From: Weiss, Jeffrey L [jweiss@lehman.com]. Sent:7/11/2008 2:42 PM.
To: Wieseneck, Larry [lwiesene@lehman.com]; McGee III, Hugh E [hmcgee@lehman.com].
Cc: .
Bcc: .
Subject: RE: Green Acres - Accounting Update.

That's big

-----Original Message-----
From: Wieseneck, Larry
Sent: Friday, July 11, 2008 2:42 PM
To: McGee III, Hugh E; Weiss, Jeffrey L
Subject: Fw: Green Acres - Accounting Update

Initial view now is that accounting hurdle will be cleared for a spin.

----- Original Message -----
From: Kerstein, Daniel
To: Wieseneck, Larry; Erickson, David; Whitman, Brad; Beeson, Lisa E
Cc: Edelman, Hal; Wiegenfeld, Yoav; Viscardi, Tony; O'Reilly, David;
Kashdin, Daniel A
Sent: Fri Jul 11 14:17:16 2008
Subject: Fw: Green Acres - Accounting Update

Please see below. While not without challenges internal perspective on
accounting is that a spin can be accomplished.
Please let me know if there are questions.

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ph: (212) 526-0406
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daniel.kerstein@lehman.com

----- Original Message -----
From: Kashdin, Daniel A
To: Kerstein, Daniel
Cc: Wiegenfeld, Yoav
Sent: Fri Jul 11 14:03:36 2008
Subject: Green Acres - Accounting Update

Daniel,

As requested, here is a summary of our call with accounting policy on
Lehman's ability to execute the spin-off alternative.

* SpinCo will need to be deemed an operating business. Could help
simplify divestiture analysis and substantiate that seller financing is
corporate debt
* Two key conditions must be met to qualify as a divestiture for
accounting purposes.
* 1. Prove seller financing is at arm's length, market terms. Can
look to market comparables (e.g., REITs)
* 2. Third party participation in financing to prove there is not
a continued necessity for Lehman to provide financing. Would be helpful
if third party participates in mezzanine tranche

* To preclude consolidation, there will need to be a substantial amount of equity in the deal. Also need to prove SpinCo is not operating substantially on Lehman's behalf (e.g., may put pressure on analysis if SpinCo management works on Lehman investments going forward)

Income Statement / Balance Sheet Impact
* Spin will qualify as equity transaction. Further losses upon spin limited to further impairment of assets from current marked levels
* Seller financing should qualify as Level 2 asset. Will be MTM; however, magnitude and volatility of marks should be less than equity marks would be. Level 2 mark will take indexes into account; may be possible to hedge a portion of risk from index volatility
* If Lehman retains equity of less than 20%, would have to MTM
* Stockholder's Equity in balance sheet would be reduced by amount of equity distributed

Next Steps
* Martin Kelly is going to speak with E&Y engagement partner (highly confidential basis) to get initial reaction
* Likely that E&Y would require Lehman to pre-clear transaction with SEC

Daniel Kashdin
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