



**PSERS PRIVATE INVESTMENT PROGRAM**

**Recommendation for Investment in  
Lehman Brothers Merchant Banking Partners IV, L.P.**

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# LEHMAN BROTHERS MERCHANT BANKING PARTNERS IV, L.P.

## EXECUTIVE SUMMARY

### Overview

Lehman Brothers Merchant Banking Partners IV L.P. (the “**Partnership**” or “**Fund IV**”) is a global private equity investment fund sponsored by Lehman Brothers Holdings Inc. (“**LBHI**” and together with its affiliates, “**Lehman Brothers**” or the “**Firm**”). Lehman Brothers Merchant Banking Associates IV L.P., an affiliate of LBHI, will be the general partner of the Partnership (the “**General Partner**”). The Partnership will be managed by the Lehman Brothers Merchant Banking Group (“**Lehman Brothers Merchant Banking**” or “**LBMB**”) and will be formed to make private equity investments primarily in middle-market companies in North America, the member states of the European Union (“**EU**”), EU acceding countries, EU candidate countries and the European Free Trade Association (“**EFTA**”) countries (such European countries collectively, the “**Target European Countries**”). To the extent Fund IV invests in Europe, it intends to focus primarily on investments in countries where Lehman Brothers has an active presence, which as of the date hereof, include Austria, the Benelux countries, France, Germany, Italy, the Scandinavian countries, Spain, Switzerland and the United Kingdom. The Partnership’s objective is to achieve significant long-term capital appreciation through investing in a diversified group of established operating companies in partnership with the management teams of those enterprises. The Partnership will seek to maximize the returns on its investments by working with the management teams to grow the revenues, earnings, and cash flows of portfolio companies and through the prudent use of financial leverage.

Fund IV (together with its parallel investment entities (the “**Parallel Funds**”)) is seeking total capital commitments of \$1.5 billion. Lehman Brothers and eligible employees will invest up to \$250 million in the Partnership. Lehman Brothers Merchant Banking expects to benefit significantly from its relationship with Lehman Brothers by seeking to leverage the Firm’s extensive resources and global network of relationships in order to have a “first-look” at investment opportunities that are within the Partnership’s primary investment focus.

Contemporaneously with the offering of Interests in Fund IV, Lehman Brothers is offering interests in Lehman Brothers Merchant Banking Partners IV (Europe) L.P. (the “**European Fund**”) The European Fund (together with its parallel investment entities) is seeking aggregate capital of €550 million, approximately \$700 million, for investment in the Target European Countries. The European Fund is being formed to make private equity investments primarily in middle-market companies in the Target European Countries on a side-by-side basis with Fund IV.

Lehman Brothers Merchant Banking currently has 26 investment professionals with two dedicated teams in New York and London, including 13 senior members of LBMB (the “**Principals**”) who collectively have over 115 years of experience in private equity.

Since raising Lehman Brothers Merchant Banking Partners L.P. (“**Fund I**”) in 1989, LBMB has managed funds with capital in excess of \$4.7 billion, invested approximately \$3.4 billion in 41 companies, and generated approximately \$8.0 billion in realized gross proceeds and unrealized value, representing a gross compound annual internal rate of return (“**IRR**”) of 36.8% and a 2.3 times multiple of invested capital as of December 31, 2006.

## SUMMARY OF KEY INVESTMENT HIGHLIGHTS

### **Experienced and Stable Management Team**

- Two dedicated teams in New York and London with 26 investment professionals, including 13 Principals
- Extensive expertise in principal investing, M&A, corporate finance and private equity
- Principals have more than 115 years of collective experience in private equity and over 100 years collectively at Lehman Brothers
- Principals have worked together successfully executing and managing 15 investments in Lehman Brothers Merchant Banking Partners III L.P. ("Fund III")
- Advisory Boards and Operating Executives (as defined below) bring extensive relationships and specific expertise

### **Strong Investment Record**

- Since 1989, LBMB has invested approximately \$3.4 billion in 41 companies and generated approximately \$8.0 billion in realized and unrealized value, representing a gross IRR of 36.8% and a 2.3 times multiple of invested capital as of December 31, 2006
- Twenty-four of the forty-one investments have been fully realized, generating a total value of over \$6.6 billion, representing a gross IRR of 37.9% and a 3.0 times multiple of invested capital as of December 31, 2006

### **Distinctive Advantages in Investment Origination**

- Leverage Lehman Brothers' global platform to source proprietary investment opportunities
- "Finder's Incentive Compensation Program" aligns interests
- Thirty-seven of the forty-one investments were sourced through LBMB relationships or relationships of the Firm

### **Global Resources and Collaborative Culture**

- Capitalize on the Firm's global resources to assist in investment evaluation, execution and monetization
- Lehman Brothers and eligible employees intend to commit up to \$400 million to Fund IV and the European Fund

### **Middle-Market Focus**

- Focus on middle-market companies with strong fundamentals, favorable growth prospects and positive cash flow
- Target companies with enterprise value of \$75 million to \$750 million
- Target equity investment of \$50 million to \$150 million per deal

### **Investment Strategy**

The investment objective of Fund IV is to achieve significant long-term capital appreciation through investing in a diversified group of established operating companies in partnership with the management teams of those enterprises. Toward this end, the target return profile of Fund IV is a two to four times multiple of invested capital on each investment in three to five years from the date of each investment, with a target gross IRR of 25%.

## **Investment Focus**

Lehman Brothers Merchant Banking expects that most of the Partnership's investments (together with the Parallel Funds and Lehman Brothers) will be in the range of \$50 million to \$150 million, an amount which reflects the Partnership's diversification strategy and is consistent with LBMB's focus on middle-market investments. The Partnership will typically make investments in established operating companies where it is possible to conduct fundamental investment analysis and for which reliable data exists with which to evaluate historical performance and future prospects. Lehman Brothers Merchant Banking anticipates targeting private companies, divisions or subsidiaries of public and private companies, and public companies with earnings before interest, taxes, depreciation, and amortization ("EBITDA") of at least \$10 million and enterprise values of \$75 million to \$750 million, although the Partnership may make investments outside of this range. Lehman Brothers Merchant Banking will seek controlling ownership stakes in target companies and opportunistically acquire significant minority positions. In either case, LBMB generally will require board representation and will retain control or significant influence over critical capital structure and corporate governance decisions.

In determining the appropriate investment size, LBMB may evaluate investment returns, risks associated with the investment, and the Partnership's potential aggregate investment commitment to a portfolio company (including the opportunity to make follow-on investments). Although some investments may be larger than \$150 million, no single investment by the Partnership will exceed 15% of Fund IV's total commitments without the consent of a Majority in Interest of the Limited Partners or the LP Advisory Committee *provided* that the Partnership may invest up to 25% of aggregate commitments in a single Portfolio Investment if the amount in excess of 15% of aggregate commitments consists of bridge financing. Investments of less than \$50 million may be made, especially where there is a perceived opportunity to make follow-on investments to support acquisitions or other growth initiatives.

Investments will be sought primarily in North American companies and companies in Target European Countries, although investments may have global operations. Lehman Brothers Merchant Banking intends to focus on specific industries in which both the Principals and Lehman Brothers' global network have significant resources and expertise. Targeted industry sectors will include, but are not limited to (i) consumer and retail; (ii) financial services; (iii) natural resources and energy; (iv) general industrials; (v) business services; and (vi) traditional media. The Partnership may invest in other industries and will not make venture capital or real estate investments.

## **Investment Philosophy**

The cornerstone of LBMB's investment philosophy is to make investments in partnership with strong, proven management teams to derive long-term value from fundamental opportunities for growth.

Whether partnering with a management team or strategic corporate entity, LBMB seeks to invest in companies that it believes maintain a sustainable competitive advantage in a particular market and for which the management team has a compelling vision and business strategy.

This investment philosophy, coupled with access to Lehman Brothers' long-standing global client relationships, has been the core contributor to the strong historical performance of LBMB. In practice, LBMB's investment philosophy is supported by several guiding investment principles:

- **Partner with proven management teams.** Partnering with the right management team is essential to investing successfully. Lehman Brothers Merchant Banking seeks to partner with entrepreneurial management teams that are believed to be of high integrity and who have a compelling business strategy, a well-developed framework for implementing their strategy, extensive industry and operating experience, and an established performance record. Furthermore, LBMB seeks to motivate management to achieve both business and financial objectives through equity participation and other appropriate management incentives.
- **Look for sound business fundamentals.** A successful operating strategy focuses on growth prospects as well as managing costs. Accordingly, LBMB seeks to invest in businesses that are believed to have dominant market positions, unique franchises, secure market niches, or distinctive products or services. This focus on sound business fundamentals supports long-term value creation. Lehman Brothers Merchant Banking generally looks for companies that are cash flow positive. Additionally, LBMB believes strong industry dynamics are a key to success, and that even a well-managed business will have difficulty overcoming poor industry dynamics. Lehman Brothers Merchant Banking looks for industries with strong, stable, predictable cash flows and few exogenous risks and is generally cautious of industries with high cyclicalities or government regulation.
- **Buy the right business at the right price.** The historical performance and realistic prospects of a business should support a reasonable valuation that permits the achievement of the Partnership's return objectives. In general, LBMB places greater value on fundamentals than on what may appear to be bargains or undervalued situations. At the same time, a key to success is to generally stay away from auctions in which LBMB does not have a competitive advantage. Proprietary transactions negotiated directly with the seller and in partnership with management offer a greater potential for above average returns. As such, LBMB will generally seek to avoid auctions in which it or a potential partner does not have an advantage and will instead focus on proprietary, negotiated transactions.
- **Use prudent financial leverage.** Lehman Brothers Merchant Banking's objective is to prudently use debt in the capital structure to enhance equity returns, while allowing the company the flexibility to adapt to unforeseen economic conditions and to execute its business plan. Lehman Brothers Merchant Banking seeks to avoid excessive financial risk and does not believe a company should have to grow into its balance sheet. Lehman Brothers Merchant Banking endeavors to provide a capital structure that is appropriate and tailored for the strategy of the company and the industry in which it operates.
- **Control value-impacting decisions.** Lehman Brothers Merchant Banking, through board representation and requisite shareholder rights, will seek to have control or significant influence over decisions that potentially affect the value of each investment. Lehman Brothers Merchant Banking typically requires such rights regardless of ownership percentages. While it is not the intention of LBMB to become involved in the day-to-day operations of each portfolio company, the Principals will seek to bring appropriate resources to bear to maximize investment value.
- **Invest with well-defined exit strategies.** An analysis of exit options and a plan for the realization of gains are an integral part of the evaluation of any investment opportunity and Lehman Brothers Merchant Banking will seek to position its investments for sale via either the public or private markets within a three- to five-year time frame, although longer or shorter periods are possible. Lehman Brothers Merchant Banking continuously measures

the growth prospects of a portfolio company relative to the value of such company in the public and private markets and reviews exit alternatives throughout the life of an investment in order to act expeditiously when favorable market conditions or other monetization opportunities arise.

### **Strategic Approach**

- **Focus on investment opportunities created by proprietary deal flow.** Lehman Brothers Merchant Banking will continue to rely on its Principals' long-term relationships to source transactions. The Principals of LBMB maintain numerous relationships with members of the investment community. These relationships have been established through the 13 Principals' more than 115 years of collective experience in private equity and over 100 years collectively at Lehman Brothers, as well as through the investment activities of LBMB. In addition, LBMB expects to benefit significantly from its affiliation with Lehman Brothers by seeking to leverage the Firm's extensive global network of relationships in order to have a first-look at investment opportunities that are within the Partnership's investment focus. Lehman Brothers Merchant Banking will seek to utilize the Firm's extensive resources throughout the entire investment life cycle. Lehman Brothers Merchant Banking expects that Lehman Brothers' global capabilities should, when appropriate, assist LBMB in (i) finding attractive, proprietary investment opportunities; (ii) facilitating the execution of transactions via access to research analysts and industry specialists during the due diligence process, M&A advisors for the structuring of the deal, and leveraged finance bankers for financing of the transaction; and (iii) maximizing the value of portfolio companies by providing interim strategic advice, add-on acquisition opportunities, and access to capital markets.

Lehman Brothers' global leadership in M&A, financial restructurings, private placements, public market financings, and Private Investment Management frequently positions LBMB to have a proprietary look at attractive investment opportunities. This is because it is often in a company's best interest to negotiate an exclusive private transaction due to timing constraints and confidentiality concerns or to avoid the distraction that an auction process has on the management of a company. Lehman Brothers Merchant Banking's dedicated professionals are positioned to move quickly to take advantage of such opportunities as they arise.

- **Incentive Program.** In order to help maximize the potential deal flow of Lehman Brothers' global institutional and high-net-worth network, Lehman Brothers has established an attractive "Finder's Incentive Compensation Program" to encourage employees to think creatively and to source appropriate investment opportunities for the Partnership. Participation in the program is open to Lehman Brothers' employees, regardless of their title or position within the Firm. The primary purpose of the program is to maximize deal flow and identify attractive investment opportunities. To enhance its effectiveness, the current terms of the "Finder's Incentive Compensation Program" are simple and have few conditions.

Other than the Principals of the Partnership and the Parallel Funds, any Lehman Brothers' employee who sources an investment for Fund IV (which is ultimately closed) or any employee that makes a significant contribution to the execution of a new investment is eligible.

Up to two (2) points of the twenty (20) points of carried interest payable to the General Partner in connection with an investment may be paid to finders or contributors.

- **Focus on middle-market companies.** Lehman Brothers Merchant Banking expects to invest primarily in middle-market companies with strong fundamentals, favorable growth prospects, positive cash flow, and enterprise values of \$75 million to \$750 million, although the Partnership may make investments outside of this range. Lehman Brothers Merchant Banking anticipates that most of the Partnership's aggregate equity investments (together with the Parallel Funds and Lehman Brothers) will be in the range of \$50 million to \$150 million. The Partnership will not make real estate or venture capital investments.

Middle-market companies represent highly attractive investment opportunities for several reasons. Middle-market companies are often poised for significant growth but have limited access to the capital necessary to expand organically or to make acquisitions. Furthermore, many middle-market companies have never benefited from the significant resources offered by an institutional equity sponsor like the Partnership, especially those resources offered through the Partnership's affiliation with Lehman Brothers. Many middle-market companies often have entrepreneurial, growth-oriented management teams but have reached an inflection point between continuing as an entrepreneurial enterprise or maturing to a more professionally managed corporation. Lehman Brothers Merchant Banking, through the experience of its Principals and its affiliation with Lehman Brothers, is positioned to provide the knowledge and expertise to help those middle-market companies improve their management teams, practices and operations so that they can effectively capitalize on their growth opportunities. Finally, the global presence of Fund IV and Lehman Brothers should facilitate the international expansion of these middle-market companies across North America, Europe and into Asia.

- **Sector-focused but not sector-specific.** Fund IV will focus on industries in which both the Principals and Lehman Brothers' global network have significant resources and expertise and will opportunistically capitalize on the Partnership's proprietary deal flow. Targeted industry sectors will include, but will not be limited to (i) consumer and retail, (ii) financial services, (iii) natural resources and energy, (iv) general industrials, (v) business services, and (vi) traditional media. These targeted industry sectors may change over the life of Fund IV due to market conditions or other factors.

## **Operations and Investment Process**

Lehman Brothers Merchant Banking will generally execute its strategy by following the business processes outlined in the following sections.

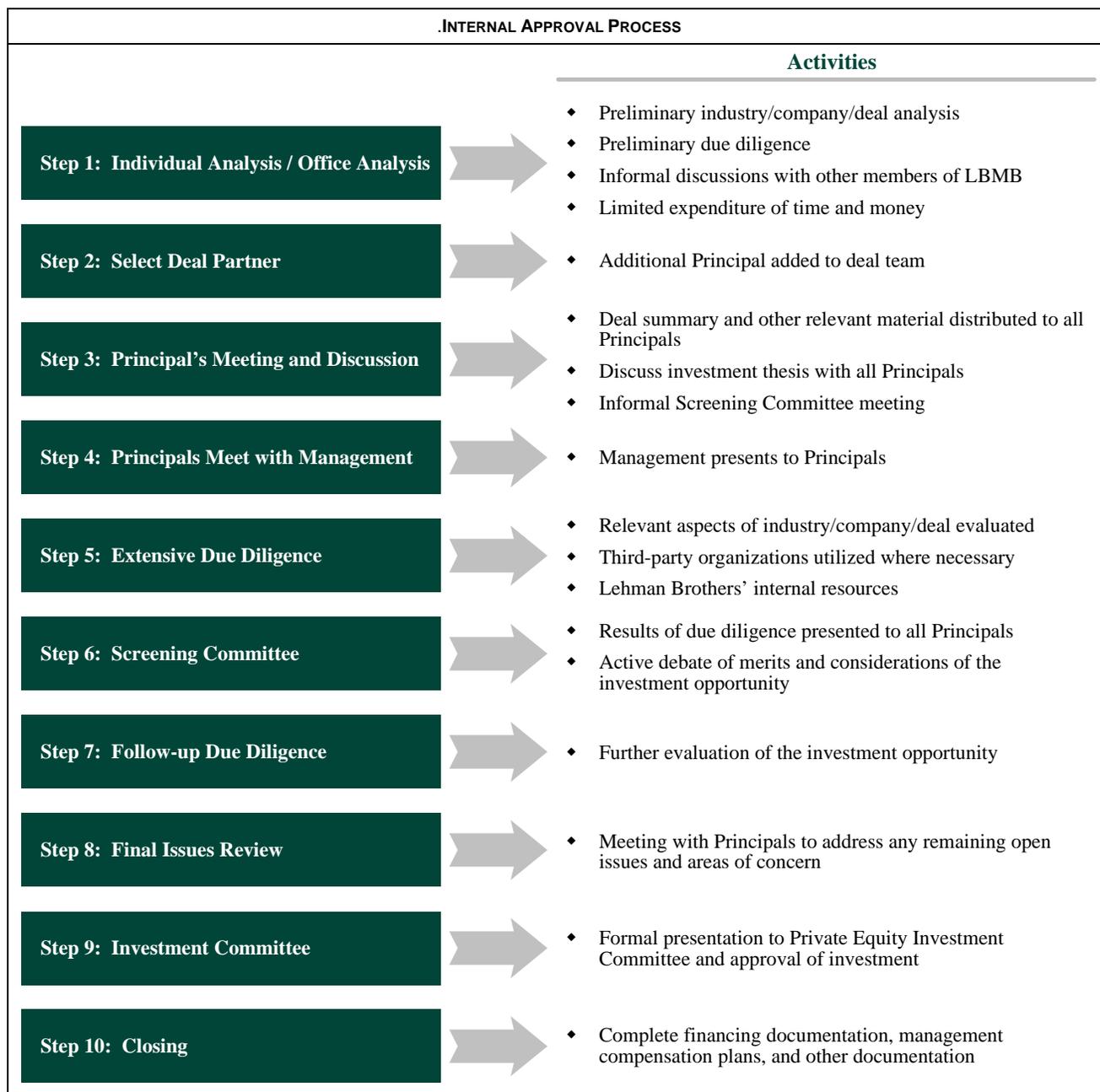
### **Analyzing Investment Opportunities**

Lehman Brothers Merchant Banking performs consistent and rigorous business, industry, accounting, and legal due diligence. In addition, LBMB retains specific advisors to perform detailed management investigations. Lehman Brothers Merchant Banking therefore prioritizes and focuses its efforts so as to prove out the critical assumptions of the investment thesis. Many of the Principals in LBMB will meet the senior management teams, and the Principals on the LBMB deal team will have direct and extensive conversations with customers, suppliers, and other industry references and/or contacts regarding the management team and the company. The deal team also coordinates the diligence efforts that are being provided by various third parties, such as accounting firms, law firms, and consulting firms. Additionally, LBMB often takes advantage of the breadth of services provided by the Firm by working with professionals in investment banking and various research departments to obtain their views on the industry, growth opportunities, and management.

## Internal Approval Process

To sustain a successful investing organization, LBMB has a formal decision-making process designed to ensure that all of the Principals are involved in, and ultimately supportive of, each investment decision.

The ten-step investment decision-making process is intended to facilitate frequent input from the members of LBMB and to promote the timely termination of marginal projects before the substantial investment of either human or financial resources



## Monitoring Portfolio Companies

Lehman Brothers Merchant Banking assigns a dedicated team to work with each portfolio company throughout the period of the Partnership's investment in such company. Following the closing of a transaction, LBMB remains actively involved with each portfolio company in order to help management teams maximize value. Lehman Brothers Merchant Banking monitors its investments through regular communication with senior management and through active participation and oversight as members of the portfolio company's board of directors.

As an affiliate of one of the premier full-service investment banking franchises in the world, LBMB is able to provide its portfolio companies with a distinct set of advantages over other private equity firms. The Partnership's portfolio companies may benefit from Lehman Brothers' global capital markets and advisory expertise. As an institution, Lehman Brothers brings a wealth of value-added expertise, including industry-specific knowledge, tax and structuring advice, capital markets outlook, strategic and competitive evaluation, and financing alternatives. Middle-market companies, in which Fund IV invests, often do not have access to such a relationship and should benefit greatly from this close affiliation. In addition to the professionals from LBMB, portfolio companies also may benefit from the involvement of the Operating Executives.

Representatives of LBMB are generally involved in all strategic and financial decisions of the company and generally assist in executing debt and equity financings, follow-on acquisitions, and sales of non-core assets. Additionally, if business conditions warrant, LBMB may take a more active role in a portfolio company, primarily by ensuring that the appropriate resources and expertise are available to address areas of concern or to improve performance.

- **Board Representation.** Obtaining board representation rights is generally a key investment criterion for LBMB. Board seats are occupied by representatives of LBMB and key external LBMB relationships. At least one Principal will typically serve on the board of a portfolio company. Ideally, two Principals will serve on the board to allow significant focus on the investment and to provide institutional "redundancy." In cases where LBMB is entitled to more than two board seats, the additional seats may be filled by other LBMB personnel or outside individuals, such as the Operating Executives, who can bring relevant experience to board activities. In isolated circumstances, such as a relatively small investment or certain co-investment situations, LBMB may choose to fill its board seat(s) with non-LBMB Principals, such as the Operating Executives or Advisory Board members, or elect not to exercise its right to board representation. In such circumstances, however, LBMB intends to maintain unilateral ability to replace the director, as well as supplemental observation rights.
- **Communication and Expectations.** As part of its investment philosophy, LBMB seeks to partner with senior management teams that share LBMB's strong belief and commitment to constant dialogue and a collaborative business relationship. This goal and operating procedure is discussed in detail with prospective senior management teams prior to making an investment to create the right working relationships and an understanding of LBMB's active role in portfolio company monitoring. In most cases, prior to closing, LBMB and management will agree on a 100-day plan for the period following closing of the investment to ensure a smooth transition and a quick establishment of operating procedures.

## Exiting Investments

Prior to making an investment, the Principals and the senior management team of the portfolio company will seek to establish a clear understanding of the ultimate exit strategy for Fund IV's investment. Developing such an understanding in advance helps to remove uncertainty

regarding management's intentions surrounding exit, the timing of the exit, and the steps necessary to maximize investment value. Following the closing of the transaction, exit strategy discussions with the senior management team are conducted on a regular basis, consistent with LBMB's need to be opportunistic in considering evolving circumstances that may impact Fund IV's exit strategy.

## Advisory Boards and Operating Executives

Lehman Brothers Merchant Banking has assembled Advisory Boards and retained Operating Executives to assist LBMB in accomplishing its investment objectives and executing its strategy.

- **Advisory Boards.** Lehman Brothers Merchant Banking will benefit from the extensive relationships and expertise of the members of the Private Equity Advisory Board and the European Merchant Banking Advisory Council. The Private Equity Advisory Board is comprised of eight seasoned industry executives, and is chaired by Stephen Wolf, chairman of R.R. Donnelley & Sons and former chairman and chief executive officer of US Airways and UAL Corporation. The European Merchant Banking Advisory Council is comprised of eleven highly regarded European industry veterans with diverse experiences and backgrounds, and is chaired by Lord Kenneth Baker, a former Conservative Member of the British Parliament.

There are multiple purposes for having Advisory Boards, including (i) to share fund and portfolio developments with experienced professionals who may provide constructive feedback; (ii) to stay abreast of similar issues being experienced by companies outside of the Partnership's portfolio; and (iii) to help source new investment opportunities. Unlike formal corporate boards, the Advisory Boards will not set the strategy or direction of the Partnership or any portfolio company, and will not make any investment decisions. Instead, they will act as additional deal sources and as sounding boards to discuss various topics. Advisory Boards are expected to meet once per quarter with the Principals of LBMB, as well as the Chief Investment Officer of the Private Equity business, the Head of the Private Equity business, and the Operating Executives. Advisory Board members also may be eligible to participate in the "Finder's Incentive Compensation Program" for helping to source new opportunities that result in an LBMB investment. In addition, Advisory Board members may receive the opportunity to make co-investments, without fees or carried interest, in deals which they have sourced or in which they have been involved or in other Portfolio Investments.

- **Operating Executives.** Lehman Brothers Merchant Banking has retained the services of two Operating Executives who serve as consultants to LBMB but are not employees of either Lehman Brothers or the General Partner. The Operating Executives will bring experience and a knowledge base that is additive and complementary to the Principals, which LBMB expects will add value to its decision-making process. Operating Executives will not be a formal part of the investment decision-making process, but their views will be taken into account by the Principals.

In the early stages of reviewing an opportunity, Operating Executives may assist in the business diligence on a target company. Once an investment is made, Operating Executives may potentially sit on its board of directors or could be transitional executive

officers. Operating Executives have consulting agreements that are reviewed annually. They also may be eligible to participate in the “Finder’s Incentive Compensation Program” and make co-investments, without fees or carried interest, in deals which they have sourced or in which they have been involved or in other Portfolio Investments.

## Management of Fund IV

The General Partner, an affiliate of LBHI, manages the Partnership’s affairs and has the ultimate decision-making authority for the Partnership. The General Partner has appointed Lehman Brothers Private Equity Advisers LLC (the “**Advisor**”), a subsidiary of LBHI registered under the Investment Advisers Act of 1940, to act as the investment advisor to the Partnership pursuant to an investment advisory agreement between the Partnership and the Advisor. The Advisor will receive a fee from the Partnership for performing its services as investment advisor.

The Principals, together with a dedicated professional staff, comprise “Lehman Brothers Merchant Banking” and the Advisor, which will manage and implement the investment program of the Partnership. The Advisor’s principal responsibilities as investment advisor to the Partnership will be to perform the following functions:

- Source and analyze potential investments to be made by the Partnership, including analysis of a company’s products, services, markets, management, financial situation, competitive position, historical performance, and prospects for future performance;
- Structure and negotiate transactions on behalf of the Partnership;
- Identify appropriate sources of capital and arrange the necessary financing for portfolio companies;
- Actively monitor and manage the performance of each portfolio company through representation on its board of directors and, where appropriate, advise the portfolio company’s management on financial, operating, and strategic matters during the term of the investment; and
- Recommend the timing and manner in which Portfolio Investments are realized.

Investments are subject to a formal oversight process that encompasses multi-level management reviews and controls. Prior to the commitment of significant resources to a prospective investment, a preliminary evaluation of the opportunity will be prepared by LBMB’s investment professionals and presented to the LBMB Screening Committee (the “**Screening Committee**”) comprised of LBMB’s Principals. The Screening Committee enables the Principals to oversee directly all investment opportunities and allocate resources to those that they determine are most attractive. Upon approval by the Screening Committee, LBMB will conduct follow-up due diligence, negotiation and structuring of each investment opportunity.

Once the terms and structure of a prospective investment have been completed, a final proposal approved by the Principals will be presented to the Private Equity Investment Committee of the Advisor (the “**Investment Committee**”) for review and approval. In addition to certain Principals of LBMB, the Investment Committee is comprised of some of Lehman Brothers’ most experienced senior executives, many of whom have substantial principal investing experience and have served as members of the Investment Committee throughout the terms of Fund I, Fund II, and Fund III. While the Investment Committee serves as a formal approval mechanism, the input and perspective of its members will be solicited on an informal, as needed basis during the evaluation, negotiation and structuring phases of each investment. In addition, on a quarterly basis, Lehman Brothers’ Private Equity Valuation Committee (the “**Valuation Committee**”), a sub-committee of the Investment Committee, will review Portfolio Investments to evaluate and determine their carrying values. Under the current policy, publicly

traded investments are valued based upon closing prices on the valuation date. Privately held investments are generally valued at cost unless circumstances, such as a material independent third-party transaction or a significant impairment in the financial condition of the portfolio company, other than on a temporary basis, warrant a different valuation, as determined by the

Valuation Committee. These policies may be subject to modification to conform to Lehman Brothers' general valuation policies, as amended from time to time, applicable to its financial reporting. Furthermore, throughout the investment process, LBMB will coordinate with Lehman Brothers' specialized Private Equity business and other administrative personnel on legal, tax, financing and accounting issues. Lehman Brothers may modify the management procedures of the Partnership from time to time.

### **Private Equity Executive Management**

Lehman Brothers Merchant Banking is part of the Private Equity business of Lehman Brothers. The Private Equity business is exclusively responsible for the private equity investing activities of Lehman Brothers and, in addition to the merchant banking funds (Fund I, Fund II, and Fund III), has dedicated funds and/or is pursuing principal investment strategies investing in real estate, venture capital, private fund investments, and credit-related funds. Members of Private Equity Executive Management are actively involved in the management and operations of LBMB.

Following are the biographies of the Private Equity Executive Management.

**Michael J. Odrich** (42) is a Managing Director and Head of the Lehman Brothers Private Equity business, which includes the Firm's Merchant Banking, Venture Capital, Real Estate, Credit-Related, Fund of Funds and other private investment activities. The Lehman Brothers Private Equity business currently manages in excess of \$11 billion of committed and invested capital. Mr. Odrich joined Lehman Brothers in 1986 in the M&A Department. Beginning in 1992, he spent three years as assistant to Lehman Brothers' Chairman and Chief Executive Officer, involved in strategic and financial planning, board of directors matters, merchant banking and investment banking transactions. During this time, Mr. Odrich worked on the spin-off transaction of Lehman Brothers from American Express in 1994. In 1995, he joined the Firm's Private Equity business, responsible for identifying, executing and managing investments for the Merchant Banking Group. Also in 1995, he established the Firm's venture capital investment program and has led that business since inception. Mr. Odrich became Head of Private Equity in 2000. In 2001, Real Estate investing was added to the Private Equity platform, and in 2002, the Credit-Related and Fund of Funds asset classes were added. Mr. Odrich is a member of the Lehman Brothers Management Committee. He also is a member of the Firm's Investment Committee, Valuation Committee, and the Screening Committees for all five asset classes of private equity. Mr. Odrich is currently a director of Regeneration Technologies, Inc. (NASDAQ: RTIX) and Pemstar, Inc. (NASDAQ: PMTR). He is a former director of Active Software (NASDAQ: WEBM). Mr. Odrich holds an M.B.A. from Columbia University and a B.A. from Stanford University.

**Vittorio Pignatti** (48) is a Vice Chairman of Lehman Brothers Holding Inc. and Head of European Private Equity. He is also a member of the Investment Management Division European Executive Committee, Investment Management Division Global Operating Committee, European Operating Committee and the 2006 Senior Client Council. Mr. Pignatti, who joined Lehman Brothers in 1989 as head of Investment Banking in Italy and from 1998 to 2006 headed M&A Europe based in London, brings over twenty-five years of experience in Investment Banking and Merchant Banking in Europe, and unparalleled knowledge of the Italian marketplace. Prior to joining Lehman Brothers, Mr. Pignatti was a Managing Director with Banque Paribas, having previously been a Vice President at Manufacturers Hanover Trust in

New York. Mr. Pignatti holds a BA Honors in Economics and Mathematics from the University of Sussex and a Master's Degree in Economics from Columbia University.

### **Lehman Brothers Merchant Banking Principals**

Lehman Brothers Merchant Banking, headed by Charles Ayres, is comprised of 26 investment professionals with domestic and international backgrounds. These professionals represent a core team of experienced individuals dedicated to LBMB. Furthermore, the Principals bring to the Partnership a unique blend of diverse and complementary skills, experience, and professional relationships developed over their many years in the industry. The Principals of LBMB collectively have over 115 years of experience in private equity and over 100 years collectively at Lehman Brothers and have developed expertise in all aspects of principal investment, M&A, and corporate finance. As discussed below, nine of the 13 Principals have spent their entire or nearly entire careers at Lehman Brothers or its predecessors, ranging from six to 17 years of individual experience. All of the Principals have been involved in managing Fund III and certain Principals have been involved in managing Cap III and Fund II.

### **Principals**

**Charles Ayres** (46) is Global Head of Lehman Brothers Merchant Banking and a Managing Director of Lehman Brothers. Mr. Ayres joined LBMB in 2003, and has over 19 years of private equity experience. Mr. Ayres was a founding partner of MidOcean Partners, a private equity investment firm formed in February 2003, and, prior to that, was Head of DB Capital Partners North America (Deutsche Bank AG) and a member of the DB Americas Regional Executive Committee, where he was responsible for overseeing \$1.2 billion of investments and managing the 25-member investment team. Prior to DB Capital, he was a Managing Partner at McCown De Leeuw & Co., Inc., a \$1.2 billion private equity fund. From 1987 to 1991, he was a Managing Partner at HMA Investments, Inc., a private investment firm focused on middle-market management buyouts. He also worked in the M&A Department at Lazard Freres & Co. and the Corporate Finance Group at Kidder Peabody & Co. He is currently on the Board of the Lennox Hill Neighborhood House and the Special Projects Committee of Memorial Sloan Kettering Hospital and is an active member of YPO, the Young Presidents' Organization, Gotham Chapter. Mr. Ayres holds an M.B.A. from the Amos Tuck School, Dartmouth College and a B.A. in Economics, *magna cum laude*, from Duke University.

**Javier Bañon** (42) is a Principal of Lehman Brothers Merchant Banking, a Managing Director of Lehman Brothers and a member of the Firm's Investment Management Division's European Operating Committee. Prior to joining LBMB in 2004, Mr. Bañon was a Managing Director of DB Capital Partners, responsible for the origination, execution, oversight and monetization of private equity transactions in Latin America. Prior to DB Capital Partners, Mr. Bañon was Chief Financial Officer of International Fierro Group, a privately owned group with industrial and financial operations throughout Spain, the United States and Latin America. Prior to that, he was Deputy General Manager of Serpeska Group, a Spanish group dedicated to food processing and distribution. Mr. Bañon also acted as Attorney at Law for Serpeska Group and other companies and individuals, and has worked on cases in commercial, labor and criminal matters, and cases before the Spanish Supreme Court. Mr. Bañon is currently a director of Patentes Talgo S.A, Sener Aero S.A., and the Lehman Brothers European Foundation. Mr. Bañon holds a Degree in Law and Business Administration from the Universidad Pontificia de Comillas (ICADE) in Spain.

**Alessandro M. Boninsegna** (37) is a Principal of Lehman Brothers Merchant Banking and a Senior Vice President of Lehman Brothers. Mr. Boninsegna joined LBMB in 1997 in London and was based in New York from 1999 to 2001. Prior to joining LBMB, Mr. Boninsegna worked as a

management consultant at Bain & Co. in Milan, Italy, and, prior to that, as a certified public accountant in the international law and accounting firm Haarmann Hemmelrath in Munich, Germany. He is currently a director of the Spumador Group. Mr. Boninsegna holds a B.A. in Business Administration, *magna cum laude*, from Bocconi University in Italy. Mr. Boninsegna is fluent in German and Italian.

**Joe C. Cohen** (39) is a Principal of Lehman Brothers Merchant Banking, a Managing Director of Lehman Brothers and a member of the Firm's Investment Management Division's European Operating Committee. Mr. Cohen joined LBMB in 1996. Prior to joining LBMB, Mr. Cohen was a member of Lehman Brothers Corporate Finance team based in Paris, New York, and London. He joined Lehman Brothers in 1988. Mr. Cohen is currently a director of Mirror International Holdings, Industria de Turbo Propulsores ("ITP"), the Spumador Group and MW Brands SAS. Mr. Cohen holds a BSc. degree in Economics from the London School of Economics. Mr. Cohen is fluent in French.

**Joshua L. Collins** (41) is a Principal of Lehman Brothers Merchant Banking and a Managing Director of Lehman Brothers. Mr. Collins joined LBMB in 1996. Prior to joining LBMB, he was an infantry officer and Captain in the U.S. Marine Corps. Mr. Collins is currently a director of Phoenix Brands LLC, Blount International, Inc. (NYSE: BLT), Enduring Resources, LLC, Pacific Energy Partners, L.P. (NYSE: PPX), Evergreen Copyright Acquisitions, LLC, Eagle Energy Partners I, LP, Cross Group, and Superior Highwall Holding Inc., and an observer on the board of directors of Antero Resources. Mr. Collins holds an M.B.A. from Harvard Business School and a B.A. from the University of Pennsylvania.

**Murat Erkurt** (37) is a Principal of Lehman Brothers Merchant Banking and a Managing Director of Lehman Brothers. Mr. Erkurt started in Lehman Brothers in 1994 as part of the M&A Group in London. He joined LBMB in 1995 in New York. Between 2000 and 2003, Mr. Erkurt was responsible for establishing and managing Lehman Brothers European Venture Capital Group based in London. He has served on the Investment Committees for the North American Venture Capital Fund, Communications Fund and European Venture Capital Fund. Mr. Erkurt is currently a director of Patentis Talgo S.A. Mr. Erkurt holds an M.B.A. from Columbia Business School and an MSc. in Electrical Engineering from Northeastern University.

**E. Daniel James** (41) is Head of Merchant Banking North America and a Managing Director of Lehman Brothers. Mr. James joined LBMB in 1996. Prior to joining LBMB, he was a member of the M&A Group based in London and New York. In 1988, Mr. James joined Lehman Brothers Financial Institutions Group. He is currently a director of Blount International, Inc. (NYSE: BLT), Phoenix Brands LLC and Flagstone Reinsurance Holdings, Ltd. Mr. James holds a B.A. in Chemistry from the College of the Holy Cross.

**Stephen L. Lessar** (33) is a Principal of Lehman Brothers Merchant Banking and a Vice President of Lehman Brothers. Before joining LBMB in 2006, Mr. Lessar was at Goldman Sachs, where he worked in the Private Equity Group and, prior to that, in the Industrials group within investment banking. From 1995 to 1998, he served as an officer in the U.S. Army. Mr. Lessar holds an M.B.A. from The Wharton School of the University of Pennsylvania and a B.S. from the U.S. Military Academy at West Point.

**Christopher R. Manning** (38) is a Principal of Lehman Brothers Merchant Banking and a Managing Director of Lehman Brothers. Mr. Manning joined the Natural Resources Group of Lehman Brothers in 1997 and joined LBMB in 2000. Prior to joining Lehman Brothers, Mr. Manning was the Chief Financial Officer of The Wing Group, a developer of international power projects. Prior to The Wing Group, Mr. Manning was in the investment banking department of Kidder, Peabody & Co. where he was working on M&A and corporate finance. Mr. Manning is currently a director of RSI Holding Corporation, Antero Resources, Pacific

Energy Partners, L.P. (NYSE: PPX), Eagle Energy Partners I, LP, Cross Group, and Superior Highwall Holding Inc., and is an observer on the board of Enduring Resources, LLC. Mr. Manning holds an M.B.A. from The Wharton School of the University of Pennsylvania and a B.B.A. from the University of Texas at Austin.

**Michael Madar** (33) is a Principal of Lehman Brothers Merchant Banking and a Vice President of Lehman Brothers. Prior to joining LBMB in 1999, Mr. Madar worked in investment banking at Lehman Brothers in the M&A Group based in London and, prior to that, at UBS Warburg in the Corporate Finance department based in Paris. Mr. Madar is currently a director of MW Brands SAS. He is a graduate from HEC School of Management in Paris. Mr. Madar is fluent in French.

**David H. Morse** (44) is a Principal of Lehman Brothers Merchant Banking and a Managing Director of Lehman Brothers. Prior to joining LBMB in 2003, Mr. Morse was a founding Partner of Hampshire Equity Partners. Founded in 1994, Hampshire is a middle-market private equity and corporate restructuring firm with \$825 million of committed capital over three investment funds. Prior to Hampshire, Mr. Morse was a vice president in the Corporate Restructuring Group of ING. Prior to ING, he worked in GE Capital's Corporate Finance Group providing one-stop financings to middle-market buyouts. Mr. Morse began his career in 1984 in Chemical Bank's middle-market lending group. Mr. Morse currently is a director of Hunter Fan Company. Mr. Morse holds an M.B.A. from the Amos Tuck School of Dartmouth College and a B.A. in Economics from Hamilton College.

**David A. Willmott** (36) is a Principal of Lehman Brothers Merchant Banking and a Senior Vice President of Lehman Brothers. Prior to joining LBMB in 1997, Mr. Willmott worked in investment banking at Merrill Lynch in the Corporate Finance Group based in Chicago and, prior to that, in the High Yield Finance Group of Merrill Lynch based in New York. He is currently a director of Hunter Fan Company and Evergreen Copyright Acquisitions, LLC, and an observer on the board of directors of Flagstone Reinsurance Holdings, Ltd. Mr. Willmott holds an M.B.A. from the J.L. Kellogg Graduate School of Management of Northwestern University and a B.A. from Williams College.

**Li Zhang** (33) is a Principal of Lehman Brothers Merchant Banking and a Vice President of Lehman Brothers. Prior to joining LBMB in 2000, Ms. Zhang worked in public accounting at KPMG in the audit and tax practices based in New York. Ms. Zhang holds an M.B.A. from the Leonard N. Stern School of Business of New York University and a B.S., *magna cum laude*, in Accounting from Binghamton University. Ms. Zhang is a Certified Public Accountant and is fluent in Mandarin Chinese.

## **CONCLUSION/RECOMMENDATION**

Based upon the successful track record and experience of the principals and the recommendation of PSERS' consultant, Portfolio Advisors, staff recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed \$100 million plus reasonable normal investment expenses, in Lehman Brothers Merchant Banking Partners IV, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.