is both the counterparty to a Qualified Transaction and the obligor of the Approved Index debt security, then such sovereign government or supranational may only receive the rate based on such Approved Index debt security.
- proprietary indices as follows (but only if the applicable trade confirmation provides for a substitute index in the event that the initial index ceases to exist):

Lehman Brothers Aggregate Bond Index
 Lehman Brothers Government/Corporate Bond Index
 Lehman Brothers Government Bond Index
 Lehman Brothers Corporate Bond Index

- any of the following quoted rates:

Country / Currency	Rate(s)
Australia (Australian Dollar)	London Interbank Rates Bank Bills
Austria (Austrian Schilling)	London Interbank Rates
Belgium (Belgian Franc)	London Interbank Rates Brussels Interbank Rates
Canada (Canadian Dollar)	London Interbank Rates Bank Acceptances

Country / Currency	Rate(s)
Denmark (Danish Krone)	London Interbank Rates Copenhagen Interbank Rates
European Currency Unit (ECU)	London Interbank Rates
Finland (Finnish Markka)	London Interbank Rates Helsinki Interbank Rates
France (French Franc)	London Interbank Rates Paris Interbank Rates Tech Ten
Germany (Deutsche Mark)	London Interbank Rates Frankfurt Interbank Rates
Italy (Italian Lira)	London Interbank Rates Milan Interbank Rates
Japan (Japanese Yen)	London Interbank Rates Constant Maturity Swap (CMS)
Netherlands (Dutch Guilder)	London Interbank Rates Amsterdam Interbank Rates
New Zealand (New Zealand Dollar)	London Interbank Rates Bank Bills
Norway (Norwegian Krone)	London Interbank Rates
Portugal (Portuguese Escudo)	London Interbank Rates
Spain (Spanish Peseta)	London Interbank Rates Madrid Interbank Rates
Sweden (Swedish Krona)	London Interbank Rates Stockholm Interbank Rates
Switzerland (Swiss Franc)	London Interbank Rates Constant Maturity Swap (CMS)
United Kingdom (Sterling)	London Interbank Rates
United States (U.S. Dollar)	London Interbank Rates U.S. Treasury Obligations Prime Constant Maturity Treasuries (CMT) Constant Maturity Swap (CMS) Commercial Paper (30, 90, 180 days) Federal Funds COFI, JJ Kenny, PSA

	U.S. Gov't Agency Discount Note Rates
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- any of the following instruments, which are the subject of futures and options trading on U.S. and non-U.S. exchanges:

Exchange	Instruments
CBOT	U.S. T-Bond U.S. T-Note
CME	Australian Dollar Canadian Dollar Eurodollar Swiss Franc U.S. T-Bill
LIFFE	Euromark Short Sterling Long Gilt Eurolira Euroswiss German Gov't Bond
MATIF	ECU Bond PIBOR French Notional Bond
MEFF	MIBOR Spanish Notional Bond
MSE	CAD\$ Bank Acceptance
SFE	AUS\$ Bank Bills Austrian T-Bond
SIMEX	Eurodollar Euroyen
SOFFEX	Swiss Gov't Bond
TIFFE	Euroyen
TSE	Japanese Gov't Bond

Exhibit A-3

Qualified Transaction Limitations

I. Maturities

A. Maximum Tenor

The maximum permitted tenor of transactions is 40 years.

B. Concentrations

1. Transactions with tenors over 10 years are limited to 50% of notional as a percent of total notional.
2. Transactions with tenors over 30 years are limited to 10% of notional as a percent of total notional.

II. Exotic Products and Related Limitations

A. Exotic Products

Index Amortizing transactions
Notional Adjusting swaps

B. Exotic Product Limitations

The total notional of Exotic Products shall not exceed 10% of LBDP's total portfolio notional. The total notional of any one Exotic Product shall not exceed 50% of the total Exotic Product limit, or 5% of LBDP's total portfolio notional. For the purpose of calculating the notional adjusting swap limitations, the maximum potential notional over the remaining life will be used.

Exhibit A-4

**CONCENTRATION LIMITS
ON SPECIFIED APPROVED INDICES**

The following portfolio limits (the lower of Moody's or S&P limit) shall apply to transactions using the below listed specified approved indices. Such limitation shall be applicable at the time of entering into the transaction.

Specified Approved Indices	% Limit of Portfolio	
	Moody's	S&P
COFI	15%	10%
JJ Kenny	15	10
PSA	15	10
U.S. Gov't Agency Discount Note Rates	15	10
NZD LIBOR	NA	10
Aggregate Specified Approved Indices	45	25

EXHIBIT

Counterparty Exposure Issues

B-1: Sample Guarantee..... B-1-1

B-2: Eligible Non-Assignable Counterparties..... B-2-1

Exhibit B-1

SAMPLE GUARANTEE

GUARANTEE OF [COUNTERPARTY]

LEHMAN BROTHERS DERIVATIVE PRODUCTS INC. (“Party A”) and _____ (“Party B”) have entered into an Interest Rate and Currency Exchange Agreement dated as of _____, 19 ___, pursuant to which Party A and Party B have entered and/or anticipate entering into one or more transactions (each a “Swap Transaction”), the Confirmation of each of which supplements, forms part of, and will be read and construed as one with, the Interest Rate and Currency Exchange Agreement (collectively referred to as the “Agreement”). This Guarantee is a Credit Support Document as contemplated in the Agreement. For value received, and in consideration of the financial accommodation accorded to Party B by Party A under the Agreement, [NAME OF GUARANTOR], a corporation organized and existing under the laws of [jurisdiction] (“Guarantor”), hereby agrees to the following:

(a) Guarantor hereby unconditionally guarantees to Party A the due and punctual payment of all amounts payable by Party B under each Swap Transaction when and as Party B’s obligations thereunder shall become due and payable in accordance with the terms of the Agreement. In case of the failure of Party B to pay punctually any such amounts, Guarantor hereby agrees, upon written demand by Party A, to pay or cause to be paid any such amounts punctually when and as the same shall become due and payable.

(b) Guarantor hereby agrees that its obligations under the Guarantee constitute a guarantee of payment when due and not of collection.

(c) Guarantor hereby agrees that its obligations under the Guarantee shall be unconditional, irrespective of the validity, regularity or enforceability of the Agreement against Party B (other than as a result of the unenforceability thereof against Party A), the absence of any action to enforce Party B’s obligations under the Agreement, any waiver or consent by Party A with respect to any provisions thereof, the entry by Party B and Party A into additional Swap Transactions under the Agreement or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor; provided, however, that Guarantor shall be entitled to exercise any right that Party B could have exercised under the Agreement to cure any default in respect of its obligations under the Agreement or to setoff, counterclaim or withhold payment in respect of any Event of Default or potential Event of Default in respect of Party A or any Affiliate, but only to the extent such right is provided to Party B under the Agreement. The Guarantor acknowledges that Party A and Party B may from time to time enter into one or more Swap Transactions pursuant to the Agreement and agrees that the obligations of the Guarantor under this Guarantee will upon the execution of any such Swap

Transaction by Party B and Party A extend to all such Swap Transactions without the taking of further action by the Guarantor.

(d) Guarantor shall be subrogated to all rights of Party A against Party B in respect of any amounts paid by Guarantor pursuant to the provisions of this Guarantee; provided, however, that Guarantor shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until all amounts then due and payable by Party B under the Agreement, shall have been paid in full.

(e) Guarantor further agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time, payment, or any part thereof, of any obligation or interest thereon is rescinded or must otherwise be restored by Party A upon an Event of Default as set forth in Section 5 (a) (vii) of the Agreement affecting Party B or Guarantor.

(f) Guarantor hereby waives (i) promptness, diligence, presentment, demand of payment, protest, order and, except as set forth in paragraph (a) hereof, notice of any kind in connection with the Agreement and this Guarantee, or (ii) any requirement that Party A exhaust any right to take any action against Party B or any other person prior to or contemporaneously with proceeding to exercise any right against Guarantor under this Guarantee.

In the event that Guarantor is required by any applicable law, rule or regulation to make any deduction or withholding for or on account of any Tax (as defined in Section 14 of the Agreement, except that the reference therein to the "Agreement" shall be deemed to mean the "Guarantee" for purposes of this Guarantee) from any payment to be made under this Guarantee, Guarantor shall be subject to the provisions of Section 2 (d) of the Agreement to the same extent as "X" (as defined therein); provided, however, that Guarantor shall be required to treat as an "Indemnifiable Tax" (as defined under Section 14 of the Agreement, except that the reference therein to the "Agreement" shall be deemed to mean the "Guarantee" for purposes of this Guarantee) for such purpose any Tax that is not an "Indemnifiable Tax" if such Tax would have constituted an "Indemnifiable Tax" had the payment in respect of which the Tax is imposed been made by Party B rather than Guarantor.

Guarantor makes the same representations to and agreements with Party A as those made by Party B pursuant to Sections 3 and 4 of the Agreement, at the times set forth therein, except that references therein to "the party" will be deemed to be references to the "the Guarantor" and references therein to "the Agreement" will be deemed to be references to "the Guarantee." Section 13 of the Agreement is incorporated by reference in this Guarantee except that references therein to "the Agreement" will be deemed to be references to "the Guarantee."

This Guarantee shall be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine. All capitalized terms not defined in this Guarantee are defined in the Agreement.

Any notice hereunder will be sufficiently given in accordance with the provisions for notices under the Agreement and will be effective as set forth therein. All notices hereunder shall be delivered to the Guarantor, at [address] (Telex No: _____ Answerback: _____) with a copy to Party B, at [address] (Telex No: _____ Answerback: _____).

IN WITNESS WHEREOF, Guarantor has caused this Guarantee to be executed in its corporate name by its duly authorized officer as of the date of the Agreement.

[Guarantor]

By: _____

Name:

Title:

Exhibit B-2

Eligible Non-Assignable Counterparties

Counterparties	Moody's Investors Service Long-Term Rating or Equivalent	Standard & Poor's Long-Term Rating or Equivalent
Australia		
Australian Wheat Board	Aa2	AA
Commonwealth Bank of Australia	Aa3	AA-
New South Wales Treasury Corp	Aa2	AAA
R&I Bank of Western Australia	A1	A
State Bank of New South Wales	Aa2	A-
Austria		
Asfinag	Aaa	---
Austria, Republic of	Aaa	AAA
Oesterreichische Kontrollbank AG	Aaa	AAA
Oesterreichische Kommunalkredit AG	Aa3	---
Oesterreichische Postsparkasse	---	---
Belgium		
Belgium, Kingdom of	Aa1	AA+
Canada		
Export Development Corp	Aa2	AA+
Ontario, Province of	Aa3	AA-
Ontario Hydro	Aa3	AA-
Petro-Canada Ltd.	Aa2	---
Quebec, Province of	A2	A+
Denmark		
Denmark, Kingdom of	Aa1	AA+
Finland		
Finnish Export Credit Ltd.	Aa3	---
France		
C E P M E	Aaa	---
Caisse Nationale des Autoroutes	Aaa	AAA
Caisse des Depots et Consignation	Aaa	AAA
Caisse National des Telecom	Aaa	AAA
Electricité de France	Aaa	AAA

France Telecom	Aa1	AA+
Gaz de France	Aaa	AAA
SNCF	Aa1	---
Norway		
Eksportfinans, A/S	Aaa	AAA
Norway, Kingdom of	Aaa	AAA
Sweden		
Swedish Export Credit Corp.	Aa2	AA+
Sweden, Kingdom of	Aa2	AA+
United States		
Federal Home Loan Banks	Aaa	AAA
Federal Home Loan Mortgage Corp	Aaa	AAA
Federal National Mortgage Assoc	Aaa	AAA
Resolution Funding Corp	Aaa	---
Student Loan Marketing Assoc	Aaa	AAA
Tennessee Valley Authority	Aaa	AAA
Supra National		
Asian Development Bank	Aaa	AAA
Eurofima	Aaa	AAA
European Bank for Reconstruction and Development (EBRD)	Aaa	AAA
European Investment Bank (EIB)	Aaa	AAA
IBRD (The World Bank)	Aaa	---
Nordic Investment Bank	Aaa	AAA
Other		
Deutsche Bank AG	Aa1	AAA
General Electric Credit Corporation	Aaa	AAA
African Development Bank	Aaa	AA+
International Finance Corporation	Aaa	AAA
Ontario Financing Authority	---	---
Republic of Italy	Aa3	AA
Republic of Finland	Aaa	AA
Vattenfall Treasury	Aa3	AA
Inter Am Development Bank	Aaa	AAA

EXHIBIT C

Collateral

C-1: Countries Where Qualified Counterparty Collateral Has Value C-1-1

C-2: Collateral Discount Factors C-2-1

C-3: Eligible Investment Discount Factors..... C-3-1

Exhibit C-1

**Countries Where Qualified Counterparty
Collateral Has Value**

United States

Exhibit C-2

Collateral Discount Factors

Instrument	Maturity	Discount Factor
Money Mkt Instruments	Less than 180 days	97.5%
Money Mkt Instruments	180 - 360 days	93.5%
Treasury Notes	Less than one year	96.5%
Treasury Notes	1 - 2 years	95.0%
Treasury Notes	2 - 3 years	93.5%
Treasury Notes	3 - 5 years	92.0%
Treasury Notes	5 - 10 years	89.5%
Treasury Bonds	10 - 30 years	87.0%

Notes:

Money Market instruments include Treasury Bills, Banker's Acceptances, CDs, Commercial Paper, Demand Deposits, Eurodollar Deposits, Federal Funds, Repurchase Agreements.

Data is based on an exposure period of six days for all collateral.

Exhibit C-3

Eligible Investment Discount Factors

Instrument	Maturity	Discount Factor
Money Market Instruments*	Less than 180 days	97.0%
Money Market Instruments*	180 - 360 days	90.5%
GICs**	Less than one year	100%
Money Funds**	Less than one year	100%
Treasury Notes	Less than one year	96.0%
Treasury Notes	1 - 2 years	93.5%
Treasury Notes	2 - 3 years	92.0%
Treasury Notes	3 - 5 years	90.0%

Notes:

* Money Market instruments include Treasury Bills, Banker's Acceptances, CDs, Commercial Paper, Demand Deposits, Eurodollar Deposits, Federal Funds, Repurchase Agreements.

** Payable upon Demand

Data is based on an exposure period of ten days for all investments except GICs and Money Funds.

EXHIBIT D

Investments

D-1 Maturity Restrictions on Invested Capital.....D-1-1

Exhibit D-1

MATURITY RESTRICTIONS ON INVESTED CAPITAL

Remaining Maturity	Percent of Total Capital <i>(cumulative)</i>
30 days or less	>15 %
180 days or less	>25 %
1 year or less	>70 %
5 years or less	=100 %