

**From:** Traversari, Ryan <ryan.traversari@lehman.com>  
**Sent:** Tuesday, September 11, 2007 11:28 AM (GMT)  
**To:** Tonucci, Paolo <paolo.tonucci@lehman.com>; Stewart, Marie <marie.stewart@lehman.com>; Lee, Matthew <matthew.lee@lehman.com>; Bismal, Anuraj <abismal@lehman.com>; Axelrod, Ari <ari.axelrod@lehman.com>  
**Subject:** RE: Bear net leverage

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This question has come up multiple times in the 20 seconds that I've been here - largely from O'Meara, Freidheim, Lowitt, Corporate Strategy, Investor Relations and the like. Below is the stock answer for whatever its worth. Rothbort and Tauber are correct, in part, regarding Bears' methodology.

Beginning with Bear Stearns' FY2004, they inserted line items on their balance sheet captioned assets/liabilities of "variable interest entities and mortgage loan special purpose entities." Included in these line items are the assets and related liabilities of any VIE for which Bear Stearns is the primary beneficiary, applying FIN 46(R).

At February 28, 2007, gross assets of \$41.48bn included mortgage securitizations (\$39.31bn), collateralized debt obligations (\$1.28bn), employee funds (\$0.71bn), distressed debt (\$0.06bn), and energy investments (\$0.12bn). A "limited number" of mortgage securitizations are included that failed the SFAS 140 sales criteria, the exact amount or proportion of the \$39.31bn is not disclosed. Bear Stearns believes their "maximum exposure to loss" on the \$41.48bn, is \$1.8bn.

Beginning with the 10-K for FY2006, Bear Stearns began to deduct the net amount of these assets/liabilities from their net leverage calculation. Again, they introduced the line item to their presentation in FY2004; however, did not deduct the asset component in computing their disclosed leverage ratio until FY2006. They do not explicitly disclose their rationale for deducted the assets classified in the line item. Additionally, they do not disclose that they follow a rating agency's leverage formula.

What Bear Stearns says is that they take the position that their leverage ratio is a comparative measure of financial risk and capital adequacy. Bear Stearns, likely (though not explicitly disclosed), takes the view that its assets of VIEs and mortgage loan SPEs are low-risk in nature and should be removed consistent with securities under agreements to resell or received as collateral.

Let me know if you need anything else.

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

From: Tonucci, Paolo

Sent: Monday, September 10, 2007 8:40 PM

To: Stewart, Marie; Lee, Matthew; Bismal, Anuraj  
Cc: Traversari, Ryan; Axelrod, Ari  
Subject: RE: Bear net leverage

Our calc was intended to reflect the methodology employed by S&P who were most interested and focused on leverage. We can revisit, but would want to see what others do, and my fear is that we end up going down a path that is less favourable on a relative basis, or looks manipulated purely to make us look good.

Paolo

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

From: Stewart, Marie  
Sent: 10 September 2007 20:36  
To: Lee, Matthew; Bismal, Anuraj  
Cc: Tonucci, Paolo; Traversari, Ryan  
Subject: RE: Bear net leverage

You can tell by looking at their 10-Q and 10-K.

10-Q page 47 of 79 says they deducted \$48bn for "assets of VIEs and mortgage loan SPEs" from the calc of net assets. Footnote 5 on page 21 of 79 says failed sales are \$47bn of that.

10-K page 67 of 152 says at 11/30/06 they deducted \$29bn for "assets of VIEs and mortgage loan SPEs" and footnote 6 (page 118 of 152) says the \$29bn includes \$29bn for failed sales (10-K divides the note into mortgage securitizations and call options but my reading of 10-Q suggest these are both failed sales--one for calls and for bad QSPEs)

As you know, net assets and leverage are not US GAAP matters. I understand that their calculation is negotiated by each firm with the ratings agencies. So, Bear's calc is a matter of history as is how we do ours. Paolo will be able to shed light on why our calc does not have failed sales in it.

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

From: Lee, Matthew  
Sent: Monday, September 10, 2007 8:02 PM  
To: Bismal, Anuraj  
Cc: Stewart, Marie; Tonucci, Paolo  
Subject: RE: Bear net leverage

Don't know. How would we know Bear excludes? Marie may be able to answer this question? If not Paolo?

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

From: Bismal, Anuraj  
Sent: Monday, September 10, 2007 8:00 PM  
To: Lee, Matthew  
Subject: Bear net leverage

Lonnie and Tauber called me today and asked if it was true if Bear

excludes the fas140 gross up from their net leverage calc.

I think this is true - and they have some size 40B+ I think.

Are we moving to a similar calculation methodology?

AB