

From: Walker, George H [gwalker@lehman.com].

Sent: 8/11/2008 11:30 AM.

To: Fuld, Dick [lbexec1@lehman.com]; McDade, Bart [bmcdade@lehman.com].

Cc: .

Bcc: .

Subject: Fw: Confidential: IMD Options.

Fyi - trying to build consensus to take LPBE off the table (so we can focus on fewer options).

----- Original Message -----

From: Komaroff, Andrew

To: Erickson, David; Wieseneck, Larry; Shafir, Mark G; Mehta, Punit (NY); Reilly, Brian; IMD Executive Committee

Cc: Rees, Michael

Sent: Mon Aug 11 11:26:41 2008

Subject: Confidential: IMD Options

In the event the Firm decided that taking IMD public was the preferred path, we have outlined preliminary thoughts on relative merits of direct IPO versus LBPE alternative.

We'd like to make a "go/no go" decision on pursuing LBPE option no later than Wednesday (8/13) given the timeframe involved. Appreciate any perspectives on the attached – Did we get it right? What are we missing?

Please do not circulate document given sensitivity.

Thanks, A <<IMD Options (8.11.08).doc>> ndy

<<IMD Options (8.11.08).doc>>

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LBPE Versus NYSE IPO Announcement (Both assume Mid- Sept. Announcement)

	LBPE	IPO Announcement
Certainty	<ul style="list-style-type: none"> • Absolute as long as LBPE shareholders approve 	<ul style="list-style-type: none"> • Subject to Market conditions <u>and</u> Firm not altering decision (assumption is Firm flexibility is worth less to Firm than deterioration if IMD value if key stakeholders don't know path forward) • MITIGANT: Series of steps that commit Firm to path could include: <ul style="list-style-type: none"> ○ Definitive public announcements ○ 2008 Comp plan that assumes IMD public in 2009 (e.g., Cash grants that convert to IMD stock if IPO) ○ Immediate pursuit of legal/economic separation of IMD (structural changes, services agreements) ○ Agreement on how to deal with staffing levels/new initiative dollars pending separation ○ Clear communication to IMD employees as to how they will participate in IPO
Employee Reaction	<ul style="list-style-type: none"> • Values certainty • Questions around receiving/converting equity to a Euronext company with limited liquidity 	<ul style="list-style-type: none"> • Questions Firm commitment as LEH stabilizes; willingness to “wait” 6-8 months process? • Clear sense of what they are signing up for if receiving/converting equity
Market Reaction	<ul style="list-style-type: none"> • Risks perception of “hasty” vs. “clever” (unlike KKR, have to wait to consummate transaction and migrate to NYSE) 	<ul style="list-style-type: none"> • Positive – view of IMD as strong business capable of being distinct public co, and allowing LEH to control % ownership

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	LBPE	IPO Announcement
Client Reaction	<ul style="list-style-type: none"> • Values certainty, but still has interim exposure until closing 	<ul style="list-style-type: none"> • Questions Firm commitment as LEH stabilizes – can be convinced
Minority Stakes	<ul style="list-style-type: none"> • Most likely Shaw would have to be excluded given short time frame (other stakes should be feasible); Shaw is ~25% of EBITDA '09 Forecast 	<ul style="list-style-type: none"> • Time will open the door for creative structures around Minority Stakes that could facilitate greater inclusion
Employee Equity/Compensation Structures	<ul style="list-style-type: none"> • Unclear if we'd need definitive resolution of how employees equity awards would be converted at time of announcement; if adjustment comes from LEH piece might be able to defer • Valuation would need to assume some comp structure (presumably existing given time frame which means need mechanics for adjustment pre NYSE listing) 	<ul style="list-style-type: none"> • More time to definitively decide on both Equity and Comp structures
IMD Readiness	<ul style="list-style-type: none"> • Allows for more gradual transition to operating as a public company 	<ul style="list-style-type: none"> • Need to make sure prepared to operate under SEC/NYSE and Analyst scrutiny in <9 months
External Investor Participation	<ul style="list-style-type: none"> • Certainty of outcome, and convenient IPO path may increase feasibility of attractive deal 	<ul style="list-style-type: none"> • Slower process with greater clarity around financials may avoid Investors underbidding in order to protect themselves (this week's prelim bids will be instructive)