

To: Stucchio, Anthony[astucchi@lehman.com]; Nazimowitz, Lawrence D[lawrence.nazimowitz@lehman.com]
From: Wong, Kristie
Sent: Tue 7/29/2008 5:39:23 PM
Importance: Low
Subject: RE:
Categories: urn:content-classes:message

Thanks. I will send now.

> _____
> From: Stucchio, Anthony
> Sent: Tuesday, July 29, 2008 1:38 PM
> To: Wong, Kristie; Nazimowitz, Lawrence D
> Subject: RE:
>
> See my changes in Blue -
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> _____
> From: Wong, Kristie
> Sent: Tuesday, July 29, 2008 1:29 PM
> To: Stucchio, Anthony; Nazimowitz, Lawrence D
> Subject:
>
> Take a read through and feel free to edit/comment. Thanks.
>
>
>
> Paolo,
>
> There are four Lehman entities which are capital deficient and need an
> infusion before this Thursday, our July month end.
>
> Two of them (LCPI and LB1Group) are subsidiaries of LBI, regulated by
> FINRA/SEC:
>
> LCPI - commercial loan, bridge funding, and securitization
> businesses. The top losses include Suncal and TXU Energy. To date,
> this entity has recorded approx \$1B of losses. It currently has a
> capital deficiency of \$140mm and the July loss estimate is \$100mm. As
> a result, we are requesting a capital infusion of \$275mm for this
> entity.
>
> LB 1 Group - Private equity investments and GTS business. The top
> losses include Home Depot and Applebees. This entity has a capital
> deficiency of \$50mm and the July loss estimate is \$50mm. As a result,
> we are requesting a capital infusion of \$100mm.
>
> At a recent meeting with FINRA and our Senior Finance managers, FINRA
> expressed grave concern over LBI's funding of the negative equity with
> it's own capital. These entities are not guaranteed subsidiaries and
> future deficits must be funded by Holdings. If LBI continues to fund
> their equity, we maybe required to consolidate their assets/risk on
> LBI's statement of net capital. Obviously, this would pose grave
> consequences to LBI. We have agreed with FINRA to explore the

- > transfer of certain entities, namely, LBSF and LCPI from the LBI
- > chain. Until such time, LBHI must fund all future losses that cause
- > these entities to post negative equity on LBI's balance sheet.
- >
- > The other two entities (ALI and PAMI) are subs of Holdings and are not
- > regulated. The bulk of the global real estate business is conducted
- > through these two entities. Although unregulated, the unaudited
- > financials of these entities are produced on a monthly basis and
- > provided to our lenders to satisfy debt covenant requirements. The
- > main drivers of losses in these entities are SunCal and Archstone. As
- > a result of the 2nd qtr write-downs, these entities have been capital
- > deficient since May. The GREG team is very interested in getting these
- > entities capitalized as soon as possible. ALI needs a capital infusion
- > of \$500mm and PAMI needs a capital infusion of \$650mm.
- >
- > We have discussed this with Kevin Thatcher and his team as well as
- > Robert Azerad. We've also provide detailed analysis of the main
- > drivers of the losses in each of the entities and equity rollforward.
- > Please approve these necessary capital infusions as soon as possible.
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- > Kristie Wong
- > Lehman Brothers
- > Ph: 212-320-7968
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