



**Mark G Doctoroff** To: Barry L Zubrow/JPMCHASE, Susan F Stevens/JPMCHASE, Jane Buyers-Russo/JPMCHASE, Piers Murray/JPMCHASE  
cc: Ruth J Peterson/JPMCHASE, Michele P. Armstrong/JPMCHASE, Carol D Swaby/JPMCHASE, Marie J. Cirello/JPMCHASE  
09/03/2008 Subject: LEH Briefing Memo - Lowitt/O'Meara/Tonucci Lunch (Thursday, September 4th)  
12:24 PM

Enclosed is a memo that provides a brief summary of the agenda/discussion topics for tomorrow's lunch with Lehman Brothers (Ian Lowitt, CFO; Chris O'Meara, Chief Risk Officer; Paolo Tonucci, Treasurer).

We should meet at 270 Park Avenue at 12:10pm to walk over to Lehman's offices for the lunch meeting at 12:30pm.

Let me know if you require any other information before the meeting. Best, Mark

Mark G. Doctoroff

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Lehman Brothers Holdings Inc.  
Briefing Memorandum  
Thursday, September 4, 2008

<i>Time / Venue:</i>	12:30pm 745 7th Avenue, 32nd Floor Dining Room, 32G  (Meet at 270 Park Avenue lobby @12:10pm)
<i>Lehman Attendees:</i>	Ian Lowitt, Chief Financial Officer Chris O'Meara, Chief Risk Officer (previously CFO) Paolo Tonucci, MD & Treasurer
<i>JPM Attendees:</i>	Barry Zubrow, EVP & Chief Risk Officer Susan Stevens, MD & Head of ACB Jane Buyers-Russo, MD & Head Broker/Dealer Division Piers Murray, MD, Credit Risk Management Mark Doctoroff, ACB-Client Executive

*Meeting Purpose:*

Lehman ("LEH") would like to update us on their upcoming 3Q results which they will announce September 17th. We expect they will have further significant asset write-downs primarily originating from their commercial and residential real estate related assets. Their 3Q results will likely also come with announcements regarding the actions they will be taking to shore-up their balance sheet, bolster capital (beyond the \$12Bn in equity/hybrid equity they have raised so far this year), and to operate successfully in the coming quarters in the new market environment. Major themes in the press – (i) potential capital injection by Korea Development Bank (KDB) or other sovereign wealth fund; (ii) sale of all or part of their Investment Management Division (Neuberger Berman included) valued at between \$7-10Bn; (iii) sale of real estate assets or formation of a bad bank/good bank with a private equity sponsor/s may be touched on during this discussion.

There is a strong desire at LEH to have open and frank dialogue with JPM at all levels of our organizations. I. Lowitt and C. O'Meara, would like to have more frequent contact with B. Zubrow and other members of our senior management. This meeting is partially meant to foster this dialogue. As LEH's primary operating services provider, LEH management want to ensure that we are fully briefed on their strategy and challenges as they need our support to operate their business.

It is important for B. Zubrow to thank the LEH team for their partnership and transparency with us throughout the discussions we have engaged in during the last few months regarding margin for the TPR, collateralization of intraday operating exposure where possible, and overall credit risk management.

In addition to getting a 3Q update, we want to review the following items:

(1) Tri-party repo ("TPR")

*Accomplishments*

-At 100% investor margin; have \$8Bn in additional margin to cover price/liquidity risk (\$5Bn CLOs [primarily corporate loan CLOs] and \$3Bn conduit CP);

Next Steps (JPM's responsibility)

- Introduce intra-day margining calculation (mid-September)
- Tag and stop unwind of term repos (timing TBD)

Issues

-Lehman believes we are over collateralized against the intraday risks – wants to go to intraday margining as they believe this will allow them to take back some margin

(2) Pricing & collateral choice for coverage of liquidity/price risk in TPR

Next Steps (JPM's responsibility)

- Hire 3rd party pricing service to price the CLOs placed as margin
- Review the pricing with Lehman

Issues

- Likely do not agree on value and may need to substitute collateral (intrinsic vs. liquidation value);
- Indicative pricing from 3rd party source are @40-50% below the price that Lehman has put on the \$5Bn of CLOs that they provided – still covering the 1-day price/liquidity risk (@\$2.5Bn), but far short of the value that they have assigned;
- Will 3rd party pricing necessitate the need for Lehman to further mark the assets we hold as margin;
- These assets are part of LEH's liquidity pool (classified as ABS, corporates, CMOs), despite their less than cash liquidity profile – if we are not comfortable with these securities as margin, we need to develop a plan to replace them quickly

(3) Securing of \$2Bn intraday for UK collateral management business

Accomplishments

-Explained the rationale and need to secure the intraday risk associated with the collateral management business we provide Lehman in the UK

Next Steps (JPM's responsibility)

- Determine whether margin held in the US for TPR is eligible to also be used for securing the UK collateral management business
- Discuss operational and legal points that will allow this business to be secured

Issues

-Lehman would very much like to use a portion or all of their margin held in the US for collateral for their UK collateral management business

Key Ongoing Risk Management Agenda Items

- Determine pricing and collateral composition for TPR margin (end September);
- Share intraday margin for TPR transparently through the dealers' clearance system (mid to late September)
- Secure UK collateral management intraday exposure - determine whether US TPR margin can be used in whole or in part, whether additional collateral is required (mid-November);
- Determine whether JPM can face one LEH entity going forward for FX/Derivatives and whether historical trades can be reorganized under the same entity (before

December);

- Complete LBHI guarantee review (end October)

**Summary Financial Information**  
(Dollars in millions, except share data)

	<u>2Q08</u>	<u>1Q08</u>	<u>4Q07</u>	<u>3Q07</u>	<u>2Q07</u>
Net Income	(2,774)	489	886	887	1,273
Holdco Liquidity	45Bn	35Bn			
Total Assets	639,000	786,035	691,063	659,216	605,861
Net Assets	326,899	396,673	372,959	357,102	337,667
Common Stockholders Equity	19,283	21,839	21,395	20,638	20,034
Total Stockholders Equity	26,276	24,832	22,490	21,733	21,129
Total Stockholders Equity + Jr. Subordinated Debt	31,280	29,808	27,230	26,647	25,650
Tangible Equity Capital	27,179	25,696	23,103	22,164	21,881
Total Long-Term Capital	154,458	153,117	145,640	142,064	121,948
Book Value per Common Share	34.21	39.45	39.44	38.29	37.15
Leverage Ratio	24.3x	31.7x	30.7x	30.3x	28.7x
Net Leverage Ratio	12.0x	15.4x	16.1x	16.1x	15.4x

**Liquidity Pool Details as of 8/30/2008:**

**Global Treasury**

**Liquidity Footnote - August 31, 2008**

Amounts in millions

PRELIMINARY ESTIMATE

Investment Type	Pledge Value*			
	LBHI	LBI	LBIE	Total
	Pledge Value	Pledge Value	Pledge Value	Pledge Value
	New York Inv	New York Inv	Europe Inv	Global Inv
<b>1. Cash</b>				
Cash at Banks	3,378	-	-	3,378
Other Cash Inv	553	-	-	553
Money Funds	104	-	-	104
<b>Total Cash</b>	<b>A</b>	<b>4,035</b>	<b>-</b>	<b>4,035</b>
<b>2. Boxed Inventory</b>				
Private Label CMO's	454	-	10	464
Corporates	3,020	-	785	3,806
Governments / Treasuries	16,963	1,187	9,470	27,620
Asset Backed	674	-	88	762
Equities	8	-	1,557	1,565
Agencies	3,811	-	17	3,828
Canadian	-	-	15	15
<b>Total Boxed Inventory</b>	<b>B</b>	<b>24,930</b>	<b>1,187</b>	<b>38,060</b>
<b>C&amp;C Equivs Available to Holding Company (A+B)</b>		<b>28,965</b>	<b>1,187</b>	<b>42,095</b>

## Biographies

### Ian T. Lowitt

#### *Chief Financial Officer and Co-Chief Administrative Officer*

Ian T. Lowitt is chief financial officer (CFO) and co-chief administrative officer (co-CAO) of Lehman Brothers Holdings Inc. Mr. Lowitt was named CFO in June 2008 and has been co-CAO since October 2006. In his role as CFO, Mr. Lowitt oversees the Firm's finance organization, including Financial Control, Investor Relations, Planning and Analysis, Product Control, Tax, and Treasury. In his role as co-CAO, he is responsible for the global oversight of Corporate Real Estate, Expense and Sourcing Services, Operations, Productivity and Process Improvement, Risk Management, and Technology. He is also an executive vice president of Lehman Brothers Holdings Inc. and a member of Lehman Brothers' Executive Committee.

Prior to his current role, Mr. Lowitt was the chief administrative officer of Lehman Brothers Europe. He has also served as global treasurer and global head of Tax, and chairman of Lehman Brothers Bank FSB, the Firm's Delaware-based savings bank. Before becoming global treasurer, he was the Firm's head of Strategy and Corporate Development.

Mr. Lowitt joined Lehman Brothers in 1994 from McKinsey and Company, where he served as an engagement manager advising clients in a number of industries, including financial services, electronics and information technology.

Mr. Lowitt has a B.Sc. in electrical engineering and an M.Sc. in digital electronics from the University of the Witwatersrand in Johannesburg, South Africa. He also has a B.A. in philosophy, politics and economics and an M.Sc. in economics from the University of Oxford. At Oxford, Mr. Lowitt was a Rhodes Scholar.

### Paolo Tonucci

#### *Managing Director Global Treasurer*

Paolo Tonucci is the Global Treasurer of Lehman Brother Holding Inc. Mr. Tonucci was named Global Treasurer in April 2007.

As Global Treasurer, Mr. Tonucci chairs the Firm's Finance Committee, is a member of the Firm's Commitment Committee, and oversees all international and domestic treasury functions, including all financing and capital raising.

Mr. Tonucci joined Lehman Brothers in 1996 and since this time has served in various roles across Finance including: Global Co-Treasurer, International Treasurer, Global Head of Asset and Liability Management, and as a manager within Fixed Income Product Control Department.

Prior to joining Lehman Brothers, Mr. Tonucci was a manager of Derivatives Product Control for Bank of America in London and prior to that, worked in the Capital Markets Audit and Consultancy area within Ernst & Young.

Mr. Tonucci graduated from Cambridge University with a Masters in Economics.

Mr. Tonucci is a member of the Institute of Chartered Accountants of England and Wales and is also a member of the Association of Corporate Treasurers.