

**From:** Reilly, Gerard [greilly@lehman.com]  
**Sent:** Saturday, July 19, 2008 7:19 PM (GMT)  
**To:** Kelly, Martin [martin.kelly@lehman.com]  
**Subject:** Re: More questions

---

Great day  
-----

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

From: Kelly, Martin  
To: Reilly, Gerard  
Sent: Sat Jul 19 11:44:10 2008  
Subject: Re: More questions

Thx and agree re L3. Ed in because of new role in imd? He must be really unhappy. Is ian in? I heard nothing from him last 36 hrs and hope it stays that way..... You at beach? As good as it gets.....

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

From: Reilly, Gerard  
To: Kelly, Martin  
Sent: Sat Jul 19 09:58:07 2008  
Subject: Re: More questions

I think if we get 3rd party debt investors we could get there. Without that it would be hard as we sell L3 assets and finance them which normally be L2 but with no independent investors hard to argue we got discovery on L3 asset value which would be the case in a normal sale and financing.

I have heard as much as 14b of equity needed on 35b of assets. Does not leave remaining co w much. Would also be great debate on transfer prices.

Think there are 4 workstreams going on but 2 people are working on this weekend are this and partial IMD sale around 50%. Ed was asked to work the weekend he just can't get away, not happy.

2 other workstreams BS and cost reductions. All to happen within 3 weeks. Should be all over just in time for the end of summer.

I do not plan on going in unless asked to do so.

Gerry  
-----

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

From: Kelly, Martin  
To: Reilly, Gerard  
Sent: Sat Jul 19 08:24:25 2008  
Subject: Re: More questions

Anything going on this weekend? Assume no need to be in the office?

Construct would be a spin of the entire RE business to shareholders. Say 20% equity, 10% mezz and 70% debt in the capital

structure of spin co. We would own no equity and a large part of the mezz and debt. Assume it is off BS (that's part of the reason we need third party debt). How do you think about the level 2 versus 3 characterization? And if level 2 day 1 under what conditions it may become level 3 in the future?

-----  
----- Original Message -----  
From: Kelly, Martin  
To: Reilly, Gerard  
Sent: Fri Jul 18 21:41:52 2008  
Subject: Re: More questions

Yes commercial re

-----  
----- Original Message -----  
From: Reilly, Gerard  
To: Kelly, Martin  
Sent: Fri Jul 18 19:26:55 2008  
Subject: Re: More questions

Is this real spin related?  
-----

----- Original Message -----  
From: Kelly, Martin  
To: Kerstein, Daniel; Wieseneck, Larry; Whitman, Brad  
Cc: Reilly, Gerard  
Sent: Fri Jul 18 19:14:07 2008  
Subject: Re: More questions

Suggest we have a call with Gerry Reilly who runs product control (cc'd). Although we had a framework on adoption of fas 159/157, there have been many changes during this environment and it ultimately comes down to pricing transparency, not the media version which is difficulty of valuation. So, if we own a position and there is no trading to validate valuation over a period of time, then the position would need to move to level 3. I'll organize a call with gerry. It is tough to structure around other than to have some paper away from us and some market in which it trades from time to time.

-----  
----- Original Message -----  
From: Kerstein, Daniel  
To: Kelly, Martin; Wieseneck, Larry; Whitman, Brad  
Sent: Fri Jul 18 18:30:55 2008  
Subject: Re: More questions

Can we get guidelines used by product control so we can backsolve what we structure to meet the level 2 requirements?

Daniel Kerstein  
Lehman Brothers  
Global Finance Solutions  
ph: (212) 526-0406

fax: (646) 885-9267  
daniel.kerstein@lehman.com

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

From: Kelly, Martin  
To: Kerstein, Daniel; Wieseneck, Larry; Whitman, Brad  
Sent: Fri Jul 18 18:27:43 2008  
Subject: Re: More questions

We definitely care - L2 clearly preferable and I believe supportable. Another reason that third party debt with some pricing transparency is important. Question we need to deal with is under what conditions the debt could flip from level 2 to 3 in the future - ie no traded prices for xx period of time. Need to check with product control guys (who tag this) on this. Also stress around a tfr from 2 to 3 higher with mezz than debt as somewhat ratings-based.

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

From: Kerstein, Daniel  
To: Wieseneck, Larry; Whitman, Brad; Kelly, Martin  
Sent: Fri Jul 18 18:15:16 2008  
Subject: Re: More questions

Ok will try to get to Martin to confirm but conversations we've had until to know all pointed to the loans being level 2.

Daniel Kerstein  
Lehman Brothers  
Global Finance Solutions  
ph: (212) 526-0406  
fax: (646) 885-9267  
daniel.kerstein@lehman.com

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

From: Wieseneck, Larry  
To: Kerstein, Daniel; Whitman, Brad; Kelly, Martin  
Sent: Fri Jul 18 18:01:32 2008  
Subject: Re: More questions

We need to know what it is

Level 2 better

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

From: Kerstein, Daniel  
To: Wieseneck, Larry; Whitman, Brad; Kelly, Martin  
Sent: Fri Jul 18 17:53:31 2008  
Subject: Re: More questions

Have discussed briefly with Martin and devil clearly in details but should be level 2 (am assuming we don't want level 3, but if did could maybe get there as alternative).  
Martin you agree?

Daniel Kerstein  
Lehman Brothers  
Global Finance Solutions  
ph: (212) 526-0406  
fax: (646) 885-9267  
daniel.kerstein@lehman.com

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

From: Wieseneck, Larry  
To: Whitman, Brad; Kerstein, Daniel  
Sent: Fri Jul 18 17:48:24 2008  
Subject: More questions

Will the loans to Spinco be Level 3 assets?

-----