

Confidential

Global Real Estate Product Control

Real Estate Americas Price Verification

February 2008

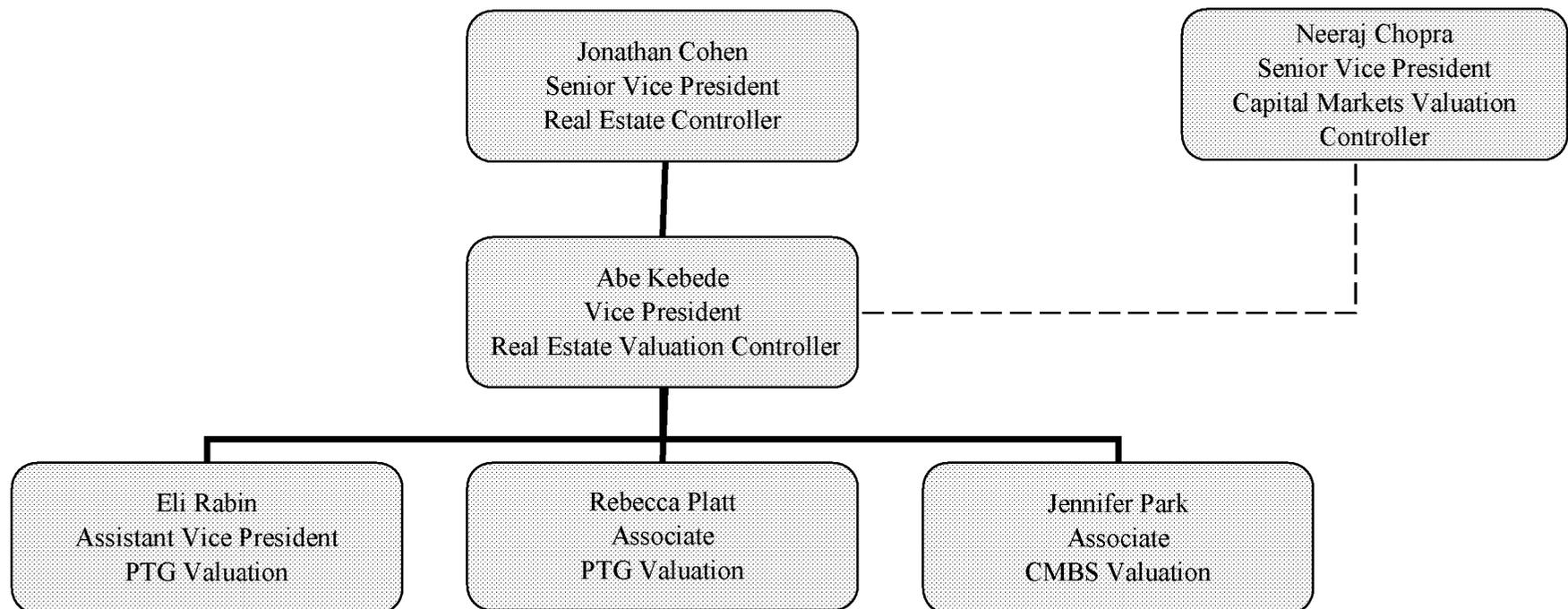
LEHMAN BROTHERS

Table of Contents

Staffing – Valuation Control	3
Real Estate Asset Categories	4
Pricing	
Principal Transactions (PTG) Debt	5
Principal Transactions (PTG) Equity	8
Conduit & Large Fixed Rate Loans	10
Floating Rate Large Loans	13
B-Notes / Mezzanine Loans	14
CMBS (Bonds/ IO's)	16
REIT Line of Credit (LOC)	18
Real Estate Derivatives	19
Pricing Escalation / Resolution	21
Additional Valuation / Control Procedures	22
Property Sales and Payoff Summary	23

Staffing – Valuation Control

- The Valuation control group is run by a fully dedicated team of 4 staff members.



Real Estate Asset Categories

Asset Type	Description	Exposure a/o 12/31/07 (\$ billions)
Principal Transactions (PTG)	High Leveraged debt and equity investments in commercial real estate properties.	13.3
Fixed Rate Loans	Loans originated at LTV's of 65~75% to be securitized. The loans in this group generally have a warehousing period of less than 60 days. There are typically 5 ~ 6 securitizations a year.	0.9
Floating Rate Large Loans	Floating rate loans with a weighted average LTV of approximately 75%. Exit is through securitization/ syndication or execution of business plan.	9.5
B-Notes/ Mezz Loans	Positions in this category are typically stripped-out from floating rate large loans and generally have LTV's of upto 80%.	5.4
CMBS Securities	CMBS bonds and IO positions (traded actively)	3.1
REIT Lines of Credit (LOC)	These loans are made typically to real estate operating companies, but may be collateralized by mortgages on operating properties.	1.2
US Treasuries	Acquired for hedging purposes	0.4
		33.3

Note: Excludes RE derivatives

Pricing – PTG

▪ Data Sources / Preparation

- Our servicers, Trimont and PCCP, provide us with monthly data tapes that contain asset level information. Information included, where applicable, is as follows:
 - Loan balance, maturity date, etc
 - Interest rates: pay rates and accrual rates, preferred returns on equity, etc
 - Deferred interest, accumulated preferred returns, deferred fees
 - Senior loan amount, sponsor/ borrower equity, ownership %, final split %, etc
 - Collateral info – property type, location, value (current and stabilized), etc
- Product Control downloads all real estate inventory positions and performs reconciliations to ensure we have the complete population for price testing
- Product Control aggregates positions into different asset classes in preparation for pricing.

Pricing –PTG

▪ Debt Model

➤ Collateral value

- Derived from independent market sources
- Haircut collateral values by 10% to account for selling costs and liquidity

➤ Discount Rates

- Spreads obtained from “Real Estate Investments & Finance” newsletter
- Spreads are based on property type and LTV ratios
- Discount rates derived to determine present values

➤ Model

- Uses “water fall” structure to determine available proceeds
- Determines present value of future cash flows
- Caps prices at 105% of OPB¹
- Takes the minimum of capped face, available proceeds² or PV as a “market” value
- Compares “market” value versus the basis, resulting in either under- or over-valuation
- Research is conducted for each position based on Asset Summary Reports & Deal updates on Servicers web-sites, and discussions with asset managers and the business

➤ Escalation / Resolution

- Variances outside thresholds are discussed with the business for potential mark adjustments

1) Outstanding Principal Balance (OPB) is capped at 105% as an estimate of a price an investor would pay for such loans that are not call-protected,

2) Available Proceeds = Current collateral Value – Senior Lien Principal and Interest (if any)

Pricing –PTG

▪ Equity Model

➤ Collateral value

- Derived from independent market sources
- Haircut collateral values by 10% to account for selling costs and liquidity

➤ Discount Rates

- Discount Rates are obtained from the quarterly “PWC Korpacz Real Estate Investor Survey”
- Discount rates based on property type
- Discount rates are used for analysis based on stabilized values

➤ Model

- Based on examining the deal waterfalls under a current partnership liquidation scenario based on current values reported by our Servicers.
- Model assumes distribution of cash flows in the following order:
 - o Pay-off the full amount of any debt
 - o Distribution to owners for accumulated preferred returns
 - o Distribution to owners for return of capital
 - o Distribution to owners for split of any remaining profit according to the final split percentages
- Compares proceeds to LB (“market value”) versus the basis, resulting in either under- or over-valuation
- Research is conducted for each position based on Asset Summary Reports & Deal updates on Servicers web-sites, and discussions with asset managers and the business

➤ Escalation / Resolution

- Variances outside thresholds are discussed with the business for potential mark adjustments
-

Pricing – PTG

▪ PTG Equity Example – LB Rosewood at Flower Hill

	Face	Mark	Basis
LB Rosewood at Flower Hill	\$2.08	101	\$2.11

Deal Details:

- Property type: Multifamily (Condo Conversion)
- Origination Date: 12/29/2003
- 3rd Party Debt: \$1.82mn
- Final Split to LB: 60%
- Current Value: \$10.02 mn
- Accumulated Preferred to LB: \$1.11mn; to Partner: \$0.28mn
- Partner Legal Equity balance: \$0.53mn
- Consolidated: Yes
- Haircut CV: \$9.02mn

	Total	3rd Party Debt	To LB	To Partner
Haircut Collateral Value	9.02			
Waterfall				
1) Pay off 3rd party Debt	(1.82)	1.82		
	7.20			
2) Distribution for Accumulated Preferred	(1.39)		1.11	0.28
3) Return of Capital	(2.61)		2.08	0.53
4) Residual Profit	3.20			
To LB (60%)	(1.92)		1.92	
To Partner (40%)	(1.28)			1.28
	-	1.82	5.11	2.09
LB Basis			2.11	
Pricing Variance			3.00	

Conclusion: Consolidated position marked close to its FAS144 cost basis. No MTM adjustment necessary.

Pricing – Conduits & Large Fixed Rate Loans

➤ Discount Rates

- Discount rates are derived by using spreads published in “Commercial Mortgage Alert” newsletter.

➤ Pricing

- These group of loans are originated with the intention of inclusion into a future securitization.
- Price tested in aggregate using a mock securitization modeled after the most recent comparable Lehman securitization deal.
- Fixed rate loans aged over 180 days are identified and the reasons why they have not yet been securitized are investigated.

➤ Escalation / Resolution

- We do not recognize any gains until the actual securitization occurs, however, any major deviations from the expected profit level (generally 0 ~ 3%) is investigated and results are documented.

Pricing – Conduits & Large Fixed Rate Loans

➤ Example

Class/ Tranche	Rating	Balance	WAL	%	Coupon	Swap / Treas.(1)	Spread	Yield	NPV	Market PX	Market Value	
A1	AAA	4,206,740	5.16	0.60%	5.446%	4.203%	1.191%	5.335%	4,227,774	100.500	4,227,774	
A2	AAA	42,953,030	5.52	6.12%	5.454%	4.237%	1.172%	5.350%	43,167,795	100.500	43,167,795	
AAB	AAA	16,384,146	5.68	2.33%	5.459%	4.253%	1.163%	5.356%	16,466,066	100.500	16,466,066	
A3	AAA	369,097,603	5.86	52.58%	5.463%	4.271%	1.154%	5.364%	370,943,091	100.500	370,943,091	
A1A	AAA	58,699,301	5.65	8.36%	5.458%	4.250%	1.165%	5.355%	58,992,798	100.500	58,992,798	
AM	AAA	70,191,451	6.27	10.00%	5.475%	4.310%	1.131%	5.381%	70,542,408	100.500	70,542,408	
AJ	AAA	59,662,866	6.65	8.50%	5.486%	4.347%	1.111%	5.397%	59,961,180	100.500	59,961,180	
B	AA+	10,528,806	6.91	1.50%	6.310%	4.372%	1.930%	6.221%	10,581,450	100.500	10,581,450	
C	AA	7,896,494	7.11	1.12%	7.127%	4.391%	2.750%	7.037%	7,935,976	100.500	7,935,976	
D	AA-	5,264,403	7.31	0.75%	7.549%	4.410%	3.167%	7.460%	5,290,725	100.500	5,290,725	
E	A+	6,141,841	7.86	0.88%	8.001%	4.463%	3.583%	7.915%	6,172,550	100.500	6,172,550	
F	A	3,509,528	8.36	0.50%	8.448%	4.512%	4.000%	8.365%	3,527,076	100.500	3,527,076	
G	A-	7,019,057	8.76	1.00%	9.691%	4.550%	5.251%	9.607%	7,054,152	100.500	7,054,152	
H	BBB+	6,141,841	9.11	0.88%	10.925%	4.584%	6.502%	10.838%	6,172,550	100.500	6,172,550	
J	BBB	5,264,403	10.11	0.75%	12.201%	4.672%	7.753%	12.115%	5,290,725	100.500	5,290,725	
K	BBB-	6,141,619	11.36	0.87%	14.116%	4.694%	9.750%	14.028%	6,172,327	100.500	6,172,327	
L	BB+	4,386,966	10.44	0.62%	4.542%	4.042%	10.750%	14.356%	2,063,625	47.040	2,063,625	
M	BB	2,632,312	11.29	0.38%	4.560%	4.060%	11.750%	15.313%	1,115,373	42.372	1,115,373	
N	BB-	2,632,091	12.79	0.37%	4.592%	4.092%	12.500%	16.046%	997,741	37.907	997,741	
P	B+	877,437	14.54	0.13%	4.630%	4.130%	13.250%	16.782%	298,339	34.001	298,339	
Q	B	877,437	15.54	0.13%	4.651%	4.151%	14.000%	17.500%	276,457	31.507	276,457	
S	B-	877,437	16.54	0.13%	4.672%	4.172%	15.000%	18.448%	253,907	28.937	253,907	
T	NR	10,528,790	27.00	1.50%	4.895%	4.395%	22.605%	27.000%	1,915,085	18.189	1,915,085	
WAC IO	AAA	701,915,599	8.67		0.496%	3.879%	4.306%	8.049%	21,693,993	3.091	21,693,993	
Total		\$ 701,915,599							711,113,165		711,113,165	
Basis		\$ 708,062,859									711,113,165	
					WAC - Bonds	5.742%					Total Mkt Value	711,113,165
					WAC - Loans	6.149%					Basis	708,062,859
					Excess Coupon	0.407%					Net \$	3,050,306

Origination Fees	0
Deal Expenses	(3,669,536)
NERD	(83,383)
Servicing Fees	5,951,419
Sub-Total	2,198,500
Pricing Variance	\$ 5,248,806

0.75% Return

(1) Tranches L - T and IO's are prices vs Treasuries.

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11

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LBEX-WGM 000772

Pricing – Conduits & Large Fixed Rate Loans

➤ Example (Continued)

Conduit Pricing Summary 12/31/07

- 1 The Pricing this month was modeled on the LBUBS 07-C7 deal which was priced on November 20, 2007 and settled on November 30, 2007. The C7 deal had an initial balance of \$3.17billion. The C7 deal represents a comparable model to base the mock securitization based on given characteristics of the underlying collateral. The weighted average LTV and DSCR of the C7 deal are 63.7% and 1.47x compared to the values of 63.2% and 1.24x for the month end conduit inventory. The deal had also a comparable mix of loans in terms of geographic concentration (See "Invnt_Breakdown" tab for details). The current inventory also shares office and retail as the top two property types.
- 2 Lehman contributed 53.8% of the deal and took a P&L of \$16.7mn or approx. 1% on the deal. The return on the mock securitization of the conduit loan inventory as of 12/31/07 is approx. 0.75%, which is lower than the return on LBUBS 2007-C7; however, the return is within our expected threshold for the inventory.
- 3 The securitization model is an approximation of the actual deal. The coupon rates on investment grade classes are based on a target price of par + 50 bps, while for non-investment grade securities it is based on treasuries + 50 bps. However, it assumes the balance on the IO tranche is constant throughout its life.
- 4 An age analysis of the current loans provides no evidence to suggest that the inventory is un-securitizable. The loans aged over 180 days (excluding Teachers Loans) are either included in LB-UBS 2008-C1 or syndicated out to a third party investor.
- 5 Teacher's Loans are being warehoused by Lehman until securitization. Lehman has the option to put back the whole loans to Teachers if they cannot be securitized. For this reason, they are not included in the mock securitization.
- 6 For the reasons above, we feel comfortable with the current valuation and consistent with our current policy, we will not record P&L until the execution of a securitization transaction.

Pricing – Floating Rate Large Loans

- Grouped into two:

- Securitizable / Syndicable

- Loans that are held for securitization or syndication in their current form
 - Lehman generally has one or two floating rate securitizations per year
 - Value based on independent third party appraisals
 - Spreads are obtained from “Commercial Mortgage Alert” newsletter
 - Shadow ratings assigned based on LTV
 - Spreads are based on ratings
 - Discount rates derived to determine the present value of the loans
 - Floating rate notes are capped at 100% of legal balance to account for lack of prepayment protection
 - Positions with pricing variances in excess of established thresholds are investigated and resolution is documented in the pricing model.

- Non-Securitizable/ Non-Syndicable

- These group of loans are not securitizable or syndicable in their current form
 - Price tested using the “PTG” model - based on collateral value and time value concepts

Pricing –B-Notes / Mezzanine Loans

➤ Collateral value

- Value based on independent third party appraisals

➤ Discount Rates

- Spreads are obtained from “Commercial Mortgage Alert” newsletter
- Shadow ratings assigned based on LTV
- Spreads are based on ratings
- Discount rates derived to determine the present value of the B-Note or the Mezz loan

➤ Model

- Price tested using an NPV approach
- Floating rate notes are capped at 100% of legal balance to account for lack of prepayment protection
- Fixed rate notes are capped at 105% of legal balance as, in general, these loans do not trade above 105

➤ Escalation / Resolution

- Variances outside thresholds are discussed with the business for potential mark adjustments

Pricing –B-Notes / Mezzanine Loans

➤ Example – North Park B- Note

	<u>Face</u>	<u>Mark</u>	<u>Basis</u>
North Park (B-Note)	\$5.3	95	\$5.0

Loan Terms:

- Maturity Date: 6/9/2008
- Coupon: 14.36%
- A-Note Balance: \$22 million

Property Type	Multifamily
Current Value	\$32.7 million
B-Note Loan-to-value (LTV)	83.4%
B-Note Shadow Rating	B2
Discount Rate	13.11% (based on shadow rating and spreads from “CMA”)
PV of B-Note:	\$5.5 million
Available Proceeds	\$10.7 million
Capped Face Value	\$5.3 million
“Market” Price:	\$5.3 million (minimum of the PV, capped face or available proceeds)

Pricing Variance **\$0.3 million**

Conclusion: **Variance is within threshold**

Pricing – CMBS (Bonds/IO's)

➤ Pricing Inputs

- Price tested using third party pricing data from EJV, IDC, Extel, and ABSG

➤ Pricing

- All non-IO CMBS positions are price tested using a 1% pricing variance limit against the average of the third party prices and \$500k pricing variance
- IO's are price tested using a 5% pricing variance limit against the average of the third party prices or \$500k. The pricing variance limit is extended to 5% to account for the added complexity in IO pricing.
- Positions with variances outside the thresholds are individually priced in Intex, Trepp, or Bloomberg.

➤ Escalation / Resolution

- Variances outside thresholds are discussed with the business for potential mark adjustments

Pricing – CMBS (Bonds/IO's)

➤ Example

tolerance	1%
P&L material	500,000

cusip	issuer	coupon	position	inv price	mkt value	ejv price	idc price	extel price	abs price	Rating	average 3P price	LB Price	P&L Impact	within tolerance	P&L impact	Preliminary Checks
161505GM8	CCMSC 2000-3 A2	7.32	3,970,000	104.79	4,160,360		106.01	105.46	105.40	AAA	105.62	104.79	32,727	ok	ok	ok
161562AB7	CMFUN 99-1 A2 CMO SERIES 99-1	7.44	597,957	102.51	612,966		104.05	103.47	103.43	AAA	103.65	102.51	6,812	check	ok	ok
22541SWH7	CSFB 2004-C3 A3	4.30	7,840,000	99.26	7,782,194		99.73	99.41	99.37	AAA	99.50	99.26	18,762	ok	ok	ok
46625YJE4	JP MORGAN CHASE COMMERCIAL	5.20	1,170,000	100.09	1,171,108		100.14	99.81	99.71	AAA	99.89	100.09	(2,445)	ok	ok	ok
501773DG7	LBCMT 99-C2 A-2 CMO SER 99-C2	7.33	1,955,720	102.43	2,003,297		103.44	102.86	102.83	AAA	103.05	102.43	11,999	ok	ok	ok
50179MAE1	LBUBS 2006-C6 A4	5.37	3,015,000	99.56	3,001,692		100.64	100.53	100.34	AAA	100.51	99.56	28,559	ok	ok	ok
52108H3H5	LBUBS 2005-C2 A5	5.15	5,355,000	98.28	5,262,632		98.53	98.40	98.24	AAA	98.39	98.28	5,978	ok	ok	ok
52108HP24	LBUBS 2004-C7 A1	3.63	44,941	97.90	43,995		99.04	98.86	98.84	AAA	98.91	97.90	457	check	ok	ok
589929UD8	MLMI 1999-C1 A2 CMO SER 99-C1	7.56	396,686	103.18	409,303	104.39	103.90	103.31	103.27	AAA	103.72	103.18	2,122	ok	ok	ok
60687VAC9	MLCFC 2006-3 A3	5.39	2,000,000	99.14	1,982,842		100.46	100.14	100.01	AAA	100.21	99.14	21,292	check	ok	ok
74436JFX0	PSSF 00-KEY1 A2 ASSET BACK 00	7.73	605,402	104.35	631,720		105.55	104.95	104.91	AAA	105.14	104.35	4,788	ok	ok	ok
22541NMR7	CSFB 2002-CKS4 A2	5.18	23,325,000	100.87	23,527,213	104.29	101.66	101.33	101.22	AAA	102.13	100.87	293,788	check	ok	ok
22545YAS0	CSMC 2007-C2 F	5.64	6,000,000	84.58	5,074,756		83.12	82.89	82.63	A	82.88	84.58	(101,931)	check	ok	ok
36158YGZ6	GECMC 2002-3A A1	4.23	13,362,864	98.71	13,190,827		99.72	99.41	99.36	AAA	99.50	98.71	104,796	ok	ok	ok
36228CSQ7	GSMS 2004-C1 F	4.36	3,000,000	94.48	2,834,508		94.57	94.31	94.21	BBB+	94.36	94.48	(3,603)	ok	ok	ok
52108HAT1	LBUBS 00-C3 A2 CMO SER 00-C3	7.95	6,398,000	104.64	6,694,620		106.04	105.65	105.60	AAA	105.76	104.64	72,082	check	ok	ok
52108HP73	LBUBS 2004-C7 A6	-	5,116,000	97.82	5,004,528		99.15	99.03	98.88	AAA	99.02	97.82	61,470	check	ok	ok
55312VAB4	MLCFC 2006-4 A2	5.11	22,092,000	99.64	22,012,741		100.08	99.75	99.65	AAA	99.83	99.64	41,093	ok	ok	ok
87246AAC2	TIAA 2007-C4 A3	6.10	34,770,000	104.21	36,232,780		103.34	103.13	102.98	AAA	103.15	104.21	(367,762)	check	ok	ok

Pricing – REIT Lines of Credit (LOC)

➤ Discount Rates

- Discount rates are interpolated from LoanConnector Website which publishes spreads based on data from current market term loans and revolvers.

➤ Pricing

- The REIT lines of credit and term loans are price verified on an individual basis, using an NPV approach based on individual loan characteristics
- The NPVs are compared against LB's basis
- The resulting difference represents an under- or over-valuation.

➤ Escalation / Resolution

- Pricing variances in excess of established thresholds are investigated further based on discussions with the business.

Pricing – Derivatives

➤ CMBX

- An inventory download is generated from Quest at the end of every month
- A report is sent from RAMP at the end of every month with additional information (globalID, upfront fee, etc)
- CMBX spreads and dollar prices are obtained from Markit via a daily feed to Lehman
- Prices provided by Markit are compared against the desk price to determine if there are any material pricing variances.
- Material pricing variances (those exceeding the established threshold of \$100k) will be escalated to senior management and the desk, and the conclusion reached is documented

➤ CDS on CMBS

- An inventory download is generated from Quest at the end of every month
- CDS spreads are obtained from the desk and sent to Fitch. The benchmark composite spreads are obtained from Fitch on a monthly basis.
- Spreads determined from Fitch are compared against the desk spread to determine if there are any material pricing variances.
- Material pricing variances (those exceeding the established threshold of \$1 million) will be escalated to senior management and the desk, and the conclusion reached is documented.

Pricing – Derivatives

➤ Duration Neutral Swaps

- An inventory download is generated from Quest at the end of every month
- Index spreads are updated from Lehman Live
- A download is obtained from DMS for trade specific details
- Market value is calculated in the excel model
- Resulting market value is compared against basis in Quest.
- Any over or under valuations exceeding established thresholds (\$100k) are investigated, discussed with front office and conclusions are documented.

➤ Total Return Swaps

- An inventory download is generated from Quest at the end of every month
- Index returns are updated from Lehman Live
- Libor is obtained either from BBA website, Lehman fixed income research or Bloomberg
- A download is obtained from DMS for trade specific details
- Market value is calculated in the excel model
- Resulting market value is compared against basis in Quest.
- Any over or under valuations exceeding established thresholds (\$100k) are investigated, discussed with front office and conclusions are documented.

Pricing – Escalation / Resolution

- Positions that have pricing variance in excess of established thresholds are discussed with the business
- Based on discussion with the business, mark adjustments are made, if required, or the reason for not making a mark adjustment is documented in the pricing files
- Pricing variance threshold
 - PTG - \$1mn overvaluation, \$3mn undervaluation
 - B-Notes/ Mezz - \$1mn overvaluation, \$2mn undervaluation
 - REIT LOC - \$1mn overvaluation, \$2mn undervaluation
 - CMBS Bonds / IO's - \$500K
 - RE Derivatives:
 - CMBX: \$100k
 - CDS on CMBS: \$1 million
 - TRS / DNS: \$100k
- Marking Methodology
 - Consolidated Assets - LOCOM (per FAS144)
 - MTM Assets – Fair Value

Additional Valuation / Control Procedures

- **Property Sales and Payoff Summary**
 - All deals with LOI or under contract and/ or in discussion for a DPO are reviewed for potential mark adjustments
 - The business provides PC with periodic updates of the Contracts Summary schedule
 - PC reviews and recommends for potential mark adjustments, if any

- **Quarterly Deferred Interest, Accumulated Preferred Returns, and Exit Fees**
 - Quarterly review for all PTG assets if any deferred interest, accumulated preferred or exit fees could be taken to P&L.

- **Quarterly Valuation Review**
 - A very detailed asset by asset review of pricing variances for all PTG assets
 - Research is conducted for each position with pricing variances exceeding thresholds based on Asset Summary Reports (ASRs), Deal Updates on Servicer web-sites, and discussions with the business and asset managers

Property Sales and Payoff Summary *(a/o 11/30/07)*

\$ millions

Inv Type	FAS144	Status	Property Name	BS Value	Est. Price	Est. P&L	Pricing Comment
<u>Under Contract</u>							
Equity	No	Stevenson Point's 8 acre parcel is under contract for \$4,650,000. The closing is scheduled for Dec. 4th. LB will receive 99% of the the estimated net sales proceeds of \$4,300,000.	PCCP LB Stevenson LLC	2.0	4.7	4.3	Marked up by \$2mm in Nov 07
Debt	No	The 215 key Crowne Plaza in Oklahoma City is under contract for \$10,800,000. The buyer, The Tabani Group is scheduled to close on Dec. 4th. Driftwood Ventures will continue to own The	Hilton Portfolio	13.2	10.8	3.0	Marked up by \$3mm in Nov 07
Debt	Yes	97% of these Charlotte condo units are sold. Closings have been averaging only 11 per day so it will be December 2007 when LB is projected to be paid off in full. The Bof A first mortgage has approx. \$4mm left to payoff before LB will start receiving net sales proceeds. LB's may receive some paydown of its mortgage in the last week of November. In summary, LB expects to be full paid off by end of Dec. 2007.	Trademark Condos	10.4	15.2	4.8	FAS144 asset marked at cost
Equity	Yes	Property is under contract for \$101,000,000 with a closing on or about 1/31/08.	Pearson Square	10.2	101.0	0.2	Immaterial P&L
<u>Negotiating - No Contract</u>							
REO	Yes	This property has been on the market most of 2007. Several potential buyers decided to not proceed after the due diligence period. There are 4 new offers from the most recent marketing effort. It is expected that a PSA will be executed at approx. \$4.5mm. A close in Jan. 2008 is the objective.	LB Emerald LLC	3.3	4.5	0.9	Immaterial p&l