

**From:** Li, Joe <joli@lehman.com>  
**Sent:** Wednesday, July 25, 2007 8:26 PM (GMT)  
**To:** Orlan, Fred S <forlan@lehman.com>; Seery, James <jseery@lehman.com>  
**Subject:** FW: Single transaction limit  
**Attach:** STL back testing 2007.xls;STL factors 2007.xls

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Jim, Fred

> We are thinking about revisiting STL and possibly adjusting risk  
 > factors to reflect systemic risk only and leave default risk out, the  
 > effective spread widening is actually very much in line with the  
 > assumption used in the exercise we did for Roger and Alex on 98 and  
 > 2002 stress analysis for commitments. The implied spread widening  
 > assumption would be 100bp to 800bp widening depending on the riskiness  
 > of the deal. Previously we have used a loss limit of 250mm to 350mm.  
 > We would like to propose a 400mm as the Firm's revenue has increased  
 > in the past couple of years. The limit is linked to firm's quarterly  
 > pre comp pre tax net revenue  
 > With this in mind, please let me know if you would like to discuss  
 > when you have a moment

>

> <<STL back testing 2007.xls>> <<STL factors 2007.xls>>

The first glance of the large deals in the past 12 months, using the new thinking, shows the following deals in yellow as "over the limit", which are essentially the usual suspects

New limit of 400mm and new risk factors implying 100-800 bp widening  
 Aug 2006 to July 2007 Deals > 900mm and the single transaction loss over limit

Data

Company Name	Sum of Estimated STL	Sum of Leh Expected	Sum of Leh Papers
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Intelsat	1,045		
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	4,750	7,125	
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Weatherford	1,015		
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	5,625	18,600	
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Houghton Mifflin Riverdeep Group	694		
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	2,623	2,623	
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TXU Corp	684		
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	4,869	4,869	
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First Data Corporation	601		
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	3,620	3,620	
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Alcoa Inc.	600		
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	5,000	5,000	
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Home Depot Supply	486		
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	3,317	3,317	
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CDW Corporation	455		
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2,410 2,410  
Dollar General 441  
2,800 2,800  
Harman International Industries 346  
1,558 5,790  
US FoodService 326  
1,975 5,925  
CVS 300 2,500  
2,500  
BCE 277 2,634  
4,741  
BAWAG PSK 275  
1,637 1,637  
Tognum AG 258  
1,710 1,710  
ProSiebenSat.1 Media AG 250  
1,581 9,464  
CBS Corporation 238  
1,400 1,400  
West Corp 232  
1,360 1,360  
IBM International Group BV 220  
1,833 1,833  
Sequa Corp 216  
1,230 2,050  
Tesoro 215  
3,075 3,075  
Alliance Data 212  
1,322 1,322  
Applebee's International, Inc. 202  
2,239 2,239  
Allison Transmission 195  
1,125 4,500  
Dockwise 194  
1,165 1,165  
Univision Communications 193  
1,175 1,175  
PHH Corporation 193  
1,830 1,830  
Formula One Group 189  
973 973  
United Rentals, Inc. 186  
968 968  
Thermo Electron Corp. 180  
1,500 1,500  
> Thanks  
> Joe

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