

Confidential Presentation to:

Ambac

Ambac

Due Diligence Request

February 2007

LEHMAN BROTHERS

Table of Contents (1/2)

As requested the following document contains:

I. Investment Banking and Underwriting Process **BLAIR WORKING WITH EMILY DAVIS AND JEFF RABEL**

- a) Detailed description of Lehman's internal approval process, including committees, people (and their related experience), departmental structure, etc.
- b) Typical timeline from inquiry through approval, execution and syndication.
- c) General description of Lehman's underwriting approach.
- d) Make-up of team in terms of personnel, (structure, functional expertise, etc.)
- e) Discussion of access to target firm physical locations, books and records, etc.
- f) Asset valuation and liability confirmation approach.
- g) Evaluation of financial modeling (who prepares, audits, challenges, etc.).
- h) Use of outside consultants, legal, accounting, etc. in underwriting credit.
- i) Work performed to ensure secured interest in collateral.
- j) In-depth discussion of Lehman's work to uncover potential fraud, misrepresentation, etc.
- k) Analysis of financial ratios and other quantitative information, including any specific standards or thresholds that are mandated by Lehman.
- l) Understanding of Lehman's standard terms, conditions, obligations, commitments, and rights, including their ability to exit a deal.
- m) Extent of reliance on equity sponsor's underwriting work, or understanding of how these efforts may or may not be coordinated.
- n) Evaluation of entity and future prospects based on economic climate, industry health, trends, etc.
- o) Implications related to involvement of other investment banks in deal.
- p) Understanding of how the underwriting process changes when the target firm is the subject of a hostile or non-cooperative takeover.
- q) Availability of underwriting reports to Ambac for names that we become exposed to.

Table of Contents (2/2)

As requested the following document contains:

II. Risk Management RAY TO WORK WITH PAUL SHOTTON AND STEVE SIMONTE TO GATHER MATERIALS

- a) Relevant limits to exposures taken by Lehman.
- b) A review of all models used in establishing limits (i.e. Risk Based Limits, etc.).
- c) Discussion of how limits are monitored.
- d) Time period during which time limits may be exceeded.
- e) Type of approval required to modify or exceed limits.
- f) Remedial actions taken when limits are exceeded.

III. Syndication RAY TO WORK WITH BILL HUGHES

- a) Discussion of syndication options, including positives and negatives.
- b) Syndication timeline.
- c) Understanding of how and why syndications may fail.
- d) Actions taken when syndication fails.

IV. Surveillance RAY TO WORK WITH GREG SMITH TO GATHER MATERIALS

- a) Detailed description of Lehman's internal surveillance process, including people, departmental structure, etc.
- b) Access to target firm physical locations, books and records, etc.
- c) Involvement of original bankers/underwriting team in on-going surveillance of exposure.
- d) Availability of reports to Ambac for names that we are exposed to.

I (a) Lehman's Internal Approval Process Committee Oversight & Governance Framework

- ◆ The Firm has established an independent internal control committee oversight group known as Internal Control Committee Oversight & Governance (ICCOG)
- ◆ ICCOG is responsible for reviewing the Firm's committee framework to ensure that:
 - Appropriate set of committees has been established to review risks
 - Risks are reviewed by the appropriate business/division and/or Firm level committee(s)
 - All risks are reviewed at the appropriate levels of Senior Management
 - All proper infrastructure control groups are represented across the various internal control committees
- ◆ ICCOG has established a Firm-wide definition of "risk" committee
 - A committee established to monitor and provide oversight on the Firm's risk taking activities
 - A committee established to review and approve (reject) proposals covering market and credit risk, financial risk, liquidity risk, technology risk, regulatory risk, legal and compliance risk, operational risk and reputational risk
 - Such risk taking activities may encompass new products, transactions, investments, business areas, practices and reputational issues
- ◆ ICCOG has responsibility for establishing sound practices and for maintaining and monitoring governance standards across the Firm's internal control committees. Toward that end, the group has set forth standards covering the following:
 - Charters
 - Frequency of meetings
 - Quorums
 - Presentations
 - Minutes
 - Tracking & Follow-up for contingencies
- ◆ Internal control committee governance is based upon a multi-layered, coordinated process that facilitates and ensures the appropriate level of risk review, monitoring and mitigation across the Firm
 - The committee structure is comprised of a variety of Firm, divisional and business level committees which together ensure that transactions/proposals are reviewed appropriately
 - Transactions are typically evaluated first at the business unit and/or division level. Once approved there, they may also be subject to a rigorous approval process at one of the Firm level committee
- ◆ The Firm's committee structure and the internal control committees are predicated upon active representation and participation by the internal control infrastructure groups

I (a) Lehman's Internal Approval Process

Transaction Approval Committee Review

- ◆ Committees are also classified with a functional title based upon whether the committee's role is to provide management oversight or to review and approve transactions
 - Management Oversight committees at Lehman include the Operating Exposures Committee and Conflicts Task Force, amongst others
 - Transaction Approval committees include, but are not limited to, the Commitment Committee and Bridge Loan Committee

- ◆ Transaction review is coordinated among both Firm and business/division level committees.
 - High Yield Commitment Committee and High Yield New Business Committee often act as screening committees to review proposed transactions or financing commitments
 - Transactions approved by a Screening Committee are then referred to the Firm level Commitment Committee or Bridge Loan Committee for final approval

- ◆ The structure of each committee review is designed to include relevant business, risk, and control areas of the Firm
 - High Yield Commitment Committee and High Yield New Business Committee members include senior product, trading, origination and regional specialists
 - Commitment Committee and Bridge Loan Committee members include commitment review specialists, representatives from Risk Management, and infrastructure control groups such as Product Control.

I (a) Lehman's Internal Approval Process

Purpose of Transaction Approval Committee Review

1. Evaluate due diligence investigation
2. Review structure of proposed transaction
3. Analyze credit worthiness of issuer / borrower
4. Overall quality control
 - Minimize potential financial and legal responsibilities
 - Protect Lehman Brothers' franchise and reputation
5. Internal communication of our involvement in a transaction
6. Identify other business opportunities for the Firm
7. Resolution of conflicts or other client issues
8. Resource allocation (fee opportunity)
9. Consistent standards across all transactions, businesses, regions and offices

I (a) Lehman's Internal Approval Process Committee Review Process

- ◆ Lehman's approach is to foster multi-disciplinary communication and coordination among business units and internal control infrastructure groups, while providing centralized coordination dedicated to committee governance and the committee review process



I (a) Lehman's Internal Approval Process

Description of Commitment Committees

- 1 U.S. High Yield New Business Committee must provide an initial approval (based on preliminary data) of all High Yield transactions
- 2 Once Lehman Brothers is required to provide an interim capital commitment in anticipation of a subsequent takeout, the High Yield Committee and Bridge Loan Commitment Committee meet jointly to approve the transaction

2 Bridge Loan Commitment Committee

- ◆ Madelyn Antonic
- ◆ Steven Berkenfeld (Chairman)
- ◆ Emily Davis
- ◆ Heidemarie Echtermann
- ◆ Gary Fox
- ◆ Kevin Genirs
- ◆ Jeffrey Goodman
- ◆ Patrick McGarry
- ◆ John Morris
- ◆ John Niebuhr
- ◆ Christopher O'Meara
- ◆ Steven Wolitzer

2 U.S. High Yield Committee

- ◆ Michael Guarnieri (Chairman)
- ◆ Robert Hedlund
- ◆ Fred Orlan
- ◆ James Seery
- ◆ Greg Smith

1 U.S. High Yield New Business Committee

- ◆ Robert Hedlund
- ◆ Bill Hughes
- ◆ Mike Konigsberg (Chairman)
- ◆ Alex Kirk
- ◆ Fred Orlan
- ◆ Rob Redmond
- ◆ Jim Seery
- ◆ Peter Toal
- ◆ Jeff Weiss

Investment Banking / Global Finance
(Industry Group / Sponsors Group / LevFin Group)

Research / Ratings Advisory /
Legal / Tax / Finance

I (a) Lehman's Internal Approval Process

Bios of Selected Commitment Committee Members (1/2)

Steven Berkenfeld

Managing Director, Head of the Corporate Advisory Division, Chairman of the Firm's Transaction Approval Committees

Steven Berkenfeld (47) is a Managing Director of Lehman Brothers, Chairman of the Firm's Commitment Committee, Bridge Loan Committee and Fairness Opinion Committee and Global Head of the Corporate Advisory Division, which includes Legal, Compliance, Transaction Management and Internal Audit. Mr. Berkenfeld also serves as Chief Investment Officer for the Private Equity division business and Chairman of the Firm's Investment Committee. Previously, as an attorney at Lehman Brothers since 1987, Mr. Berkenfeld has had responsibility for all legal matters relating to Lehman Brothers' Investment Banking and Private Equity activities, as well as many of its Fixed Income and Equities businesses. Prior to joining Lehman Brothers in 1987, Mr. Berkenfeld was an Associate at the law firm of Fried, Frank, Harris, Shriver & Jacobson and was engaged primarily in advising clients on mergers & acquisitions and leveraged buy-outs. He currently is a director of RSI Holding Corporation and Verified Identity Pass, Inc. and was a member of the Corporate Financing Committee of the NASD from 2000 to 2005. He holds a J.D. from Columbia Law School and a B.S. from Cornell University.

Madelyn Antoncic, Ph.D.

Managing Director, Chief Risk Officer

Madelyn Antoncic began her career at the Federal Reserve Bank of N.Y. as a research economist. As an economist, she addressed the American Economic Association, was discussant at the Eastern Economic Association and published in the fields of interest rate and exchange rate volatility in refereed academic journals. Her work on interest rate volatility continues to be widely referenced in today's academic literature. She spent the next 12 years at Goldman Sachs where she ran market risk management, was special assistant to that firm's co-vice Chairmen and spent eight years trading mortgage-backed structured products. That was followed by a 2 year stint at Barclays Capital where she built a market risk function for the America's and was the America's Treasurer as well as Treasurer for Barclays Bank PLC, the N.Y. Branch. She was a member of the Board of Directors of Barclays Capital, Inc. and of the Executive Committee of the Board. Today, Dr. Antoncic is a Managing Director, a member of Lehman Brothers Management Committee and is the firm's Chief Risk Officer. She is an integral member of the senior group tasked with engaging with regulators, rating agencies, equity analysts, investors, liquidity providers and the Board of Directors. Dr. Antoncic holds a Ph.D. in economics and finance from The Stern School of New York University, was an Alfred P. Sloan Foundation Doctoral Fellow and has taught economics and international finance as a member of the adjunct faculty at both the graduate and undergraduate schools of The Stern School of New York University. She is a member of the Board of Overseers of the Weill Cornell Medical College and Graduate School of Medical Sciences of Cornell University; is a Centennial Associate of New York University; was a member of the Board of Directors of the Girl Scout Council of Greater New York and was a founding member of the Lehman's women's network. Dr. Antoncic received the "2005 Risk Manager of the Year" award from *Risk*; received the "Stern Women in Business, 2006 Distinguished Alumna" award from New York University Stern School of Business; received the "2006 National Partnership for Women and Children Award" for leadership; and was named among the 2006 "100 Most Influential People in Finance" by *Treasury and Risk Management*.

Michael P. Guarnieri

Managing Director, Head of Global Credit Research

Michael P. Guarnieri is a managing director and head of Global Credit Research for Lehman Brothers. This encompasses the Firm's fixed income research efforts covering High Yield, Investment Grade and Distressed securities on a global basis. He has held this position since July 2003. Prior to this he was global head of High Yield and Distressed Research, a position he held since 1996.

Mr. Guarnieri is also a member of the Firm's High Yield Bond, Leveraged Bank Loan and Bridge Loan Commitment Committees. He has held these positions since 1996. He is presently Chairman of these committees.

From 1990 through 1999, Mr. Guarnieri covered the High Yield Automotive and General Industrial sectors for Lehman Brothers and, prior to Lehman, Kidder Peabody. Mr. Guarnieri has been recognized as an Institutional Investor All American analyst six times since 1990. Before entering High Yield research, he worked in mergers and acquisitions at Prudential Securities from 1988-1990.

I (a) Lehman's Internal Approval Process

Bios of Selected Commitment Committee Members (2/2)

John J. Niebuhr

Managing Director

John J. Niebuhr (60) is a Managing Director of Lehman Brothers in the Rating Advisory Group. Before joining the Firm in 1988, he spent 15 years with Moody's Investors Service in its Industrial Debt Rating department as Vice President and Associate Director. As a senior rating officer, he managed analysts responsible for ratings in the technology, media, telecommunications, transportation, capital goods and auto industries. Since joining Lehman Brothers, Mr. Niebuhr has focused on advising clients in the telecommunications, media and transportation and global power sectors. Mr. Niebuhr currently manages Lehman Brothers' global rating advisory practice. He is also a member of the Firm's Commitment Committee and Fairness Opinion Committee. Mr. Niebuhr is a graduate of Manhattan College.

Christopher O'Meara

Chief Financial Officer, Managing Director

Christopher O'Meara (44) is the chief financial officer and an executive vice president of Lehman Brothers Holdings Inc. Mr. O'Meara was named chief financial officer in December 2004.

As chief financial officer, Mr. O'Meara oversees treasury and tax, financial control, expense management and the Firm's international finance organization.

Mr. O'Meara joined Lehman Brothers in 1994. During his tenure at the Firm, Mr. O'Meara has served in various prominent roles across the Finance Division including financial controller, head of Expense Management, chief financial officer of Investment Banking, and head of Financial Management Information. Mr. O'Meara has served as the Firm's global controller since April 2002.

Mr. O'Meara has extensive experience in the financial services industry. Prior to joining Lehman Brothers, Mr. O'Meara was a managing director and controller of several business units at Bankers Trust Company, and prior to that, was a senior manager in Ernst & Young's Financial Services practice.

Mr. O'Meara graduated from Georgetown University with a degree in business administration, and is a C.P.A.

Fred Orlan

Managing Director, Head of High Yield Trading

Fred Orlan is a managing director and head of the High Yield Department at Lehman Brothers in the U.S. Mr. Orlan joined Lehman Brothers in 1986 and he is currently a member of the High Yield New Issue Commitment Committee and New Business Committee.

Prior to joining High Yield, Mr. Orlan was the Head of Euro Bond Trading in Lehman Brothers' London office. Before arriving in London he was a trader in the corporate bond department for 4 years and began his career as a corporate finance analyst. Mr. Orlan received his undergraduate degree from the University of Michigan.

Steven B. Wolitzer

Managing Director, Executive Chairman of the Global M&A Group

Steven B. Wolitzer (53) is a Managing Director of Lehman Brothers and Executive Chairman of the Global M&A Group. Mr. Wolitzer also serves on the Firm's Fairness Opinion Committee, Investment Committee, Bridge Loan Committee, and Loan Participation Committee. Mr. Wolitzer was one of the founding members of the M&A Group at Lehman Brothers Kuhn Loeb ("Kuhn Loeb") and was first appointed as Co-Head in 1989. He subsequently was appointed Global Head and served in that capacity until 2003. As Executive Chairman, he is now focused full-time on client development and transaction execution. Mr. Wolitzer has advised many of Lehman Brothers' major clients in a wide variety of acquisition, sale and merger and defense assignments. Mr. Wolitzer joined Kuhn Loeb, a predecessor firm, in 1977. Prior to Kuhn Loeb, Mr. Wolitzer, also a CPA, was associated with Arthur Andersen & Co. Mr. Wolitzer graduated *summa cum laude* from New York University with a B.S. degree in accounting and received his M.B.A. degree from Harvard Graduate School of Business Administration.

I (b) Timeline of a Sample Sponsor LBO

ILLUSTRATIVE

TO BE REVISED WITH THE HELP OF JEFF RABEL

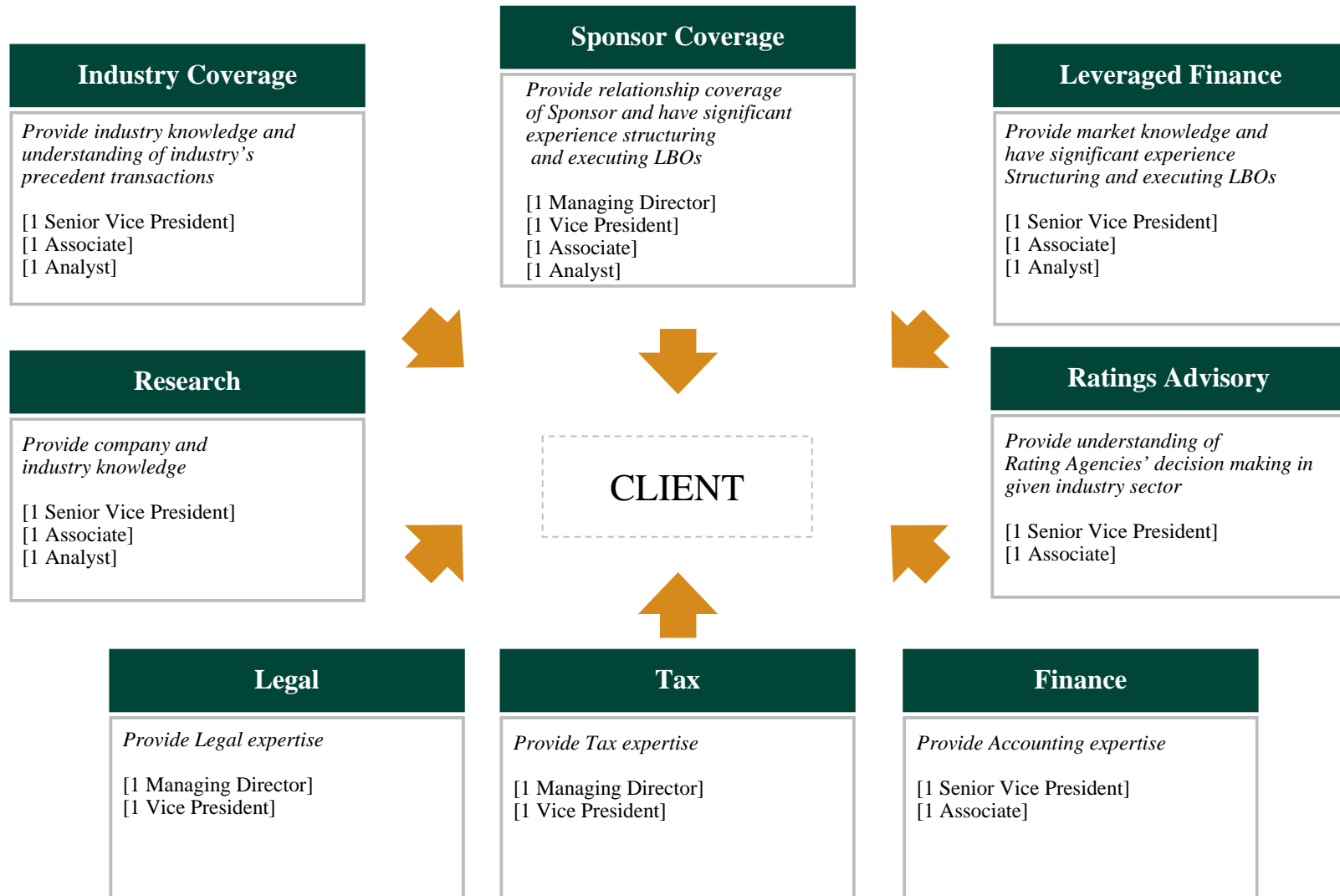
Timing	Event	Activities
◆ T	◆ Sponsors client approaches Lehman with a LBO opportunity	<ul style="list-style-type: none"> ◆ LEH Sponsors deal team prepares preliminary valuation using publicly available information ◆ LEH Leveraged Finance team begins preliminary analysis of financing requirements ◆ LEH deal team performs due diligence on the company and the transaction ◆ LEH deal team prepares committee memo materials
◆ T+ [3] days	◆ Lehman works with Sponsors client to develop first round bid	<ul style="list-style-type: none"> ◆ LEH finalizes initial valuation and financing package ◆ Before bid is submitted, LEH bankers must gain approval from the joint High Yield Committee and Commitment Committee ◆ LEH deal team must follow up on all questions and concerns raised by the committees
◆ T+ [4] days	◆ Sponsor submits initial bid	<ul style="list-style-type: none"> ◆ Once approval is granted by the joint committee, LEH signs a commitment letter guaranteeing financing for the transaction ◆ LEH supports sponsor in submitting its bid and financing package
◆ T+ [7] days	◆ Sponsor submits next round bid	◆
◆ T + [x] days	◆ Sponsor wins the bid	◆ LEH pre-syndicates the financing
◆ T + [x] days	◆ Sponsor is provided with financing	◆ Financing package funds

I (c) Lehman's Underwriting Approach

- ◆ Use of Business MACs
- ◆ Use of Structural and Pricing Flex
- ◆ To come from Ray Kahn's Team

I (d) Make-Up of Team in Terms of Personnel

ILLUSTRATIVE



I (e) Access to Target Firm's Books and Records Information Required in the Committee Memo

IF POSSIBLE, INCLUDE WEST CORP COMMITTEE MEMO AS AN EXAMPLE

- ◆ Insights garnered from access to the target's physical locations, books and records are detailed in the Commitment Committee memo in the following section:

1.5 **Due Diligence** – thorough investigation with respect to the Company and the proposed transaction

- Full business reviews
- Market / competitive dynamics
- Financial performance
- Customer / vendor interviews
- Management interviews
- Accounting due diligence
- Legal due diligence
- Environmental due diligence
- Site Visits
- Management background checks: Lehman conducts background checks using its own Legal Research Library, but occasionally, Lehman Brothers will utilize outside legal firms to do further background checks

It is the responsibility of the banking team to assemble the appropriate support to ensure an effective due diligence process

- Product groups
- Credit ratings advisory
- Fixed income / equity research
- Risk management

I (e) Access to Target Firm's Books and Records

Typical Data Room Index (1/4)

1 Organization and Management

- 1.1. Organizational charts by functional area
- 1.2. Diagram of legal entities
- 1.3. Descriptions of entities – list of facilities
- 1.4. Annual Strategic plans for 2001 – 2006, to the extent available

2. Products and Sales

- 2.1. For each division Sales and gross margin by division, geography and customer channel for 2004 – 2006 & 2007 YTD

3. Customers

- 3.1. Listing of sales by customer
- 3.2. Copies of standard terms of sale forms
- 3.3. Copies of recent price lists, product brochures and promotional material
- 3.4. Describe the process of controlling and managing accounts receivable

4. Suppliers

- 4.1. List of top suppliers / vendors for 2004 – 2006 & 2007 YTD
- 4.2. Copies of standard terms of purchase forms
- 4.3. Details of any contractual agreements with suppliers
- 4.4. Description of supplier selection process and supplier management process
- 4.5. Supply agreements and payment conditions (if not standard terms)

5. Income Statement

- 5.1. Historic income statements: Recent SEC filings, 2003 – 2005 Audited Financials, 2006 Audited Financials (or draft if available)
- 5.2. Monthly / quarterly management reporting packages, incorporating P&L, product, volume and pricing data: 2004 – 2006, 2007 YTD (2007 LTM), Projected for the quarter end June 30, 2007
- 5.3. Historical P&Ls by division compared to budget (if not in monthly / quarterly management reports)
- 5.4. Detailed breakdown of costs, including direct and indirect costs (COGS & SG&A), 2004 – 2006, 2007 YTD, Projected for the quarter end June 30, 2007
- 5.5. Detailed income statement projections, including supporting assumptions (by major product line): volume, pricing, sales, direct costs, SG&A and other costs, as applicable: 2007 – 2011 projections (including quarterly for 2007)
- 5.6. Description of new products: Discussion of projected growth by product and market
- 5.7. Analysis bridging EBITDA growth from 2004 – 2011 (including normalization adjustments)
- 5.8. Any extracts from recent auditors' reports or letters relating to the Company and management's response00

I (e) Access to Target Firm's Books and Records

Typical Data Room Index (2/4)

6. Balance Sheet & Cash Flow Statement

- 6.1. Balance sheet at: December 31, 2004, 2005 and 2006 and March 31, 2007, Projected for June 30, 2007 and December 31, 2007
- 6.2. Monthly / quarterly cash flow statements for the following periods: 2004 – 2006, 2007 YTD, Projected for quarter ended March 31, 2007 and June 30, 2007
- 6.3. Fixed asset register at December 31, 2006 and March 31, 2007
- 6.4. Accounts receivable aging as of December 31, 2005 and 2006, and March 31, 2007
- 6.5. Accounts payable aging as of December 31, 2005 and 2006, and March 31, 2007
- 6.6. Detail of pension and other employee benefit liabilities and latest calculation
- 6.7. Detail of all other provisions (e.g., severance to the extent they are applicable)
- 6.8. Detail of any accruals and deferred payments, including tax items
- 6.9. Detail of any contingent liabilities / off balance sheet items
- 6.10. Accounting and administration policy manual, if available
- 6.11. Report on tax position, including tax basis in assets, NOLs and tax credits
- 6.12. Copy of all correspondence with Internal Revenue Service

7. Financial Obligations

- 7.1. Lease agreements
- 7.2. Any financing arrangements, including special purpose and project financings and all agreements relating thereto (if applicable)
All significant guarantees, sureties, comfort letters, indemnifications, and other similar agreements (if applicable), Commodity hedges

8. Capital Expenditures

- 8.1. Schedule of historical capital expenditures providing details of projects involved for the following periods and showing maintenance versus expansion
CapEx: 2004 – 2006, 2007 YTD
- 8.2. Schedule of projected capital expenditures and details of projects, showing maintenance versus expansion CapEx: 2007 plan, 2008 – 2011 projections

9. Property, Plant and Equipment

- 9.1. List of all facility locations including: Function, Street address, State of facilities (year constructed or occupied, etc.), Leased vs. owned; if leased provide the lease termination date and contract details to the extent available, Major improvements or renovations undertaken (and local approvals), Recent appraisals, if any, Detail of any significant capital requirements anticipated over the next 3 – 5 years
- 9.2. Details of IT systems, including overview of any systems and software handbooks, List of major items of hardware and software, Maintenance information for key assets
- 9.3. List of material non-operating assets which have value, including property, facilities and equipment

10. Material Agreements

- 10.1. Provide copies of all material written agreements and summaries of all unwritten arrangements, commitments and understandings, including: Customer contract terms and conditions, Contracts with suppliers, Third party agreements, Marketing agreements, Profit and loss sharing agreements, Rental and lease agreements, Management agreements, Consulting, management, accounting or other service agreements

11. JVs / Partnerships

- 11.1. List and description of all JVs and partnership arrangements
 - 11.2. Organizational structure and details of JVs and partnerships: Key benefits, Major product lines and markets / destinations, Facilities and employees, Financial statements
-

I (e) Access to Target Firm's Books and Records

Typical Data Room Index (3/4)

12. Intellectual Property

- 12.1. Schedule listing and describing all patents, patent applications, trademarks, trademark applications, copyrights and copyright applications, trade names and registrations used or owned by the Company
- 12.2. Copies of all licenses and licensing or similar agreements relating to the use by the business or of any proprietary information or know-how that is material to the business and / or operations of the business

13. Employees

- 13.1. Employee listing by location and job description
- 13.2. Number by division, location and function – full-time / part-time
- 13.3. Statistical profile: length of service, ages, absentee record, safety record
- 13.4. Review of historical and current labor relations with any significant documents relating to compliance, employment or occupational safety standards; safety certificates (e.g., OSHA, workers compensation)
- 13.5. All forms of employee compensation terms: Hourly, Salary, Full-time and part-time
- 13.6. Employee benefit plans, pension schemes and profit sharing agreements: Health, life and accidental death / dismemberment insurance, Dental insurance, Management long-term disability plans, Employee savings plan (401(k)), or equivalent, Select executive retirement plan, Members benefit guides, actuarial reports, Written and oral severance arrangements, including non-U.S. employment contracts with employees, if any
- 13.7. Employee benefits guide book
- 13.8. Handbooks and directives for employees
- 13.9. Management compensation and contracts; change of control arrangements / benefits, if any
- 13.10. Description of bonus, profit sharing, retirement stock option or other incentive compensation plans
- 13.11. Copy of recruiting / training policies
- 13.12. Current senior management biographies, including responsibilities and length of service with the Company and in the industry

14. Environmental Matters

- 14.1. Copies of all internal or external environmental audits, phase 1 studies, risk assessments or engineering or consultants' reports relating to the properties and facilities of the business, if applicable
- 14.2. Any reports, notices of violation, judicial or administrative proceedings or investigations, orders, notices of any investigation, complaints, inquiry letters or other correspondence relating to any significant purported violation of environment laws, regulations, orders, permits and standards
- 14.3. Description of procedures for ensuring compliance with environmental laws, regulations and standards applicable to the business and the operations of the business
- 14.4. Copies of all material documentation, handbooks and directives, if any, relating to compliance by the business with applicable environmental laws, regulations and standards
- 14.5. Details of any environmental indemnities by the business in favor of any third party. Details of environmental indemnities in favor of the business
- 14.6. List of all material environmental permits

I (e) Access to Target Firm's Books and Records

Typical Data Room Index (4/4)

15. Insurance Matters

- 15.1. All major insurance contracts, policies and certificates of insurance, and the terms of coverage under which the business is insured. For each material insurance policy include a schedule outlining the following, if possible: Name of the insured, Risk covered, Policy limits, Amounts of deductibles, Periodic premiums, Expiration or renewal date, Maximum coverages, Any other significant information
- 15.2. List of all significant claims paid, made or pending under such policies

16. Litigation and Administrative Proceedings

- 16.1. Schedule of all material pending, threatened or likely legal proceedings, arbitrations, governmental investigations or other similar proceedings relating to the business: Parties, Nature of proceeding, Date and method commenced or threatened, Court or arbitration panel where pending and status, Amount of potential exposure, nature of other relief sought, Amount of insurance coverage, if any, and if so, whether any insurer has disclaimed coverage
- 16.2. Copies of all filings, significant documents and significant correspondence for all material litigation identified above
Schedule of all settlements of litigation or arbitration or any waiver or agreement concealing any claim or right, settlement, waiver or agreement
- 16.3. Description of all significant contingent liabilities which could have a material impact on the business and operations of the business, including environmental, product liability or other potential claims relating to the business or any of its material assets

17. Manuals

- 17.1. Customer selling manuals
- 17.2. Other employee training manuals

18. Company Documentation

- 18.1. Articles of Incorporation
- 18.2. By-laws
- 18.3. Board minutes: 2004 – 2006
- 18.4. Federal and State tax returns: 2004 – 200644

I (f) Asset Valuation and Liability Confirmation Approach Information Required in the Committee Memo

IF POSSIBLE, INCLUDE WEST CORP COMMITTEE MEMO AS AN EXAMPLE

- ◆ Insights garnered from Lehman's asset valuation and liability confirmation are detailed in the Commitment Committee memo in the following sections:

3. Financial Results and Projections

3.1 Historical Financial statements

- Summary income statements, balance sheets, cash flows and relevant credit and coverage ratios

3.2 Projected Financials

- Quarterly and forward fiscal year projections prepared by the Company and / or research

4. Valuation – relevant information and analyses supporting the current or proposed valuation of the Company

- Trading comparable company analysis
- M&A comparable transaction analysis
- DCF analysis
- LBO analysis
- Premiums paid
- Sum of parts analysis

6. Litigation and Other Contingent Liabilities – summarize any material litigation over the last five years, including pending or threatened lawsuits

- Include information on any other contingent liabilities such as environmental / product liability or infringement of IP rights

I (g) Evaluation of Financial Modeling

- ◆ Lehman Brothers evaluates several financial models of projections for the target:
 - Upside case: prepared by the target’s management, audited and challenged by the Sponsor, by Lehman Brothers deal team and by Lehman Brothers’ Commitment Committee
 - Base case: prepared by the Sponsor, audited and challenged by Lehman Brothers deal team and by Lehman Brothers’ Commitment Committee
 - Downside case: prepared by Lehman Brothers Research, audited and challenged by Lehman Brothers deal team and by Lehman Brothers’ Commitment Committee

- ◆ Each of these cases is provided in the Commitment Committee memo in the following section:
 - **3.2 Projected Financials**
 - Quarterly and forward fiscal year projections

I (h) Use of Outside Consultants In Underwriting

- ◆ LBO Firms often rely on experts across all areas of their due diligence process including the following:

Due Diligence Focus	Types of Firms	Topics Addressed
Accounting	Big 4 Accounting Firms or FTI, etc.	Quality of earnings report, revenue recognition policy, synergy analysis, tax issues, options issues, material weaknesses, etc.
Business Analysis and Industry Overview	Bain, BCG, McKinsey, industry experts (e.g., consultants or retired executives who may become part of management team if LBO firm's bid is successful)	Competitive position, feasibility of growth prospects/initiatives, assessment of management's projections, customer and supplier due diligence calls
Legal	All major law firms	Full due diligence of documents, legal situations and background check issues
Reputational	Lehman Brothers Due Diligence Group, outside corporate intelligence firms such as Mintz Group, International Risk, Control Risk, etc.	Background checks on the company and its executives/chairman of the Board, review for potential violations of OFAC and FCPA (company specific)
Insurance	Marsh & McLennan, Fisher Harris Shapiro, etc.	Assess adequate coverage levels (insurance for replacement, business interruption, key man, etc.)
Benefits/HR	Marsh & McLennan, etc.	Assess benefits program and HR procedures
Appraisers of Assets	Relevant for specific industries, such as real estate and retailers (example: CB Richard Ellis, Jones Lang LaSalle)	Develop view of asset value
Reserve Engineers	Relevant for specific industries, such as natural resources (examples: Netherland Sewell, Ryder Scott, D&M)	Confirm estimates and categorizations are consistent with management's view
Structural Engineers	Relevant for specific industries, such as utilities and natural resources (example: Black & Veatch)	Condition of assets and feasibility/cost of capital expenditure plan
Environmental	Relevant for specific industries (example: EMG)	Confirm risks and estimates are consistent with management's view

I (i) Work Performed to Ensure Secured Interest in Collateral Sample Asset Coverage Analysis

ILLUSTRATIVE

- ◆ As indicated in the following table, the liquid assets of the Combined Company (A/R, Inventory, PP&E) have book value of \$219.6 million and a liquidation value of \$148.2 million and a resulting committed senior debt liquid asset market value coverage ratio of 0.35x.

Asset Coverage Summary

(\$ in millions)	2006E Pro Forma	
	Book Value	Market Value
Cash	\$41.3	\$41.3
Accounts Receivable	71.0	71.0
Advance Rate	100%	75%
A/R Liquidation Value	71.0	53.3
Inventories	0.0	0.0
Advance Rate	100%	50%
Inventories Liquidation Value	0.0	0.0
Property, Plant and Equipment	107.3	107.3
Advance Rate	100%	50%
PP&E Liquidation Value	107.3	53.6
Total Liquidation Value	\$219.6	\$148.2
Total Assets	\$1,086.1	--
Pro Forma Total Debt as of December 31, 2006	\$596.6	\$596.6
Pro Forma Committed Senior Debt as of December 31, 2006	421.6	421.6
Pro Forma Funded Senior Debt as of December 31, 2006	421.6	421.6
Liquid Asset Coverage (Total Debt)	0.37x	0.25x
Liquid Asset Coverage (Committed Senior Debt)	0.52x	0.35x
Liquid Asset Coverage (Funded Senior Debt)	0.52x	0.35x
Total Asset Coverage (Total Debt)	1.82x	--
Total Asset Coverage (Committed Senior Debt)	2.58x	--
Total Asset Coverage (Funded Senior Debt)	2.58x	--

I (j) Lehman's Work to Uncover Possible Fraud / Misrepresentation Information Required in the Committee Memo

IF POSSIBLE, INCLUDE WEST CORP COMMITTEE MEMO AS AN EXAMPLE

◆ Insights garnered from Lehman's work to uncover possible fraud or misrepresentation are detailed in the Commitment Committee memo in the following sections:

- 1.5 **Due Diligence** – thorough investigation with respect to the Company and the proposed transaction
 - Full business reviews
 - Market / competitive dynamics
 - Financial performance
 - Customer / vendor interviews
 - Management interviews
 - Accounting due diligence
 - Legal due diligence
 - Environmental due diligence
 - Site Visits
 - Management background checks: Lehman conducts background checks using its own Legal Research Library, but occasionally, Lehman Brothers will utilize outside legal firms to do further background checks
 - It is the responsibility of the banking team to assemble the appropriate support to ensure an effective due diligence process
 - Product groups
 - Credit ratings advisory
 - Fixed income / equity research
 - Risk management
- 4. **Management, Directors and Owners** – summary biographies of senior management and directors of the Company
 - Management background checks are very important
 - Include table showing equity ownership on current and pro forma basis
- 5. **Litigation and Other Contingent Liabilities** – summarize any material litigation over the last five years, including pending or threatened lawsuits
 - Include information on any other contingent liabilities such as environmental / product liability or infringement of IP rights

I (j) Lehman's Work to Uncover Possible Fraud, Misrepresentation Auditor Due Diligence Topics and Questions (1/2)

I. Relationship Issues

1. History of the accounting firm's relationship with the company.
 - *[If the accounting firm replaced another accounting firm during the past three years, add: Any issues with transitioning from the prior accounting firm. Any changes in accounting practices from period audited by prior accounting firm (other than as a result of change in GAAP from prior period).]*
 - History of the engagement partner's, other partners' and managers' relationship with the company. Applicability of 5-year rotation requirement.
2. Non-audit services provided to the company and its related entities.
 - Relationships between the accounting firm and the company and its related entities that, in the accounting firm's professional judgment, may reasonably be thought to bear on independence. Confirm independence within the meaning of the Securities Act and SEC regulations.

II. Accounting Controls

1. Relationship with management, audit committee, board of directors.
 - General assessment of internal control system. Letters to management or audit committee regarding internal control and responses from management or audit committee. Any reportable conditions, material weaknesses or deficiencies. Discuss plan for compliance with Sarbanes-Oxley section 404 requirements.
2. Any qualifications or highlighted matters in audit opinion.
3. Internal audit function.
4. Staffing of internal accounting function.

III. General Audit/Reporting Issues

1. General assessment of the company's accounting practices (aggressiveness/ conservatism).
2. Professional judgment about quality of the accounting policies as applied in the company's financial reporting, including consistency of accounting policies and their application and clarity and completeness of financial statements and related disclosures.
3. Any formal or informal disagreements between auditors and management on accounting practices, including with respect to audit scope.
4. Difficulties encountered in dealing with management when performing the audit or quarterly reviews.
5. Major issues discussed with management prior to retention.
6. Material alternative accounting treatments discussed with management.
7. Any significant unusual transactions recorded by the company or any significant accounting policies used by the company related to controversial or emerging areas for which there is a lack of authoritative guidance.
 - Significant audit adjustments (whether recorded or not). Unadjusted audit differences considered by management to be immaterial.
 - Timeliness of financial reporting and review of quarterly results. Monthly closings.

I (j) Lehman's Work to Uncover Possible Fraud, Misrepresentation Auditor Due Diligence Topics and Questions (2/2)

III. General Audit/Reporting Issues (continued)

8. Are you aware of any proposed adoption or change in accounting principle that could reasonably be expected to have a material impact on the company's financial statements, which principle has not been disclosed in the offering document?
9. Are you aware of any significant differences in accounting policies between the company and those of other companies in this industry?
10. Are you aware of any transactions between the company and any affiliate or other interested person (including, but not limited to, directors and officers of the company) which have not been disclosed in the offering document or which have been amended since 2002?
11. Are you aware of any off-balance sheet arrangements or obligations that are not disclosed in the offering document?
12. Are you aware of any significant contingent liabilities that are not disclosed in the offering document?

IV. Specific Reporting Issues (discuss to the extent applicable)

1. Any issues related to revenue recognition.
2. Any issues related to reserves, including restructuring reserves, benefits reserves (including assumptions on costs and investment returns), acquisition reserves, insurance reserves (if applicable), warranty or bad debt reserves, inventory reserves, litigation reserves.
3. Extraordinary, unusual or non-recurring items or charges recorded or anticipated.
4. Acquisitions, dispositions and any adjustments still to be accounted for.
5. Significant tax issues.
6. Policies regarding capitalization of expenses, including by category and amortization periods.
7. Carrying values of assets and policies regarding write-downs of assets.
8. Any issues related to assets held for sale or discontinued operations.
9. Price, commodity, interest rate, and foreign exchange hedging activities.

V. Offering Related Issues

1. EBITDA and adjustments to EBITDA disclosed in offering document.
2. Confirm that comfort letter will be in the form agreed with underwriters/initial purchasers and their counsel, including that there will be no changes, increases or decreases in the line items specified in the letter for period subsequent to period covered by financial statements in offering document.
3. Are there any other questions or topics relating to accounting matters that you believe we should be aware of in the context of this securities offering that we have not already discussed and is not disclosed in the offering document?

I (k) Analysis of Financial Ratios / Quantitative Information

- ◆ Lehman Brothers evaluates the target's financial ratios and quantitative information during each committee review:
 - High Yield New Business Committee
 - High Yield Commitment Committee
 - Bridge Loan Commitment Committee

- ◆ Lehman's participation in a deal is terminated if any of the three committees do not approve the target's financial ratios and quantitative information

- ◆ Financial Ratios and Quantitative Information are in the Commitment Committee memo in the following sections:
 - 3. Financial Results and Projections**
 - 3.1 Historical Financial statements**
 - Summary income statements, balance sheets, cash flows and relevant credit and coverage ratios
 - 3.2 Projected Financials**
 - Quarterly and forward fiscal year projections prepared by the Company and / or research
 - 4. Valuation** – relevant information and analyses supporting the current or proposed valuation of the Company
 - Trading comparable company analysis
 - M&A comparable transaction analysis
 - DCF analysis
 - LBO analysis
 - Premiums paid
 - Sum of parts analysis

I (1) Lehman's Standard Terms

- ◆ To come from Ray Kahn's team

I (m) Extent of Reliance on Sponsor's Underwriting Work

- ◆ Lehman Brothers has access to the Sponsor's underwriting work and conducts its own due diligence in a coordinated manner
- ◆ The findings of this due diligence are detailed in the following section of the Committee Memo:

1.5 Due Diligence – thorough investigation with respect to the Company and the proposed transaction

- Full business reviews
- Market / competitive dynamics
- Financial performance
- Customer / vendor interviews
- Management interviews
- Accounting due diligence
- Legal due diligence
- Environmental due diligence
- Site Visits
- Management background checks: Lehman conducts background checks using its own Legal Research Library, but occasionally, Lehman Brothers will utilize outside legal firms to do further background checks

It is the responsibility of the banking team to assemble the appropriate support to ensure an effective due diligence process

- Product groups
- Credit ratings advisory
- Fixed income / equity research
- Risk management

I (n) Evaluation of Target Based on Economic Climate and Industry Health, Trends, etc.

- ◆ Lehman Brothers independently evaluates the target and its future prospects based on the economic climate, industry health, trends, etc.
- ◆ The findings of this due diligence are detailed in the following sections of the Committee Memo:

1.5 **Due Diligence** – thorough investigation with respect to the Company and the proposed transaction

- Full business reviews
- Market / competitive dynamics
- Financial performance
- Customer / vendor interviews
- Management interviews
- Accounting due diligence
- Legal due diligence
- Environmental due diligence
- Site Visits
- Management background checks: Lehman conducts background checks using its own Legal Research Library, but occasionally, Lehman Brothers will utilize outside legal firms to do further background checks

It is the responsibility of the banking team to assemble the appropriate support to ensure an effective due diligence process

- Product groups
- Credit ratings advisory
- Fixed income / equity research
- Risk management

2. **Business of the Company** – describe the following:

- Principal products or services
- Industry overview
- Competitive position in market
- Business segment financials
- Corporate structure
- Capitalization (actual and pro forma)
- Acquisition history

I (o) Implications Related to Involvement of Other Investment Banks in a Deal

- ◆ Having other investment banks in a deal has the following implications:
 - Provides an additional due diligence check on the target
 - Provides an additional check on the market's receptivity to the transaction
 - Reduces Lehman's risk by reducing the Firm's exposure

I (p) How the Underwriting Process Changes In Hostile / Non-Cooperative Takeovers

- ◆ Hostile / non-cooperative takeovers differ from cooperative takeovers in the following ways:
 - The process is often accelerated in hostile takeovers
 - As a result of this acceleration, many times full due diligence cannot be performed
 - Add additional points from review of Committee Memos from hostile transactions, e.g., Harrah's (to come from Emily Davis)

I (q) Availability of Underwriting Reports to Ambac

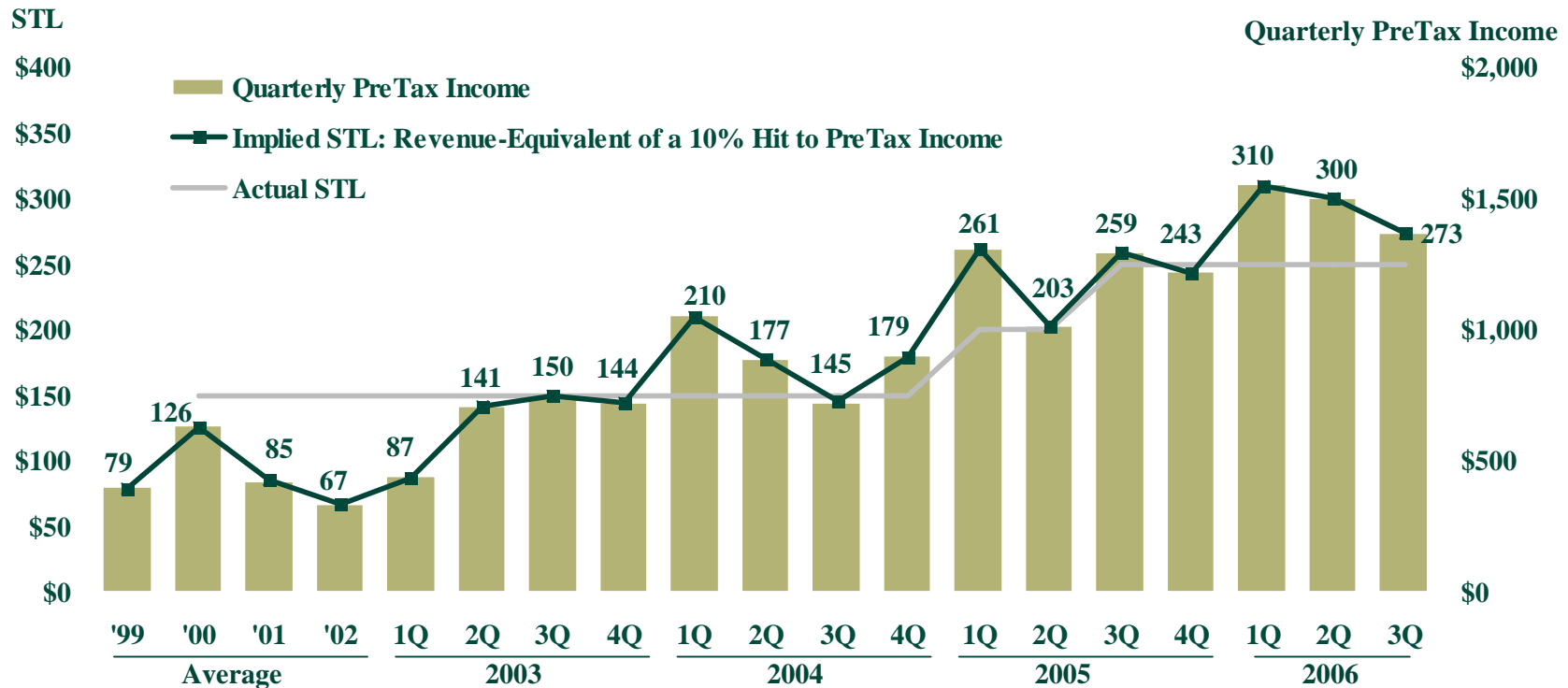
- ◆ Add bullets on Greg Smith's proactive monitoring of Lehman's transactions (to come from Ray Kahn's team)

II Risk Management

Single Transaction Limit

- ◆ In ~2000, STL model created with a max quarterly loss limit of \$150 million.
 - \$150 million limit was not based on a particular metric.
 - Rather it was an estimate of what the ratings agencies and the Street would see as the maximum permissible catastrophic loss on a single position.
- ◆ In ~1Q 2005, the Firm increased the limit to \$200 million.
 - Limit loosely based on the revenue equivalent of a 10% pretax reduction (assuming 50% comp ratio).
- ◆ In ~3Q 2005, the limit was increased to \$250 million, where it still remains.

Comparison of Actual STL to STL Implied by Benchmark (\$mm)



II Risk Management

Single Transaction Limit – STL Model Outputs ^(a)

	Visibility	Maturity / Secured	MACs		Credit Rating				Single Transaction Limit	
			Business	Market	Aa+	A	Baa	Ba	B	Caa
Bought Deals	Market Visibility ~2 Weeks	0-2 Years			25,000	14,000	7,500			
		2-5 Years			17,500	9,000	4,500			
		5+ Years			11,500	6,000	4,000			
		Unsecured						3,125	1,650	800
Credit Facilities	Market Visibility ~1 Month	0-2 Years			12,500	7,000	3,750			
		2-5 Years			8,750	4,500	2,250			
		5+ Years			5,750	3,000	2,000			
		Secured						4,250	1,875	700
		Unsecured						1,563	825	400
Acquisition Finance	Expected Closing Less Than 2 Months	Secured	✓	✓				6,250	4,650	NA
		Unsecured	✓	✓	10,500	5,000	3,500	2,500	1,700	1,050
		Secured	✓	X				4,464	3,321	NA
		Unsecured	✓	X	7,500	3,571	2,500	1,786	1,214	750
		Secured	X	✓				3,472	2,583	NA
		Unsecured	X	✓	5,833	2,778	1,944	1,389	944	583
		Secured	X	X				3,125	2,325	NA
		Unsecured	X	X	5,250	2,500	1,750	1,250	850	525
	Expected Closing More Than 2 Months	Secured	✓	✓				4,420	3,290	NA
		Unsecured	✓	✓	7,400	3,500	2,500	1,770	1,200	740
		Secured	✓	X				3,160	2,350	NA
		Unsecured	✓	X	5,300	2,500	1,800	1,260	860	530
		Secured	X	✓				2,460	1,830	NA
		Unsecured	X	✓	4,100	2,000	1,400	980	670	410
Secured		X	X				2,210	1,640	NA	
Unsecured		X	X	3,700	1,800	1,200	880	600	350	

a) Assumes max quarterly loss of \$250mm. If the max loss were to be raised to \$300mm, then limits would increase by ~20%. If it were raised to \$350mm, then limits would increase by ~40%.

II Risk Management

Introduction to Lehman's Risk Limits

- ◆ The Firm has developed a comprehensive regime of limits for risk and liquidity. Individual transactions need to be accommodated within
 - Single Obligor Limit
 - Business and divisional risk limits
 - Divisional Cash Capital and Balance sheet limits
 - Divisional Less Liquid Asset limits

- ◆ Even if a transaction can be accommodated within these limits there is an additional concern about very large exposures to individual issuers, which if things go wrong could result in large potential loss “tail events”. Could result in
 - Large P&L loss
 - Negative publicity
 - Scrutiny from ratings agencies, investors, and creditors of the Firm

- ◆ Risk Management and Finance propose to set limits to mitigate these risks

- ◆ These limits are in line with the Firm's risk tolerance, as described below.

- ◆ Transactions in excess of these limits will be viewed as exceptional, and would require Executive Committee approval

II Risk Management

Setting Single Exposure Limits

- ◆ Setting limits for single exposure requires deciding
 - Loss tolerance to a single transaction
 - The confidence level (probability) to apply to that potential loss
 - How to measure the potential loss

- ◆ Risk Management and Finance propose the following
 - Set the single exposure potential quarterly loss threshold at \$200 million
 - Measure the potential loss at a 99.5% confidence level, which is consistent with Lehman Brothers' risk equity model and equates to a catastrophic loss
 - Establish, for each transaction type, the size of transaction that at 99.5% confidence level will not have a \$200 million or greater loss
 - Establish, for each transaction type, the risk factor that corresponds to a quarterly loss at 99.5% confidence level
 - Potential loss of a transaction with multi tranche and type would be calculated based on the risk factor table to determine whether the transaction would pass the \$200 million quarterly loss threshold
 - **Fixed income transactions** are segmented by the nature of the commitment and our ability to syndicate
 - Bought Deals
 - Credit Facilities
 - Acquisition Financing
 - They are further divided by
 - For Investment Grade companies: Rating and Duration of instrument
 - For Non-Investment Grade companies: Secured / Unsecured
 - For Acquisition Financing: Deals with expected closing shorter than 2 months and longer than 2 months. Within each category, we consider three scenarios: With Business and Market MACs, Without MAC, No MAC

II Risk Management

Methodology for Setting Single Exposure Limits (1/2)

- ◆ The framework methodology, which is consistent with the methodology adopted for the Firm's risk equity and risk usage models, considers the major sources of risk that could impact any transaction. (See Appendix for details)

- ◆ Most high yield commitments in the U.S. have market MACs, Flex Pricing, and / or Flex Structuring; some have business MACs. These provisions mitigate our risk if we cannot syndicate our position down pre-closing
 - If the high yield transaction has both MACs and / or Flex provisions, we assume that Lehman Brothers would be able to use those protections to mitigate 50% of the total risk
 - As a result, the single transaction limits are doubled for transaction with both MACs and / or Flex provisions
 - In situations where only one MAC applies, transactions are deemed to have the benefit of 20% of risk mitigation. Therefore, limits are 25% higher than limits for transactions without any MAC provision

- ◆ While we have calculated the potential exposure at a high confidence level, worst case exposure could exceed our loss tolerance
 - Propose a maximum cap of \$1.8 billion for unsecured transaction and \$3 billion for secured transaction
 - This limit, which is increasingly applied to investment banks by the rating agencies, is set at 15% and 25% of the Firm's tangible common equity plus preferred shares for secured and unsecured respectively
 - In practice, this limit would apply to some investment grade exposures and equity block trades

II Risk Management

Methodology for Setting Single Exposure Limits (2/3)

- ◆ **Fixed income transactions** are segmented by the nature of the commitment and our ability to syndicate
 - Bought Deals – (High Liquidity) – Immediately syndicable, liquid transactions where Lehman Brothers has in-depth knowledge of the credit, and where the market is familiar with and receptive to the issuer. Transactions are expected to be fully syndicated within days (typically a bought or backstopped bond deal)
 - Credit Facilities – (Medium Liquidity) – Closing of the commitment or marketing period may extend from 1 to 3 months to complete (typically an normally underwritten bank loan)
 - Acquisition Finance – (Low Liquidity) – Requires a lengthy period to market or has a closing of 3 months or greater (typically an acquisition financing)

- ◆ They are further divided by
 - For Investment Grade companies: Rating and Duration of instrument
 - For Non-Investment Grade companies: Secured / Unsecured (Secured if collateralized by hard assets or stock of an unlevered subsidiary, otherwise deemed unsecured)

- ◆ All individual transactions have unique attributes which add risk or mitigate risk which cannot be accounted for in a simple set of rules. As part of its review process, Risk Management will use its judgment in determining how to weigh these factors in the review process. Examples are:
 - Nature of security or collateral
 - Sector / Industry of the borrowers
 - Firm's ability to syndicate
 - Pricing flex
 - Aggregation of exposure, including counterparty trades
 - Hedging strategies
 - Syndicate Partners – Quality, reputation, and financial condition of partners
 - Equity Sponsors – Quality, reputation, and financial condition of sponsors

- ◆ For off-market transactions (typically high grade CP backstops) limits will be reduced by the amount of the underpricing. (As an example, for a loan being marked initially at a dollar price of 95, the limit will be reduced by 5%)

II Risk Management

Methodology for Setting Single Exposure Limits (2/3)

- ◆ Limits are derived based on a \$200 million quarterly loss at 99.5% C.L.
- ◆ With Business and Market MACs – deals with both market and business MAC, and / or pricing flex
- ◆ With Business MAC or Market MAC – deals with Business MAC or Market MAC, and / or pricing flex
- ◆ Credit facility refers to most of FRL, refin, recap deals
- ◆ Deals with expected closing in more than 2 months are usually deals that need lengthy regulatory, or share holder approval
- ◆ In general, Acquisition Financing (AF) deals (new borrowers) demonstrate smaller default probability (1% per Lehman Brothers research) than that of Credit Facility (CF, mature borrowers), but longer lead time due to due diligence, regulatory approval, etc. All these are accounted for in the proposal
- ◆ Limits are floored at [\$]280 million for unsecured deals as loss given default is [\$]200 million assuming 29% recovery. Same is true for secured deals with 65% recovery assumption. Recovery assumptions are based Moody's 2004 default and recovery study
- ◆ For sectors with higher recovery on average, e.g., utility sector, the limits could be bumped up by 15% for secured and 30% for unsecured on a case by case basis
- ◆ Acquisition Financing (AF) limits = Credit Facility (CF) limits / sqrt(3) with lower default prob. Bought deal limits = 2* limits for Credit Facility (CF)
- ◆ AF with expected closing less than 2 months = AF with expected closing more than 2 months / sqrt(2)
- ◆ With both MACs and / or flex = No MAC *2
- ◆ With one MAC and / or flex = No MAC / 0.8. The assumption here is that, with both MACs, we can mitigate 50% of the risk, and with one MAC, we can mitigate 20% of the risk. We [?_]
- ◆ The limits derived from above are capped by 15% and 25% of tangible common equity plus [preferred] shares as caps for unsec and sec respectively. This comes out to be \$1.8 billion for [unsecured] and \$3 billion for [secured]

II Risk Management Resulting Single Exposure Limits

Credit – Non Investment Grade (\$200 million Loss Threshold)

[See Attachment]

II Risk Management Definitions

- ◆ **Spread risk:** The risk of spread widening
- ◆ **Interest rate risk:** The risk of change in the overall level and slope of the curve
- ◆ **Specific risk:** The risk that the transaction return will deviate from the average return of its rating and duration band
- ◆ **Event risk:** The risk of a ratings downgrade or default

IV (a) Departmental Structure for Lehman's Internal Surveillance Process for High Yield

Portfolio Manager	Industry Coverage
◆ Diane Albanesse	<ul style="list-style-type: none"> ◆ Industrial (Aerospace/Defense, Automotive, Paper & Packaging) ◆ Gaming
◆ Ritam Bhalla	<ul style="list-style-type: none"> ◆ Consumer/Retail ◆ Business Services ◆ Towers
◆ Maria Lund	<ul style="list-style-type: none"> ◆ Industrial (Aerospace/Defense, Automotive) ◆ Chemical ◆ Natural Resources
◆ Craig Malloy	<ul style="list-style-type: none"> ◆ Health Care ◆ Entertainment ◆ Natural Resources (Coal) ◆ REITs
◆ Mike Masters	<ul style="list-style-type: none"> ◆ Media (Broadcasting, Cable, Publishing) ◆ Technology ◆ Industrial (Capital Goods)
◆ Frank Turner	<ul style="list-style-type: none"> ◆ Environmental ◆ Power ◆ Telecommunications

Appendices

Appendix:

Outline of Commitment Committee Memoranda (1/3)

1. Introduction and Recommendation

- 1.1 **The Transaction** – briefly describe proposed transaction or advisory service, our role, co-managers (if any)
- 1.2 **Use of Proceeds** – briefly describe use of proceeds. Include a sources and uses table, if applicable
- 1.3 **Timing** – proposed timing for transaction
- 1.4 **Lehman Brothers Relationship**
 - Banker relationships with Company
 - Previous business with Company
 - Nature of client relationship (Diamond, Platinum, Gold)
 - Opportunities for future business
 - Lehman Brothers' current exposure to the Company via participation in credit facilities, significant position in outstanding securities and any counterparty risk from swap or other transactions
- 1.5 **Due Diligence** – thorough investigation with respect to the Company and the proposed transaction
 - Full business reviews
 - Market / competitive dynamics
 - Financial performance
 - Customer / vendor interviews
 - Management interviews
 - Accounting due diligence
 - Legal due diligence
 - Environmental due diligence
 - Site Visits
 - Management background checks: Lehman conducts background checks using its own Legal Research Library, but occasionally, Lehman Brothers will utilize outside legal firms to do further background checks

It is the responsibility of the banking team to assemble the appropriate support to ensure an effective due diligence process

 - Product groups
 - Credit ratings advisory
 - Fixed income / equity research
 - Risk management
- 1.6 **Research** – describe Lehman Brothers' research coverage of the Company and the views of the research analyst(s)
 - Analyst participation in Committee is permitted under new regulatory mandates and is required by Committee
 - “[Analyst] has participated in the due diligence process and will present his / her views at Committee.”

Appendix:

Outline of Commitment Committee Memoranda (2/3)

1.7 Issues Before Committee – Pros and Cons

- Discuss in bullet point form the principal merits and considerations of the Company and the proposed transactions
- Assessment of risks should be based on banking team’s own analysis, not that of management or other advisors
- Include following language in all memos after this section

The preceding discussion of the “cons” with respect to this transaction is preliminary. We have not yet completed our due diligence investigation or our analysis of the Company. Upon further investigation, we may, with the advice of counsel, conclude that certain of these circumstances are not relevant or material and therefore should not be included in the prospectus or offering document. For a final assessment of the risks associated with this transaction, please see the copy of the preliminary prospectus or offering document distributed to prospective investors.

1.8 **Recommendation** – indicate banking team’s recommendation to participation in proposed transaction, any specific conditions to such participation and the principal factors supporting the recommendation

2. **Business of the Company** – describe the following:

- Principal products or services
- Industry overview
- Competitive position in market
- Business segment financials
- Corporate structure
- Capitalization (actual and pro forma)
- Acquisition history

3. **Financial Results and Projections**

3.1 **Historical Financial statements**

- Summary income statements, balance sheets, cash flows and relevant credit and coverage ratios

3.2 **Projected Financials**

- Quarterly and forward fiscal year projections prepared by the Company and / or research

Appendix:

Outline of Commitment Committee Memoranda (3/3)

4. **Valuation** – relevant information and analyses supporting the current or proposed valuation of the Company
 - Trading comparable company analysis
 - M&A comparable transaction analysis
 - DCF analysis
 - LBO analysis
 - Premiums paid
 - Sum of parts analysis
5. **Management, Directors and Owners** – summary biographies of senior management and directors of the Company
 - Management background checks are very important
 - Include table showing equity ownership on current and pro forma basis
6. **Litigation and Other Contingent Liabilities** – summarize any material litigation over the last five years, including pending or threatened lawsuits
 - Include information on any other contingent liabilities such as environmental / product liability or infringement of IP rights
7. **Appendices** – include the following:
 - a) For offerings, most recent draft prospectus or offering memorandum
 - b) If a reporting company, latest 10-K and 10-Q with notes to financial statements
 - c) Comparative data – comps, stock price performance
 - d) For publicly traded stocks or convertibles, include a market history
 - e) Current S&P and Moody’s tear sheets
 - f) Relevant research reports
 - g) Relevant news stories

Committee Tab on eBanker: Follow Ups

Corporate Page

Lehman Brothers Commitment Committee	
Client Name: BUCKEYE PARTNERS LP Transaction Name: \$250MM GP IPO Transaction Description: Buckeye Partners LP general partner will issue common stock in an IPO and become a publicly traded entity. LB Role: Joint Books Core Number: 60724.1B Transaction Team: Michael J. Cannon, William P. Beurket, Gregory J. Hall, Marc H. Blair, Jeffrey P. Wood, Jorge C. Martinez, Kyriacos A. Loupis, Crystal A. Simpson, Anthony T. Carango, Chase A. Rowan, Daniel Eduardo Williams, Heather Zamora	Meeting Date: 20-Jun-06 Region: America Meeting Type: Full Committee and Other Attendees: John J. Niebuhr, Emily Davis-Knight, James K. Asselstine, Runa Saeki Transaction Team Attendees: Marc H. Blair, Crystal A. Simpson, Anthony T. Carango, Amit Chandra, Chase A. Rowan, Daniel Eduardo Williams
Committee Review and Comments: \$275mm GP IPO, Senior Co-Manager Committee Status: Approved Transaction Status: Launch: July 28	Retail Distribution: Yes Follow up Memo Required: No Executive Committee Approval Required: No Executive Committee Approval Received: No Follow Up Meeting Required: No Follow Up Comments:

Applicable Risk:	Approved	Follow Up Action	Responsible Party	Completed	Comments
Credit/ Investment Merits:	✓	Auditor Due Diligence	Deal Team	✓	
Reputation:	✓				
Legal:	✓	1 Legal Due Diligence	Deal Team, R. Saeki	✓	
		2 Confirm Underwriters Not Receiving Any Proceeds or Disclose Thereof.	Deal Team, R. Saeki	✓	No proceeds going to underwriters
Syndication:	✓	Research View	Rick Gross/E. Davis-Knight	✓	
Market:	✓				

http://ny.lehman.com/LL/DynamicPage?LLcls4=EBK_PROJ_COM_MEETL_NO_PRINTER_VIEW&LLUniqid4=EBK_PROJ_COM_MEETING_PRINTER_VIEW0 (1 of 2) 7/25/2006 11:37:33 AM

Key Considerations

