

MATTHEW LEE

May 16, 2008

PERSONAL AND CONFIDENTIAL

BY HAND

Mr. Martin Kelly, Controller
Mr. Gerard Reilly, Head of Capital Markets Product Control
Ms. Erin Callan, Chief Financial Officer
Mr. Christopher O'Meara, Chief Risk Officer
Lehman Brothers Holdings, Inc. and subsidiaries
745 7th Avenue
New York, N.Y. 10019

Gentlemen and Madam:

I have been employed by Lehman Brothers Holdings, Inc. and subsidiaries (the "Firm") since May 1994, currently in the position of Senior Vice President in charge of the Firm's consolidated and unconsolidated balance sheets of over one thousand legal entities worldwide. During my tenure with the Firm I have been a loyal and dedicated employee and always have acted in the Firm's best interests.

I have become aware of certain conduct and practices, however, that I feel compelled to bring to your attention, as required by the Firm's Code of Ethics, as Amended February 17, 2004 (the "Code") and which requires me, as a Firm employee, to bring to the attention of management conduct and actions on the part of the Firm that I consider to possibly constitute unethical or unlawful conduct. I therefore bring the following to your attention, as required by the Code, "to help maintain a culture of honesty and accountability". (Code, first paragraph).

The second to last section of the Code is captioned "FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE". That section provides, in relevant part, as follows:

"It is crucial that all books of account, financial statements and records of the Firm reflect the underlying transactions and any disposition of assets in a full, fair, accurate and timely manner. All employees...must endeavor to ensure that information in documents that Lehman Brothers files with or submits to the SEC, or otherwise disclosed to the public, is presented in a full, fair, accurate, timely and understandable manner. Additionally, each individual involved in the preparation of the Firm's financial statements must prepare

those statements in accordance with Generally Accepted Accounting Principles, consistently applied, and any other applicable accounting standards and rules so that the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Firm.

Furthermore, it is critically important that financial statements and related disclosures be free of material errors. Employees and directors are prohibited from knowingly making or causing others to make a materially misleading, incomplete or false statement to an accountant or an attorney in connection with an audit or any filing with any governmental or regulatory entity. In that connection, no individual, or any person acting under his or her direction, shall directly or indirectly take any action to coerce, manipulate, mislead or fraudulently influence any of the Firm's internal auditors or independent auditors if he or she knows (or should know) that his or her actions, if successful, could result in rendering the Firm's financial statements materially misleading"

In the course of performing my duties for the Firm, I have reason to believe that certain conduct on the part of senior management of the Firm may be in violation of the Code. The following is a summary of the conduct I believe may violate the Code and which I feel compelled, by the terms of the Code, to bring to your attention.

1. Senior Firm management manages its balance sheet assets on a daily basis. On the last day of each month, the books and records of the Firm contain approximately five (5) billion dollars of net assets in excess of what is managed on the last day of the month. I believe this pattern indicates that the Firm's senior management is not in sufficient control of its assets to be able to establish that its financial statements are presented to the public and governmental agencies in a "full, fair accurate and timely manner". In my opinion, respectfully submitted, I believe the result is that at the end of each month, there could be approximately five (5) billion dollars of assets subject to a potential write-off. I believe it will take a significant investment of personnel and better control systems to adequately identify and quantify these discrepancies but, at the minimum, I believe the manner in which the Firm is reporting these assets is potentially misleading to the public and various governmental agencies. If so, I believe the Firm may be in violation of the Code.

2. The Firm has an established practice of substantiating each balance sheet account for each of its worldwide legal entities on a quarterly basis. While substantiation is somewhat subjective, it appears to me that the Code as well as Generally Accepted Accounting Principles require the Firm to support the net dollar amount in an account balance in a meaningful way supporting the Firm's stated policy of "full, fair, accurate and timely manner" valuation. The Firm has tens of billions of dollars of unsubstantiated balances, which may or may not be "bad" or non-performing assets or real liabilities. In any event, the Firm's senior management may not be in a position to know whether all of these accounts are, in fact, described in a "full, fair, accurate and timely" manner, as required by

the Code. I believe the Firm needs to make an additional investment in personnel and systems to adequately address this fundamental flaw.

3. The Firm has tens of billions of dollar of inventory that it probably cannot buy or sell in any recognized market, at the currently recorded current market values, particularly when dealing in assets of this nature in the volume and size as the positions the Firm holds. I do not believe the manner in which the Firm values that inventory is fully realistic or reasonable, and ignores the concentration in these assets and their volume size given the current state of the market's overall liquidity.

4. I do not believe the Firm has invested sufficiently in the required and reasonably necessary financial systems and personnel to cope with this increased balance sheet, specifically in light of the increased number of accounts, dollar equivalent balances and global entities, which have been created by or absorbed within the Firm as a result of the Firm's rapid growth since the Firm became a publicly traded company in 1994.

5. Based upon my experience and the years I have worked for the Firm, I do not believe there is sufficient knowledgeable management in place in the Mumbai, India Finance functions and department. There is a very real possibility of a potential misstatement of material facts being efficiently distributed by that office.

6. Finally, based upon my personal observations over the past years, certain senior level internal audit personnel do not have the professional expertise to properly exercise the audit functions they are entrusted to manage, all of which have become increasingly complex as the Firm has undergone rapid growth in the international marketplace.

I provide these observations to you with the knowledge that all of us at the Firm are entrusted to observe and respect the Code. I would be happy to discuss any details regarding the foregoing with senior management but I felt compelled, both morally and legally, to bring these issues to your attention. These are, indeed, turbulent times in the economic world and demand, more than ever, our adherence and respect of the Code so that the Firm may continue to enjoy the investing public's trust and confidence in us.

Very truly yours,



MATTHEW LEE

cc: Erwin J. Shustak, Esq.