

Discussion with Treasury Staff and Data for September 9 (See Appendix for recent days' narratives).

Evening Update with Treasurer

Holding Company Liquidity Pool: The Treasurer advised us that the pool will be in the \$35B range for the day.

Commercial Paper: The Treasurer confirmed that \$1.5B of maturing paper did not roll and added that J. P. Morgan was the biggest contributor to this reduction. The Treasurer also noted that all maturing commercial paper estimated at \$2.4B will likely roll off over the foreseeable future. \$1.6B or two thirds of this balance is expected to mature by September 22. The two largest forthcoming maturity dates are September 15 and September 22 for \$585mm and \$502mm, respectively.

Debt Buybacks: Buybacks were reported to be \$300 million for the day, up \$100 million from this morning's report.

Off Balance Sheet Financing: An additional \$300 million funding was lost today from the off balance sheet financing of collateralized fund obligations.

Repo Financing: Gross repo capacity declined by \$10B as a result of the various pullbacks among counterparties reported earlier today, of which \$5B was absorbed by overfunding. The Treasurer confirmed that going forward the matched book will be reduced by \$30B (\$10B for Treasuries, \$10B for agencies, and \$10B for mortgage-backed securities).

CDS Spreads: CDS spreads widened from 475 yesterday to 577, the highest we have seen since March 14.

September 11 AM Asia Fnding Activities: All appears to be running smoothly.

Prime Brokerage Balances: Balances (long and short positions) declined by \$5B today, which the Treasurer believes will translate to \$1.5B in cash freed up from loan funding arrangements previously in place.

Rating Agency Developments: Moody's announced that it was putting Lehman under review with "Direction Uncertain" (effectively a Negative Watch). At the agency's conference call today, Moody's mentioned that Lehman will have to complete a transaction such as a sale of a majority stake in the firm, or the entire company, to avoid a rating downgrade.

Afternoon Update with Treasurer

The Treasurer characterized the day as being a difficult one from a funding perspective. He acknowledged investor fears of a rating downgrade given the recent placements on negative watch by Fitch and Standard & Poor's and the harsh commentary that accompanied the announcements. He anticipates that the liquidity pool will fall below \$34B due in part to the posting of additional collateral margin beyond normal requirements (\$200 to \$300 million) to rectify outstanding disputes and facilitate certain ongoing business relationships. He noted that, in addition to that reported this morning, Fidelity pulled back \$2B in investment grade corporate repos and proposes to pull back another \$1B tomorrow. He also mentioned that J. P Morgan increased intraday balance requirements in cash and unencumbered assets from \$5B to \$8B for triparty clearing. Finally, he confirmed that prime brokerage free credit balances, reported yesterday at \$800 million, declined to \$700 million.

Noon

Holding Company Liquidity Pool: The liquidity pool, which closed yesterday at \$40.6B, is expected to decline much further to the \$34B-to-\$35B range today, due to reduced commercial paper issuance and non-rolling repo balances in underfunded mortgage assets.

Commercial Paper: Outstanding balances, which declined from \$4.4B to \$3.9B yesterday, are expected to decline further by \$1.5B today. None of the \$1.1B in commercial paper maturing in the US is getting rolled. **J. P. Morgan** pulled \$385 million and **Morley** pulled \$85 million in Europe.

CDS Spreads: CDS spreads, which widened significantly to 475 yesterday from 328, further widened to 525, the highest we have seen since March 14.

Less Liquid Repo: Less liquid repo, which declined to \$95.2B yesterday from \$96.5B, is expected to decline significantly today. We will forward an estimate once it gets reported to us.

Europe

All balances rolled in Europe today. (Repos are transacted on a next day basis).

Lehman identified several European counterparties that will not roll balances tomorrow:

<u>Counterparty</u>	<u>Asset Category</u>	<u>Amount</u>
RZB	E2 and E3 Equities	€150 million
Dresdner	Investment Grade Corporates	€200 million
LCH	Investment Grade Corporates	£60 million

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9/10/2008

Deka, an asset manager, agreed to enter into trades for €415 million on Thursday and an additional €222 million on Friday.

U.S.

Treasury staff acknowledged the general fatigue among investors with the Lehman name; specifically, those that are tiring of explaining Lehman holdings to respective management. They identified the following counterparties who pulled back balances today:

<u>Counterparty</u>	<u>Asset Category</u>	<u>Amount (\$mm)</u>
Dwight Asset Management	Mortgages	1100
Fidelity	Mortgages	600
Mitsubishi-UFJ	Mortgages	360
Barclays Global Investors	Investment Grade Corporates	2000
Sumitomo	Investment Grade Corporates	358
MetWest	Investment Grade Corporates	80
Goldman Sachs Asset Management	Non-investment Grade Corporates	30
US Bank	Non-investment Grade Corporates	150
Dresdner	Commercial Paper	200
Fortis	Commercial Paper	500
Aegon	AAA Asset-Backeds	100
UBS	Agencies	750
J. P. Morgan	Agencies	500
PIMCO	Treasuries	4000
Morgan Stanley	Treasuries	1000
AIM	Treasuries	750
UBS	Treasuries	550
Bank One	Treasuries	500
Wellington	Treasuries	350
Total		13878

Lehman's strategy is to reduce their matched book to keep strains off capacity. The matched book for treasuries will decline to \$40B from \$50B and, for agencies, to \$10B from \$20B. The mortgage-backed securities matched book, currently at \$10B, is expected to be shut down tomorrow.

Debt Buybacks: Staff reported that Treasury bought back \$200 million of a \$600 million total amount requested. (Lehman's daily

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9/10/2008

summary reports \$300 million, however.)

Rating Agency Developments: Along with Standard & Poor's (as reported yesterday), Fitch Investors placed Lehman's debt on Negative Watch. Dominion Bond Rating Service, a rating agency headquartered in Canada, downgraded the holding company's long-term senior debt from AA (low) to A (high).

CURRENT RATINGS

Ratings Summary			
Rating Agency	LBHI	LBI	Comments
Moody's			
<ul style="list-style-type: none"> Short-term 	P-1	P-1	<ul style="list-style-type: none"> September 2008 Placed on Review with Direction Uncertain July 2008 LT Ratings Downgraded. (Outlook remains <i>Negative</i>) June 2008 Placed on Negative Watch June 2008 Outlook change to <i>Negative</i> March 2008 Outlook Changed to <i>Stable</i>
<ul style="list-style-type: none"> Long-term (senior) 	A2	A1	
<ul style="list-style-type: none"> Long-term (subordinated) 	A3	A2	
Standard & Poor's			
<ul style="list-style-type: none"> Short-term 	A-1	A-1	<ul style="list-style-type: none"> September 2008 Placed on Negative Watch June 2008 LT Ratings Downgraded, (Outlook remains <i>Negative</i>) March 2008 Outlook Changed to <i>Negative</i>
<ul style="list-style-type: none"> Long-term (senior) 	A	A+	
<ul style="list-style-type: none"> Long-term (subordinated) 	A-	A	
Fitch Ratings			
<ul style="list-style-type: none"> Short-term 	F1	F1	<ul style="list-style-type: none"> September 2008 Placed on Negative Watch June 2008 LT & ST Ratings Downgraded, (Outlook remains <i>Negative</i>) April 2008 Outlook Changed to <i>Negative</i>

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9/10/2008

• Long-term (senior)	A+	A+	
• Long-term (subordinated)	A	A	
Dominion Bond Rating Service			
• Short-term	R-1 (Middle)	R-1 (Middle)	<ul style="list-style-type: none"> • September 2008 LT Ratings Downgraded. (Outlook remains <i>Negative</i>). • June 2008 Outlook Changed to <i>Negative</i> • December 2007 Ratings Upgraded
• Long-term (senior)	A (High)	AA (Low)	
• Long-term (subordinated)	A (Middle)	A (High)	

■

12:52 **Stock Price**

Price 7.750 Change -0.040 % Change -0.513 Bid 7.160 Ask 7.190 Open 9.150
 Volume 163,602,787 High 9.250 Low 7.400 52-Week 52-Week 1-Yr Return -84.93%
 High 67.73(11/14/07) Low 7.40(09/10/08)

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9/10/2008

SEPTEMBER 10 SUMMARY DETAILS FOR SEPTEMBER 9

09/9 Changes in Liquidity Pool			
Asset Composition (\$B)			Funding Composition (\$B)
Position			Sources
20.4	(1.2)	NY	1.5 CP Issuance
5.5	(0.3)	London	0.2 Bank Loans
			0.1 Intercompany
Position	Change in Inventory		Uses
4.0	0.0	LBHI	2.0 CP Maturities
3.8	(2.3)	LBI (NY)	0.1 Loan Funding
6.9	2.6	LBIE (LDN)	0.1 Bank Loans
-	-	LBAH (ASIA)	0.2 Capital injection
			0.5 Derivatives
\$40.6	\$(1.2)B	Net Change	\$(1.2)B Net Funding

Lehman Credit Spreads		
Day / Week	5-Year CDS (open)	5-Year (vs 3 Mo LIBOR)
3/14	650	
3/17 – 3/21	273 – 450	
3/24 – 3/28	210 – 300	313 – 328
3/31 – 4/4	183 – 300	245 – 283
4/7 – 4/11	158 – 222	234 – 269
4/14 – 4/18	167 – 222	214 – 269
4/21 – 4/25	169 – 190	215 – 232
4/28 – 5/2	135 – 160	219 – 232
5/5 – 5/9	135 – 171	219 – 233
5/12 – 5/16	154 – 164	225 – 232
5/19 – 5/23	153 – 215	229 – 251
5/27 – 5/30	226 – 247	273 – 278
5/30 (2 Q End)	226	274
6/2 – 6/6	233 – 262	253 – 275
6/9 – 6/13	237 – 280	246 – 273
6/16 – 6/20	225 – 260	248 – 266
6/23 – 6/27	258 – 285	264 – 279
6/30 – 7/3	276 – 280	274 – 279
7/7 – 7/11	283 – 360	276 – 317
7/14 – 7/18	376 – 391	315 – 340
7/21 – 7/25	328 – 372	331 – 341
7/28 – 8/1	324 – 387	333 – 343
8/4 – 8/8	237 – 290	308 – 327
8/11 – 8/15	273 – 304	310 – 328
8/18 – 8/22	333 – 396	335 – 381
8/25 – 8/29	336 – 368	357 – 373
8/29 (3Q End)	336	373
9/2	320	372
9/3	304	369
9/4	317	380
9/5	325	374
9/8	328	386
9/9	475	431

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9/10/2008

Dates	Total Cash	Boxed inventory	Liquidity Pool Available to LBHI	LBI 15c3 Lockup	LBIE PB Cust. Free Credit	\$2.0B US Committed Bank line (drawn)	\$2.5B LDN Committed Bank line (drawn)
3/14 – 3/18	9.0 – 20.6	6.5 – 19.9	27.1 – 30.2				
4/1 – 4/4	10.9 – 20.5	11.8 – 19.9	27.5 – 32.2	2.3	6.3 – 6.4		2.0
4/7 – 4/11	16.2 – 18.7	12.5 – 15.8	31.2 – 32.7	2.3	6.5 – 7.1		
4/14 – 4/25	18.0 – 21.5	8.9 – 12.4	30.2 – 33.9	2.3 – 4.2	5.7 – 7.3	2.0	
4/28 – 5/30	1.2 – 30.8	9.3 – 43.4	31.8 – 44.6	3.0 – 6.0	3.7 – 7.1		
5/30 (2Q End)	1.2	43.4	44.6	3.3	4.0		
6/2 – 6/6	26.6 – 31.3	10.2 – 15.9	42.4 – 43.3	3.8	3.7 – 3.9		
6/9 – 6/13	31.2 – 36.6	8.5 – 12.0	40.6 – 48.4	2.8	3.9 – 4.3		
6/16 – 6/20	23.0 – 30.1	12.5 – 18.5	41.5 – 43.1	5.6	3.1 – 3.6		
6/23 – 6/27	30.2 – 33.8	7.7 – 11.7	41.0 – 42.2	2.5	3.6		
6/30 – 7/3	2.6 – 31.9	8.2 – 38.4	39.3 – 41.0	5.0	3.0 – 3.1		
7/7 – 7/11	27.1 – 33.3	7.0 – 13.1	38.4 – 40.3	5.0	1.6 – 2.8		
7/14 – 7/18	22.8 – 27.1	12.7 – 15.4	38.2 – 40.2	3.9 – 5.0	1.4 – 1.6		
7/21 – 7/25	19.3 – 23.7	16.4 – 20.5	38.0 – 40.1	3.7 – 4.8	1.1 – 1.3		
7/28 – 8/1	3.9 – 20.8	16.0 – 35.3	39.0 – 39.7	3.5	0.9 – 1.0		
8/4 – 8/8	20.2 – 23.7	15.4 – 19.0	38.5 – 40.3	5.2	1.0		
8/11 – 8/15	19.1 – 23.1	15.1 – 19.4	38.2 – 38.7	4.4 – 5.2	0.9 – 1.0		
8/18 – 8/22	23.1 – 24.5	13.5 – 16.2	38.0 – 38.2	4.4 – 4.6	0.8 – 1.0		
8/25 – 8/29	3.8 – 26.0	12.0 – 38.2	38.0 – 42.1	3.3	0.8 – 1.0		
8/29 (3Q End)	3.8	38.2	42.1	3.3	1.0		
9/2	24.0	17.1	41.1	5.0	1.0		
9/3	27.5	13.9	41.4	5.0	1.0		
9/4	27.7	14.2	41.9	5.0	1.0		
9/5	25.7	15.4	41.1	5.0	1.0		
9/8	27.4	14.2	41.6	3.7	1.0		
9/9	25.9	14.7	40.6	3.7	0.8		

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9/10/2008

Secured Funding (\$ Billions)						Secured Funding Breakdown		
Secured Funding	Asia	Europe	U.S.	Total	Change	% Next Day	% < 1 week	% > 1 week
3/17 – 3/28	1.6 – 2.9	45.6 – 47.7	63.8 – 69.2	107.0 – 117.9		37 – 43	15 – 18	41 – 47
3/31 – 4/11	1.4 – 1.5	41.5 – 48.0	61.6 – 63.2	105.0 – 111.7		37 – 54	8 – 17	38 – 49
4/14 – 4/18	1.5 – 1.6	47.4 – 50.5	60.3 – 61.8	110.1 – 112.5		39 – 44	9 – 12	44 – 51
4/21 – 4/25	1.6 – 1.7	50.5 – 51.6	60.2 – 61.7	112.5 – 114.7		40 – 43	11 – 18	42 – 47
4/28 – 5/2	1.7	49.3 – 51.3	59.0 – 60.2	110.8 – 113.2		42 – 48	10 – 17	40 – 45
5/5 – 5/9	1.7	49.6 – 50.6	59.9 – 61.6	112.2 – 113.1		45 – 47	9 – 11	43 – 44
5/12 – 5/16	1.7	48.8 – 49.2	59.5 – 61.2	110.4 – 112.0		42 – 48	7 – 9	46 – 51
5/19 – 5/23	1.7	49.1 – 51.4	56.8 – 60.8	109.8 – 111.7		40 – 43	6 – 9	49 – 51
5/27 – 5/30	1.7	48.3 – 50.0	54.1 – 57.1	107.0 – 108.8		39 – 42	11 – 13	46 – 50
5/30 (2Q END)	1.7	49.5	54.1	105.3		42	12	46
6/2 – 6/6	1.7	50.5 – 51.3	54.6 – 56.8	107.4 – 109.2		37 – 40	11 – 14	49 – 51
6/9 – 6/13	1.7 – 1.8	49.9 – 51.2	54.9 – 55.4	106.8 – 108.0		39 – 43	9 – 13	47 – 51
6/16 – 6/20	1.7	49.9 – 50.7	56.4 – 59.9	108.0 – 112.1		37 – 44	7 – 12	49 – 50
6/23 – 6/27	1.7	49.7 – 50.3	58.7 – 59.7	109.7 – 111.0		42 – 43	8 – 10	47 – 49
6/30 – 7/3	1.7	48.7 – 49.8	57.4 – 59.1	107.8 – 110.3		42 – 45	9 – 10	46 – 47
7/7 – 7/11	1.4 – 1.7	48.5 – 49.5	57.4 – 58.6	107.4 – 109.6		42 – 45	7 – 11	46 – 50
7/14 – 7/18	1.4 – 1.5	47.8 – 49.5	54.6 – 58.6	103.8 – 109.6		39 – 42	7 – 11	50 – 51
7/21 – 7/25	1.5	46.4 – 48.6	51.9 – 54.4	100.2 – 104.5		38 – 41	6 – 11	48 – 51
7/28 – 8/1	1.5	45.9 – 47.0	47.6 – 51.4	95.8 – 100.0		39 – 45	6 – 12	48 – 50
8/4 – 8/8	1.4 – 1.5	46.8 – 47.5	47.2 – 47.9	95.8 – 96.9		41 – 44	8 – 11	48 – 49
8/11 – 8/15	1.4 – 1.5	46.8 – 47.8	46.7 – 47.7	95.0 – 97.0		39 – 43	7 – 11	48 – 51
8/18 – 8/22	1.4	45.4 – 47.1	46.7 – 48.5	94.5 – 96.7		39 – 43	7 – 10	50 – 51
8/25 – 8/29	1.1 – 1.6	45.3 – 47.3	47.0 – 48.0	94.4 – 96.5		41 – 46	8 – 11	46 – 48
8/29 (3Q END)	1.6	46.8	47.5	95.9		46	8	46
9/2	1.7	46.6	47.7	96.0	0.1	44	9	48
9/3	1.6	46.6	48.2	96.5	0.5	45	9	46
9/4	1.6	46.4	48.0	96.1	(0.4)	44	10	46
9/5	1.6	46.5	48.3	96.5	0.4	44	10	46
9/8	1.6	45.3	48.2	95.2	(1.3)	43	11	46
9/9	1.6	46.1	47.7	95.4	0.2	44	9	47

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9/10/2008

Commercial Paper	Europe	U.S.	Total	Change	% Overnight Maturing	% Within Two Weeks
3/17 - 3/20	2.4 - 2.6	5.2 - 5.8	7.7 - 9.4		-	-
3/24 - 3/28	2.3 - 2.6	6.7 - 8.6	9.2 - 11.1		45 - 53	
3/31 - 4/4	2.4 - 2.6	6.4 - 8.0	8.8 - 10.6		49 - 52	
4/7 - 4/11	2.3 - 3.4	7.1 - 7.6	9.6 - 11.0		46 - 55	
4/14 - 4/18	3.0 - 3.4	6.6 - 7.8	9.8 - 11.0		47 - 57	
4/21 - 4/25	3.0 - 3.3	6.4 - 7.7	9.5 - 11.0		47 - 52	61 - 70
4/28 - 5/2	2.9 - 3.3	6.2 - 7.5	9.5 - 10.7		27 - 50	56 - 61
5/5 - 5/9	3.0 - 3.7	7.0 - 7.9	10.0 - 11.3		41.2 - 50.2	52.2 - 64.1
5/12 - 5/16	2.9 - 3.8	7.7 - 8.3	10.9 - 11.1		35.7 - 40.4	53.9 - 60.3
5/19 - 5/23	3.2 - 3.9	6.9 - 7.5	10.7 - 11.4		33.4 - 41.6	50.7 - 63.2
5/26 - 5/30	1.5 - 3.9	6.4 - 7.1	8.0 - 10.8		16 - 38	55.7 - 64.6
6/2 - 6/6	2.1 - 3.6	6.0 - 6.5	8.2 - 10.0		15.4 - 41.1	57.1 - 65.4
6/9 - 6/13	1.2 - 2.1	5.0 - 6.0	6.1 - 7.9		20.8 - 42.2	56.7 - 77.8
6/16 - 6/20	1.0 - 1.3	4.6 - 5.5	5.6 - 6.7		17.9 - 30.9	n/a
6/23 - 6/27	0.9 - 1.0	4.8 - 5.3	5.8 - 6.2		36.3 - 43.9	62.0 - 66.6
6/30 - 7/3	0.8 - 1.0	3.8 - 4.0	4.6 - 4.9		43.2 - 48.1	n/a
7/7 - 7/11	0.8 - 0.9	3.6 - 3.9	4.5 - 4.8		46.7 - 52.2	n/a
7/14 - 7/18	0.8	3.1 - 3.7	4.0 - 4.5		41.6 - 52.2	58.1 - 62.8
7/21 - 7/25	0.8 - 0.9	3.1 - 3.5	3.9 - 4.4		47.5 - 53.6	63.2 - 66.7
7/28 - 8/1	0.8	2.7 - 3.2	3.7 - 4.0		43.5 - 47.9	54.6 - 63.2
8/4 - 8/8	0.8	2.8 - 3.7	3.7 - 4.5		47.0 - 56.4	56.7 - 64.3
8/11 - 8/15	0.8 - 0.9	3.1 - 3.3	3.9 - 4.2	(0.1)	44.3 - 50.1	53.1 - 60.2
8/18 - 8/22	0.8 - 0.9	2.9 - 3.0	3.7 - 3.8	0.4	36.6 - 44.4	n/a
8/22	0.8	2.9	3.7	(0.1)	36.6	n/a
8/25	0.8	3.1	3.9	0.2	42.5	n/a
8/26	0.9	3.3	4.2	0.3	40.6	n/a
8/27	1.0	3.2	4.1	(0.1)	43.8	n/a
8/28	0.9	3.4	4.4	0.3	42.5	61.7
8/29	0.9	2.9	3.8	(0.6)	33.3	35.6
9/2	0.9	3.0	3.9	0.1	44.3	73.1
9/3	0.9	3.0	3.9	0.0	49.2	72.5
9/4	0.9	2.9	3.8	(0.1)	47.7	68.5
9/5	0.9	2.8	3.7	(0.1)	47.1	58.1
9/8	0.8	3.6	4.4	0.7	45.8	75.7
9/9	0.7	3.2	3.9	(0.5)	38.6	72.4

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9/10/2008

ST Debt Maturities:	Next Day	< 1 wk	1wk – 1 mth	> 1 mth	Total	Change
3/19 – 3/20	1.7 – 3.2	1.0 – 4.4	2.4 – 3.7	24.0 – 24.1	32.1 – 32.4	
3/24 – 3/28	4.4 – 7.2	1.3 – 3.8	3.0 – 3.4	23.2 – 25.9	33.9 – 38.2	
3/31 – 4/25	4.1 – 7.7	0.5 – 2.7	2.2 – 3.8	25.9 – 26.9	35.1 – 37.9	
4/28 – 5/2	2.8 – 5.7	1.1 – 2.7	5.8 – 6.6	23.6 – 24.2	35.6 – 37.0	
5/5 – 5/9	4.2 – 5.9	0.8 – 2.7	5.3 – 7.2	23.3 – 23.9	35.6 – 37.5	
5/12 – 5/16	4.2 – 5.2	1.0 – 2.3	7.2 – 7.7	22.7 – 22.9	36.1 – 37.2	
5/19 – 5/23	3.8 – 4.9	0.9 – 3.7	5.5 – 8.4	22.7 – 24.4	35.8 – 37.7	
5/26 – 5/30	1.3 – 6.4	1.9 – 3.4	4.9 – 6.1	24.1 – 24.3	32.4 – 37.9	
6/2 – 6/6	3.4 – 4.3	1.3 – 2.6	2.7 – 4.8	24.0 – 25.0	33.5 – 35.5	
6/9 – 6/13	2.6 – 3.5	1.6 – 3.1	2.3 – 2.8	23.8 – 24.6	30.8 – 33.0	
6/16 – 6/20	1.1 – 2.4	1.3 – 2.3	1.6 – 3.0	23.9 – 24.5	29.8 – 30.2	
6/23 – 6/27	2.4 – 3.1	0.6 – 2.7	1.4 – 2.7	23.5 – 23.8	29.5 – 30.5	
6/30 – 7/3	2.0 – 2.4	0.5 – 0.9	1.9 – 2.8	23.4 – 23.6	28.4 – 29.1	
7/7 – 7/11	2.2 – 2.5	1.4 – 2.1	1.7 – 2.2	22.9 – 23.4	29.0 – 29.3	
7/14 – 7/18	1.8 – 3.5	0.3 – 0.6	2.6 – 3.4	22.7 – 22.8	27.8 – 29.2	
7/21 – 7/25	2.0 – 2.3	0.4 – 1.6	2.6 – 4.0	22.2 – 22.7	28.2 – 29.1	
7/28 – 8/1	1.7 – 2.8	1.2 – 1.6	2.4 – 3.1	21.9 – 22.6	28.2 – 28.9	
8/4 – 8/8	1.7 – 3.5	0.9 – 2.2	1.4 – 3.0	22.4 – 22.5	28.8 – 29.5	
8/11 – 8/15	1.8 – 3.0	0.6 – 1.8	1.7 – 2.0	22.2 – 22.4	26.8 – 28.3	
8/18 – 8/22	1.7 – 2.1	0.6 – 1.1	1.8 – 2.8	22.3 – 22.4	26.6 – 28.4	
8/22	1.4	0.7	2.8	23.4	28.4	0.6
8/25	1.7	0.6	2.9	23.4	28.6	0.2
8/26	2.0	0.4	3.8	22.6	28.9	0.3
8/27	1.9	0.2	3.9	22.5	28.5	(0.4)
8/28	1.9	0.6	3.6	22.5	28.6	0.1
8/29	1.1	0.7	3.4	22.6	27.8	(0.8)
9/2	1.8	0.9	3.1	22.6	28.4	0.6
9/3	2.0	0.8	3.0	22.6	28.3	(0.1)
9/4	1.9	0.7	3.0	22.5	28.1	(0.2)
9/5	1.9	2.4	1.2	22.5	28.1	0.0
9/8	2.1	2.3	1.8	22.3	28.6	0.5
9/9	2.0	2.3	1.8	22.1	28.2	(0.4)

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9/10/2008

CURRENT RATINGS

Ratings Summary			
Rating Agency	LBHI	LBI	Comments
Moody's			
• Short-term	P-1	P-1	<ul style="list-style-type: none"> July 2008 LT Ratings Downgraded. (Outlook remains <i>Negative</i>) June 2008 Placed on Negative Watch June 2008 Outlook change to <i>Negative</i> March 2008 Outlook change to <i>Stable</i>
• Long-term (senior)	A2	A1	
• Long-term (subordinated)	A3	A2	
Standard & Poor's			
• Short-term	A-1	A-1	<ul style="list-style-type: none"> September 2008 Placed on Negative Watch June 2008 LT Ratings Downgraded, (Outlook remains <i>Negative</i>) March 2008 Outlook change to <i>Negative</i>
• Long-term (senior)	A	A+	
• Long-term (subordinated)	A-	A	
Fitch Ratings			
• Short-term	F1	F1	<ul style="list-style-type: none"> September 2008 Placed on Negative Watch June 2008 LT & ST Ratings Downgraded, (Outlook remains <i>Negative</i>) April 2008 Outlook change to <i>Negative</i>
• Long-term (senior)	A+	A+	
• Long-term (subordinated)	A	A	
Dominion Bond Rating Service			
• Short-term	R-1 (Middle)	R-1 (Middle)	<ul style="list-style-type: none"> September 2008 LT Ratings Downgraded. (Outlook remains <i>Negative</i>). June 2008 Outlook change to <i>Negative</i> March 2008 Ratings Affirmed December 2007 Ratings Upgraded

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9/10/2008

• Long-term (senior)	A (High)	AA (Low)
• Long-term (subordinated)	A (Middle)	A (High)

APPENDIXDiscussion with Holding Company Supervision Managing Director and Data for September 88:00 PM Update

Quick update from Laura Vecchio at Lehman:

Four counterparty actions, with two pulling excess cash balances (\$1.2B) and two others pulling triparty financing (\$1.6B)
Modest impact to liquidity pool expected - not quantified.

- 1) GLG will withdraw \$350 in excess cash in the prime services business of LBIE (London broker dealer).
- 2) Ramsey Quant (fund) will withdraw \$850 in excess cash from the futures business line in LBI (NY).
- 3) Fidelity has previously announced to Lehman its intention to pull \$2.3B in funding for private label and other less liquid instruments. Tomorrow is will remove \$600 million of that target amount in private label investment grade collateral.
- 4) Dwight AM will pull \$1.0B in funding for asset backed, mbs and private label collateral. Dwight still has \$600 mil. remaining in investment grade corporate collateral maturing in the December time frame.

5:00 PM Update

Commercial Paper: Balances are expected to decline by \$360 million to \$4.0B due to a reduction in surplus cash balances placed by Ameriprise.

CDS Spreads: CDS spreads widened by 140 basis points today to close at 475, the highest we have seen since March 14.

Less Liquid Repo: Balances were largely unchanged. No novations or putbacks were reported.

Rating Agency Developments: Standard & Poor's placed both long-term and short-term debt ratings on Negative Watch (see article below).

17:20 **Stock Price**

Price	7.790	Change		% Change		Bid	8.570	Ask	8.580	Open	12.920
		-6.360		-44.947							
Volume	377,609,162	High	13.100	Low	7.640	52-Week High	67.73(11/14/07)	52-Week Low	7.64(09/09/08)	1-Yr Return	-85.007%

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9/10/2008

Lehman Put on Watch for Possible Downgrade by S&P

By Josh Fineman

Sept. 9 (Bloomberg) -- Lehman Brothers Holdings Inc., the fourth-biggest U.S. securities firm, was put on watch for a possible downgrade to its credit rating by Standard & Poor's as the shares plunged 45 percent today.

Lehman's long-term 'A' and short-term 'A-1' counterparty credit ratings were put on credit watch with "negative" implications, S&P said today.

"The CreditWatch listing stems from heightened uncertainty about Lehman's ability to raise additional capital, based on the precipitous decline in its share price in recent days," S&P analyst Scott Sprinzen wrote. S&P said it doesn't rule out the possibility of "lowering the ratings by more than one notch."

Lehman may incur a "substantial" net loss in the third quarter tied to writedowns of mortgage-related investments, Sprinzen said. The New York-based firm is seeking to raise capital and sell devalued real-estate assets after \$8.2 billion in writedowns and credit losses in the past year.

Lehman declined \$6.36 to \$7.79 as of 4:01 p.m. in New York Stock Exchange composite trading.

Lehman's second-quarter loss of \$2.8 billion was its first as a publicly traded company. Analysts surveyed by Bloomberg expect the firm to report a \$2.2 billion third-quarter loss next week.

Capital-raising needs may be hurt if the company continues efforts to try to sell certain assets, including its commercial real-estate portfolio, S&P said.

"We continue to view Lehman's near-term liquidity as satisfactory," Sprinzen said. "Overall, and despite nervous market sentiment in recent months, Lehman has maintained a very stable funding profile. We consider its excess liquidity position and contingent funding plan to be sound."

Lehman could meet its secured funding needs by drawing on credit facilities extended by the U.S. Federal Reserve since Bear Stearns Cos. "near collapse" in mid-March, he said.

To contact the reporter on this story: Josh Fineman in New York at jfineman@bloomberg.net

Early Afternoon

Holding Company Liquidity Pool: The liquidity pool closed at \$41.6B yesterday, slightly up from \$41.5B on Friday.

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9/10/2008

Commercial Paper: Outstanding balances, which increased substantially yesterday from \$3.8B to \$4.4B from US investor activity, are expected to decline modestly today. **Abu Dhabi Investment Authority** purchased an additional \$285 million, however, for settlement tomorrow.

CDS Spreads: CDS spreads widened significantly to 385 at today's opening from 328 at the end of yesterday. This will be the fifth successive day for widening CDS spreads and the highest we have seen since the third week of August.

Less Liquid Repo: Less liquid repo declined to \$95.2B from Friday's \$96.5B level.

Debt Buybacks: Net buybacks yesterday were \$31.8 million, somewhat higher than the breakeven figure reported to us yesterday.

Fidelity Concerns: Lehman reports that Fidelity continues to voice concerns with their overall and private label repo exposure with Lehman. It remains unclear how soon Fidelity will reduce its \$2.3B in private label repo lines (which the firm understands will be renegotiated as additional investment grade corporate debt repo lines).

At quarter end, Lehman had the following repos in place with Fidelity:

<u>Asset Category</u>	<u>Amount (\$B)</u>
Asset Backed – Investment Grade	\$0.6
Asset Backed – Non-Investment Grade	0.3
Convertibles – Investment Grade	0.4
Convertibles – Non-investment Grade	0.3
Corporates – Investment Grade	2.3
Corporates - Non-Investment Grade	1.1
Equities	1.0
Government Agency	0.2
MBS	2.0
Private Labels – Investment Grade	0.8
Private labels – Non-investment Grade	0.2
Sovereigns	4.9
Total	\$14.1

14:36 **Stock Price**

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9/10/2008

Price 8.620

Change **-5.530** % Change **-39.081** BidN.A.

AskN.A.

Open12.920

Volume273,360,902 High13.100 Low8.000 52-Week High67.73(11/14/07) 52-Week Low8.00(09/09/08) 1-Yr Return-83.390

*****Discussion with Treasury staff and Data for September 5**Evening Update**

Per Treasury staff:

- Lehman's stock price closed (quietly) at \$14.07, down 12.7% on the day.
- CDS spreads closed at 327, in line with Friday's close
- the liquidity pool is virtually unchanged as net increases in commercial paper issuances were offset by small increases in margin collateral to LBSF, Lehman's swaps and derivatives subsidiary, and the repayment of term debt maturities

Early Afternoon Report

Staff characterized the market as particularly volatile today, noting that the positive news on FNMA and FHLMC, which tightened Lehman's CDS spreads (325 to 280) and increased Lehman's stock price (\$16 to \$18) early in the day, have now been more than offset by the following:

- a rumor that Lehman will not be able to sell off its commercial mortgage-backed holdings,
- hearsay that Lehman met with rating agencies and will have its ratings downgraded shortly,
- Merrill Lynch analyst Guy Mozkowski lowered third quarter earnings per share to a loss of \$6.50.

By early afternoon spreads moved from 280 to 345, down from a high of 350/355, and the stock price fell from \$18 to \$13.93, up from a low of \$13.03.

Holding Company Liquidity Pool: The liquidity pool, which closed Thursday at \$41.9B and declined to \$41.5B on Friday, will likely return to Thursday's levels given today's increased commercial paper issuance.

Commercial Paper: Outstanding balances, which remained at \$3.8B on Friday, will increase today given an increase in holdings from \$250 million to \$450 million by **Ameriprise** and Thursday's advance purchase for settlement today of \$500 million by **Abu Dhabi Investment Authority** (down from the \$600 million figure reported on Friday).

End-of Day Spreads: As noted above, CDS spreads this early afternoon were reported at 345, up for the fourth successive business day.

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9/10/2008

Less Liquid Repo: No change reported to Friday's \$96.5B level.

Debt Buybacks: Net buybacks were quite small: \$50 million purchases in the US were offset by a €50 million sale to **Autonomy**, a macro hedge fund manager new to Treasury staff.

Rating Agency Discussions: Lehman completed its round of meetings with Fitch, Standard & Poor's and Moody's late last week, focusing on third quarter results and the strength of the franchise going forward. Changes, if any, would not be expected to be announced until Lehman releases its third quarter earnings on September 18 (now pushed back from September 15).

13:55 Stock Price

Price	14.080	Change	-2.120	% Change	-13.086	Bid	N.A.	Ask	N.A.	Open	N.A.
Volume	87,882,421	High	17.730	Low	13.030	52-Week High	67.73(11/14/07)	52-Week Low	12.02(07/15/08)	1-Yr Return	-72.323

Discussion with Treasurer and Data for September 4

The Treasurer characterized the market as very quiet and nervous. Investors and key relationship banks appear to be very keen to learn quarter end results (currently planned to be released September 15).

Holding Company Liquidity Pool: The liquidity pool, which closed yesterday at \$41.9B, is expected to remain at this level today.

Commercial Paper: Outstanding balances are expected to increase from yesterday's \$3.8B level as all funding reportedly rolled and **Abu Dhabi Investment Authority**, a returning investor, purchased \$600 million term commercial paper, maturing September 22.

End-of Day Spreads: CDS spreads, which widened to 317 yesterday, opened wider at 330. Five-year debt spreads rose to 380 from 364 the prior day, their highest levels since we initiated tracking this measure.

Secured Financing: Yesterday Lehman repaid a \$500 million commercial whole loan secured facility with **Fidelity**.

Less Liquid Repo: Funded balances are in line with yesterday's \$96.1B level. Less liquid repos have ranged between \$94B and \$97B since the beginning of August.

Debt Buybacks: Lehman bought back \$40 million yesterday, \$27 million in the US and \$13 million in Europe. No specific names were offered as principal sellers.

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9/10/2008

Rating Agency Discussions: Lehman met with Fitch yesterday and meets Standard & Poor's and Moody's today, ahead of its earnings announcement. The Treasurer mentioned the following as a possible set of outcomes:

- 1) Lehman will get placed on CreditWatch by each agency,
- 2) each agency will voice what needs to be addressed to avoid a further downgrade,
- 3) focus will hopefully be on Lehman's follow-up to meet the agencies' concerns rather than the poor earnings results .

The following summarizes what additional rating notches remain for Lehman before assigning it a non-investment grade rating:

Summary of remaining investment grade ratings for Lehman

Rating Agency	Rating Type	LBHI Current Rating	Remaining Investment Grade Ratings	LBI Current Rating	Remaining Investment Grade Ratings
Moody's	Long-term (senior)	A2	A3, Baa1, Baa2, Baa3	A1	A2, A3, Baa1, Baa2, Baa3
	Long-term (subordinated)	A3	Baa1, Baa2, Baa3	A2	A3, Baa1, Baa2, Baa3
Standard & Poor's	Long-term (senior)	A	A-, BBB+, BBB, BBB-	A+	A, A-, BBB+, BBB, BBB-
	Long-term (subordinated)	A-	BBB+, BBB, BBB-	A	A-, BBB+, BBB, BBB-
Fitch Ratings	Long-term (senior)	A+	A, A-, BBB+, BBB, BBB-	A+	A, A-, BBB+, BBB, BBB-
	Long-term (subordinated)	A	A-, BBB+, BBB, BBB-	A	A-, BBB+, BBB, BBB-

12:52 Stock Price

Price 15.700 Change 0.530 % Change 3.494 Bid N.A. Ask N.A. Open 14.710
 Volume 21,783,016 High 15.840 Low 14.590 52-Week High 67.73(11/14/07) 52-Week Low 12.02(07/15/08) 1-Yr Return -70.52%

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9/10/2008

Discussion with Holding Company Supervision Managing Director and Data for September 2 and 3

Holding Company Liquidity Pool: The liquidity pool, which closed at quarter end at \$42.1B, declined to \$41.1B on Tuesday, increased to \$41.4B yesterday, and reportedly declined further today to \$40.9B. Derivatives (-\$0.5B) and loan funding balances (-\$0.4B) accounted primarily for the decrease. The Treasurer mentioned on yesterday's call that he expects to manage the pool in the \$39B to \$40B range.

Commercial Paper: Outstanding balances slightly increased from \$3.8B at quarter end to \$3.9B on Tuesday, where they remain today.

CDS End-of Day Spreads: CDS spreads, which continually declined since quarter end, from 336 to 304 yesterday, opened today at 300 and widened to 317 today, in line with today's stock market declines.

Less Liquid Repo: Less liquid repo increased from \$95.9B at quarter end to \$96.5B yesterday. Lehman had \$11.2B in less liquid repos with the ECB and \$3.2B with the Fed, which together represented \$14.4B or 15% of total less liquid repos outstanding. **Key Bank**, which has \$580 million in investment grade corporates and \$500 million in level one equity repo financing with Lehman, is expected to pull back its investment grade corporate balances within the next day or two and leave the equity financing.

Debt Buybacks: Lehman sold \$3.2 million of Treasury debt on a net basis yesterday after buying back (net) \$24.1 million and \$24.8 million on Monday and Tuesday, respectively.

CPC Updates

CS CRM continues to report that, through an independent effort, they have had limited success in collapsing their risk with Lehman Brothers. Through desk-to-desk level trading, CS was able to complete a small number of trades that is expected to reduce VaR. CS has also compiled more granular novation statistics on the four major broker/dealers. Results show no heavy tilt toward Lehman that CS can identify, with novations spread evenly across the board. (Counterparty Credit Update 9/4 - Credit Suisse)

17:11 Stock Price

Price	15.170	Change	-1.770	% Change	-10.449	Bid	15.540	Ask	15.550	Open	16.730
Volume	39,446,748	High	16.730	Low	15.060	52-Week High	67.73(11/14/07)	52-Week Low	12.02(07/15/08)	1-Yr Return	-72.617%

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Discussion with Holding Company Supervision Managing Director and Data for August 29)

Holding Company Liquidity Pool: The early estimated pool ended the 3rd quarter at \$42.1B, largely due to a \$1.3B subordinated debt repayment from LBIE and return of \$1.5B from loan funding.. The overall increase was \$3.3B from \$38.8B.

Commercial Paper: At 4:00 pm commercial paper balances were not completely finalized, but overall \$400 to \$500 million will be lost as regular customers, who have been consistently investing, pared back slightly into Lehman's quarter-end. JPMorgan Asset Management did not roll \$75 mil. in a maturing term transaction but did roll \$225 mil. overnight for the long weekend. CP is expected to close around \$3.9B. Lehman pointed out today that the \$40 million tranche purchased yesterday by **Russell Investments** was a term purchase to September 15.

CDS End-of Day Spreads: CDS spreads opened lower by 33 basis points at 303, but closed at 319 on the day.

Less Liquid Repo: The less liquid book declined slightly to \$95.9B from \$96.5B. Balances with the ECB and Fed were \$11.4B and \$3.7B, respectively.

Debt Buybacks – Data is now being provided showing the daily net balance of either repurchase (buyback) or sale of their debt. (This data will be charted.)

- **U.S. 8/26 – 8/29** - Daily net buybacks ranged \$14.3 to 28.8 mil., while daily net sales ranged \$9.0 to 12.8 mil. Net buyback for the period was \$21.3mil.
- **EUR 8/26 – 9/1** – Daily net buybacks ranged \$24.1 to 67.1, with one day of net sales of \$8.7 mil. Net buyback for the period was \$145.2 mil.
- **Total net buyback:** \$166.5 mil

17:55 New York Currency: USD

Price16.130	Change0.040	% Change0.249	Bid16.050	Ask16.060	Open17.450
Volume51,543,735	High17.530	Low15.550	52-Week High67.73(11/14/07)	52-Week Low12.02(07/15/08)	1-Yr Return-70.019%

Discussion with Holding Company Supervision Managing Director and Data for August 28.

Holding Company Liquidity Pool: The pool, which increased by \$800 million to \$38.8B yesterday, is expected to close between \$40B - \$41B at the quarter-end target today.

Commercial Paper: At 4:00 pm commercial paper balances were not completely finalized, but overall \$400 to \$500 million will be lost as regular customers, who have been consistently investing, pared back slightly into Lehman's quarter-end. JPMorgan Asset Management did not roll \$75 mil. in a maturing term transaction but did roll \$225 mil. overnight for the long weekend. CP is expected to close around

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

\$3.9B. Lehman pointed out today that the \$40 million tranche purchased yesterday by **Russell Investments** was a term purchase to September 15.

CDS End-of Day Spreads: CDS spreads opened at 333, slightly better than the 337 close yesterday. End of day was not available.

Less Liquid Repo: The less liquid book increased from \$94.7B to \$96.5B, its highest level in two weeks. Balances with the ECB and Fed were \$11.4B and \$3.7B, respectively.

Buybacks - There has been negligible interest by customers to put Lehman's paper back to the firm in either the debt or equity markets. There was also no news of major assignments.

4:03 pm New York Currency: USD

Price16.090	Change0.220	% Change1.386	BidN.A.	AskN.A.	Open15.552
Volume30,778,190	High16.330	Low15.200	52-Week High67.73(11/14/07)	52-Week Low12.02(07/15/08)	1-Yr Return-70.577%

Discussion with Holding Company Supervision Managing Director and Data for August 27

Holding Company Liquidity Pool: The pool remained at \$38B for the sixth successive business day.

Commercial Paper: Commercial paper balances increased by \$240 million in overnight maturities to \$4.3B today. Purchasers adding to positions included **Evergreen Investments** (\$100 million), **New York City** (\$50 million), **Ohio Public Employees** (\$40 million), and **Russell Investments** (\$40 million).

CDS End-of Day Spreads: CDS spreads, which had been trading in the 360/370 range all week, broke out this morning to 335 and closed at 337.

Less Liquid Repo: The less liquid book, which increased by \$0.3B to \$94.7B yesterday, remained at this level.

17:08 **Stock Price**

Price 15.870	Change 1.090	% Change 7.375	Bid 15.660	Ask 15.650	Open 15.100
Volume 35,590,175	High 15.870	Low14.700	52-Week High 67.73(11/14/07)	52-Week Low 12.02(07/15/08)	1-Yr Return -70.203%

Today's Lehman Story

Lehman Said to Be Eliminating as Many as 1,000 Jobs

Aug. 28 (Bloomberg) -- Lehman Brothers Holdings Inc., the investment bank that's trying to shed mortgage assets and raise capital, is poised to eliminate as many as 1,000 jobs, or about 4 percent of its workforce, in the fourth round of cuts at the firm this year, people familiar with the matter said.

The headcount reductions may be announced when Lehman, the fourth-largest U.S. securities firm, reports third-quarter financial results next month, according to the people, who declined to be identified because the plan isn't completed.

Lehman, based in New York, has shrunk its payroll by about 6,400, or 22 percent, in the past 12 months as its share price sank 70 percent. Banks and securities firms have eliminated 101,250 jobs as credit losses and writedowns stemming from the collapse of the subprime mortgage market last year have exceeded \$512 billion.

The Week in Review with Lehman's Treasurer and Data for August 26

The Treasurer characterized the week again as relatively quiet from a liquidity perspective.

Holding Company Liquidity Pool: The pool remained at \$38B through the week, where it remained today. Staff plans to increase the pool to \$40B for quarter end reporting through Bankhaus transfers and the freeing up of cash from reduced balances at the broker-dealers.

Commercial Paper: Commercial paper balances ranged between \$3.7B and \$4.2B. Today there was little change from yesterday's \$4.2B level.

CDS End-of Day Spreads: CDS spreads, which ranged between 333 and 396 last week, opened today at 370 and closed at 368. This is among the highest ranges we have seen for CDS spreads since we began to track these five-year spreads.

Less Liquid Repo: The less liquid book ranged between \$94.4B and \$96.1B this past week. The Treasurer identified **RZB** (per yesterday's report) and **Dresdner** as two examples of institutions that contributed to minor reductions in balances. There was little change today from yesterday's \$94.4B level.

Financing Municipals: Lehman is exploring whether or not to provide financing through its bank rather than via LBI. Recently LBBW

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

pulled \$800 million in muni repo lines leaving Lehman with \$2.8B with four other counterparties.

Prime Brokerage Balances: Balances (long and short positions) declined to \$120B from \$125B two weeks ago. The Treasurer believed that the reductions were due to delevering efforts rather than movements away from Lehman. **Calyon** and **Tiger Asia** had the largest reductions, each over \$500 million. Prime brokerage balances had been as high as \$200B in March and \$160B at the end of May.

Earnings Calendar: Lehman expects to announce earnings (along with several other announcements) on September 10. Diligence discussions are being scheduled with key relationship banks, securities lenders, major bondholders, and rating agencies in advance of the announcement. Early stage discussions have already occurred with **Bank of New York**, **State Street**, and **ANZ**.

Intraday Funding: The Treasurer provided the following recap and noted that none of these requirements will affect Lehman's liquidity pool.

Bank	Initial Request	Status
Bank of America	\$1B million intraday cash collateral for pre-defined operating accounts	Agreed to \$500 million.
Bank of New York	\$600 million balance for euro funding programs	Agreed to move money fund balances into the MTN account early in the morning and out of the account at the end of each day. No overnight requirement will be necessary.
J.P. Morgan	Triparty pre-funding for repo haircuts (estimated \$5B collateral)	Documentation for perfection is currently under discussion. Lehman contends that JPM has been reasonable in these discussions, will likely reduce the overall requirement once calculations are worked out, and will allow Lehman time at the end of the day to move collateral elsewhere, barring operational failures. It appears, however, that JPM will have the right to call collateral and subject Lehman to a potential default, if not responsive.
Citi	\$2B cash collateral for FX lines	No progress to report

15:26 Stock Price

Price 14.760 Change **0.730** % Change **5.203** Bid N.A. Ask N.A. Open 14.250
 Volume 38,121,936 High 15.240 Low 13.900 52-Week High 67.73(11/14/07) 52-Week Low 12.02(07/15/08) 1-Yr Return -73.935%

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9/10/2008

Discussion with Compliance Staff and Data for August 25

Holding Company Liquidity Pool: The pool remained at \$38.0B for the fourth successive business day.

Commercial Paper: Commercial paper balances increased \$185 million to \$4.2B today. Additional overnight tranches were purchased by **Russell Investments** (\$100 million), **Evergreen Investments** (\$91 million), and **New York State Teachers' Retirement Fund** (\$26 million). Note that **Russell** also invested \$120 million yesterday in term commercial paper out to September 15.

CDS End-of Day Spreads: CDS spreads, which widened to 360 from 333 yesterday, opened at 365 and finished at 366.

Less Liquid Repo: The less liquid book declined \$1B to \$95B. Two term trades, one with **Calyon** for \$300 million in Asian equities, and another with **RZB** (Austria's third largest bank) for \$300 million in European equities, did not roll. The remaining \$400 million was funded with Treasuries and other, more liquid, securities.

17:33 **Stock Price**

Price 14.030	Change 0.580	% Change 4.312	BidN.A.	AskN.A.	Open13.600
Volume 32,078,197	High 14.040	Low 13.320	52-Week High 67.73(11/14/07)	52-Week Low 12.02(07/15/08)	1-Yr Return -76.3159

Discussion with Compliance Staff and Data for August 22

Holding Company Liquidity Pool: The pool remains largely unchanged at \$38.0B.

Commercial Paper: Commercial paper balances, which declined \$100 mil to \$3.7B on Friday, increased by \$225 million to \$3.9B. The largest increase was a \$100 million purchase by **San Mateo County**.

CDS End-of Day Spreads: CDS spreads, which closed Friday at 333, down 63 bp from Thursday, widened to 360 today.

Less Liquid Repo: The book, which was up \$300 million from Thursday, remained stable at\$96B.

Pre-funding and Credit Lines with Clearing Banks: Lehman and **Bank of America** agreed to a \$500 million collateral requirement to clear intraday transactions, down from the \$1 billion discussed last Friday.

Per the JPMC team, **JPMC** continues to trade with Lehman but stated that a downgrade to BBB (currently at BBB+) would likely trigger a reduction in credit lines to the firm. CS has completed a number of risk-reducing trades that the firm believes lowers its overall risk exposure to Lehman.

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Additional Bank Information

CS mentioned a general increase in Prime Brokerage accounts looking to move away from Lehman. CS further stated that one of its desks had noted an acceleration of novation flows away from the firm, although this has not been reported across multiple desks. DB has not experienced either customer accounts or novations moving away from Lehman. (Weekly Counterparty Update, August 22)

DB has not reduced its credit appetite to Lehman, but remains watchful of new developments. In fact, as of yesterday, DB owes Lehman on its derivative and repo exposures on a net basis and has posted substantial collateral to Lehman. The risk to DB would be that trades suddenly move into-to-money for DB before Lehman returns the cash collateral. (DB Credit Risk Management Update, August 20 – 22)

17:47 **Stock Price**

Price 13.450	Change -0.960	% Change -6.662	Bid N.A.	Ask N.A.	Open 13.650
Volume 60,088,819	High 14.160	Low 13.200	52-Week High 67.73(11/14/07)	52-Week Low 12.02(07/15/08)	1-Yr Return-77.295%

KKR Interested in Buying Lehman's Neuberger Unit, CNBC Says

By Nancy Kercheval

Aug. 25 (Bloomberg) -- Kohlberg Kravis Roberts & Co. has indicated a "high level of interest" in buying Lehman Brothers Holdings Inc.'s investment management division, CNBC reported, citing unidentified people close to the negotiations.

KKR, the buyout firm run by Henry Kravis, is now the leading candidate to buy the business, which includes fund manager Neuberger Berman, CNBC said, citing people close to the talks. Blackstone Group LP, led by Steve Schwarzman, has told people working for Lehman that it has almost no interest in the unit, CNBC said, without citing a source for the information.

Lehman spokeswoman Kerrie Cohen declined to comment when contacted by Bloomberg News. KKR spokeswoman Ruth Pachman and Blackstone spokeswoman Heather Lucania did not immediately return calls for comment.

Discussion with Compliance Staff and Data for August 21

Holding Company Liquidity Pool: The pool remains largely unchanged at \$38.0B.

Commercial Paper: Commercial paper balances up \$100 mil to 3.8B.

CDS End-of Day Spreads: Spreads continued to weaken to record levels reached in mid-July closing yesterday at 396 for 5-yr CDS. CDS spreads for today closing around 330-340 after opening around 390. Improvement based on rumors over Korean takeover/investment by KDB.

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

REPO: The book is stable at around \$96B

- Less liquid repo balances rose \$1.3B to \$95.8B.
- Lehman has been able to secure £50 (\$100 mil) in new funds beyond its quarter end (8/31).
- Some shifting in asset classes between customers out of high-yield corporates into municipal paper

Commercial Paper

Lehman has only \$800 mil. in CP funded through Europe, and 75% is held by JPMC Investment Management

In the U.S. \$1.2B matured today and all but \$100 rolled as NatWest failed to roll \$175 of \$225 that matured, though the issue was one of price rather than name. Lehman was holding out for 10 basis points on the roll.....

Major holders of Lehman CP are: NYS Controllers; Ameriprise; AIG Global, Northwest Management, JPMC Asset management.

Stock Price: 16:57 New York Currency: USD

Price	14.410	Change	0.690	% Change	5.029	Bid	14.350	Ask	14.360	Open	15.800
Volume	112,826,737	High	15.930	Low	14.080	52-Week High	67.73(11/14/07)	52-Week Low	12.02(07/15/08)	1-Yr Return	-74.91%

Aug. 22 (Bloomberg) *Last Updated: August 22, 2008 11:48 EDT*

Lehman Rises After Korea Bank Comment on Investment (Update2)

By Josh Fineman and Christine Harper

-- Lehman Brothers Holdings Inc., the fourth-largest U.S. securities firm, rose the most in two weeks in New York trading after Korea Development Bank said it's "considering" an investment in the company. Lehman climbed \$1.44 to \$15.16 at 11:43 a.m. in New York Stock Exchange composite trading, after reaching \$15.93. Shares of the New York-based firm dropped almost 80 percent this year before today, the worst-performer on the 11-company Amex Securities Broker/Dealer Index. "KDB is considering all kinds of options, including Lehman Brothers," a KDB spokesman said today, declining to elaborate. A Reuters report earlier today cited a spokesman saying that the government-controlled bank is "open to" possibilities, including a purchase of Lehman. Lehman, the largest underwriter of mortgage bonds before the subprime market collapsed, lost the confidence of investors in the past year as it struggled to pare debt holdings. The bank has reported writedowns and credit losses of \$8.2 billion in the past 12 months, according to data compiled by Bloomberg.

An outright takeover by the state-owned lender is unlikely, said Rupert Della-Porta, the London-based chief operating officer of research firm Atlantic Equities. "It would be too big an acquisition for them," Della-Porta said in an interview. Lehman Chief Executive Officer Richard Fuld, 62, "has made it very clear that he doesn't want to sell the operation. They have many other options before they would consider something like this one."

'Political Blowback' Lehman spokesman Mark Lane declined to comment. Korea Development Chief Executive Officer Min Euoo Sung also declined to comment. "I would be very surprised by any deal that would lead to complete control," said Stuart Eizenstat, a partner at Covington & Burling LLP in Washington and former U.S. Deputy Secretary of the Treasury. "That would elicit a lot of questions and political

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

blowback. I'm sure that's not going to happen." An acquisition of one the largest American investment banks by a company controlled by a foreign government would likely draw U.S. regulatory scrutiny, according to Eizenstat. Such a transaction would probably be reviewed by the Committee on Foreign Investment in the United States, chaired by the Treasury Department, he said. The panel assesses potential security risks posed by takeovers of U.S. companies by international buyers. KDB, Citic

The Financial Times reported yesterday that Lehman failed to sell a 50 percent stake to Korea Development Bank and China's Citic Securities Co. The buyers walked away after deciding Lehman demanded too high a price, the FT said, citing people familiar with the Asian lenders. CEO Min was head of Lehman's Seoul branch before joining KDB in June. The Korean government, which owns 100 percent of KDB, plans to start privatizing the company next year, according to KDB's Web site. KDB's goal is "to emerge as Asia's leading investment bank within five years," according to a message from the CEO on the company's Web site. At the end of 2007, KDB's consolidated balance sheet listed 146.9 trillion won (\$138 billion) of assets and 21.7 trillion won of shareholder equity, according to the Web site. KDB's 2007 net income of 2.52 trillion won, or \$2.37 billion, is just over half of Lehman's \$4.2 billion of income during 2007.

Public Relations: "For long-term investors, opportunities like this do not come very often," said Mamoun Tazi, an analyst at MF Global Ltd. in London. "This deal, if it happens, could be rewarding for KDB from a financial as well as a public relations point of view." Credit-default swaps protecting against a default on Lehman's bonds dropped 74 basis points today to 315, the biggest one-day decline since April 8, according to CMA Datavision prices. A basis point on a credit-default swap contract protecting \$10 million of debt from default for five years is equivalent to \$1,000 a year. To contact the reporters on this story: Josh Fineman in New York at jfineman@bloomberg.net; Christine Harper in New York at charper@bloomberg.net.

Discussion with Compliance Staff and Data for August 20

Holding Company Liquidity Pool: The pool declined by \$0.1B to \$38.0B.

Commercial Paper: Commercial paper balances remained at \$3.7B.

Bank Loans: **Freddie Mac** once again provided \$1B-plus funding to Lehman after waiting several days after the maturity of its previous loan. This time Lehman drew down \$500 million on Tuesday and \$800 million yesterday, with a maturity set beyond quarter end.

Repo: Less liquid repo balances declined further from \$95.8B to \$94.5B, the lowest level since we initiated tracking this measure. Staff explained that Lehman opted to repo a greater proportion of its liquid assets.

CDS End-of Day Spreads: Spreads, which remained in the 370/380 range over the past two days, rose to 395 at midday, the highest level we have reported since the week of March 17.

15:33 **Stock Price**

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Price 13.580 Change -0.150 % Change -1.092 Bid N.A. Ask N.A. Open 12.930
 Volume 65,876,401 High 13.870 Low 12.540 52-Week High 67.73(11/14/07) 52-Week Low 12.02(07/15/08) 1-Yr Return -75.717%

The Week in Review with Lehman's Treasurer and Data for August 19

The Treasurer characterized the week as a quiet one so far as it came to debt.

Holding Company Liquidity Pool: The pool was maintained in a very tight range: \$38.0 to \$38.7B.

Targeted Balances: Liquidity pool balances are targeted to be \$41B or \$42B at quarter end, down from \$45B at the end of the second quarter. Staff argues that the lower balance is due to the \$5.5B shortfall in commercial paper balances anticipated this quarter. Excess cash capital is targeted to be \$15B, in line with that reported at last quarter end.

Commercial Paper: Commercial paper balances fluctuated between \$3.7B and \$4.2B over the week. Daily issuance is \$1.2B in the US and \$0.5B in Europe.

Repo: Less liquid repo balances also stayed within a very narrow range: \$95.0B to \$97.0B.

CDS End-of Day Spreads: Spreads widened through most of the week, in tandem with recent stock price declines: from 304 on Friday, to 335 on Monday, to 376 yesterday, where they continued to be throughout today.

Debt Buybacks: The Treasurer noted that, up to three days ago, there was limited selling pressure on Lehman debt. Sales were running at \$20 million per day, largely precipitated by Goldman Sachs Asset Management and European accounts. More recently, friendly buyers (e.g., Fidelity, PIMCO, State of New Jersey) are selling debt holdings back to Lehman. As a result, sales are now averaging slightly over \$50 million per day.

Five-year cash spreads widened throughout the week, although at a smaller pace than CDS spreads: from 325 on Thursday, to 328 on Friday, to 335 on Monday, to 347 yesterday. The Treasurer characterized the abundance of sellers, coupled with the lack of buyers, to be worrisome.

17:43 **Stock Price**

Price 13.730 Change **0.660** % Change **5.050** BidN.A. Ask N.A. Open 12.960
 Volume 60,497,639 High 13.860 Low 12.500 52-Week High 67.73(11/14/07) 52-Week Low 12.02(07/15/08) 1-Yr Return -75.482%

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Discussion with Holding Company Supervision Staff and Data for August 18

Holding Company Liquidity Pool: The pool dipped by \$0.2B to \$38.0B, largely due to a \$0.4B reduction in commercial paper outstanding. The last time the pool was at this level was July 22.

Commercial Paper: Commercial paper balances declined to \$3.8B yesterday. Both **Northwestern Mutual** (down \$204 million) and **Russell** (down \$277 million) maintained smaller cash positions. (Russell reportedly is due back today.)

Repo: Less liquid repo balances increased to \$96.7B from \$95.0B on Friday. Balances with the Fed, however, declined from \$4.1B to \$3.5B.

CDS End-of Day Spreads: Spreads are widening due to the most recent round of adverse industry and Lehman-specific news. Spreads increased from 304 on Friday, to 335 on Monday, to 355 at today's opening, to 385 this late morning.

12:12 **Stock Price**

Price 13.520	Change - 1.510	% Change - 10.047	Bid N.A.	Ask N.A.	Open 14.640
Volume 26,569,590	High 14.690	Low 13.510	52-Week High 67.73(11/14/07)	52-Week Low 12.02(07/15/08)	1-Yr Return - 76.096%

Today's Lehman Story 

(Reuters) - Lehman Brothers Holdings Inc may post a third-quarter loss and suffer about \$4 billion in write downs, according to an analyst at J.P. Morgan Securities, who also said a sale of the company's Neuberger Berman business was unlikely.

It will be another difficult quarter for Lehman, analyst Kenneth Worthington said.

Lehman continues to have significant exposure to mortgages and asset-backed securities, totaling \$61 billion, he noted.

The analyst said the fourth-largest U.S. investment bank may suffer a \$4 billion write down given a decline in residential and commercial mortgage-related indices. He also said Lehman may have already been selling assets especially in its commercial mortgage portfolio.

"While we view Lehman as well managed and nimble, deteriorating fixed income asset valuations and leveraged loans have led to downward earnings revisions," Worthington said.

Analysts including Merrill Lynch's Guy Moszkowski, Deutsche Bank's Michael Mayo and Fox-Pitt's David Trone have also forecast a third-quarter loss at Lehman.

SALE OF NEUBERGER?

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Several Wall Street analysts have been speculating a possible sale of all or a portion of Lehman's asset-management business -- a move mentioned in media reports as a possibility for weeks.

Experts estimate the business, whose core is Neuberger Berman, could be worth about \$8 billion.

However, Worthington said he does not think Neuberger is up for sale.

"We don't think the investors and rating agencies would welcome this divestiture, which brings a steady cash flow, diversification and a lower compensation ratio," he said.

Lehman bought Neuberger Berman in 2003 for about \$3.1 billion.

Discussion with Holding Company Supervision Staff and Data for August 15

Holding Company Liquidity Pool: The pool continued to stay within its narrow range, declining to \$38.2B from \$38.7B. The decrease was largely due to the repayment of a \$1.2B loan from Freddie Mac.

Commercial Paper: Commercial paper balances increased from \$4.0B to \$4.2B on Friday and declined today to \$4.1B. Outstanding balances have stayed between \$3.9B and \$4.2B since August 6.

Repo: Less liquid repo balances decreased by \$1.9B to \$95.0B, the lowest level since we initiated tracking less liquid repo balances. The decline was explained by two changes: 1) the replacement of \$1.1B asset-backed securities with more liquid government repos with Bankhaus and 2) a \$0.8B reduction in illiquid equity repos with **State Street**, which Lehman characterized as due to operational friction rather than a reduction in the bank's lines to Lehman.

CDS End-of Day Spreads: Spreads continue to oscillate but now in a narrower range, from 313 on Wednesday, to 298 Thursday, to 304 on Friday.

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

15:59 Stock Price

Price 15.090	Change -1.080	% Change -6.679	Bid N.A.	Ask N.A.	Open 16.130
Volume 29,906,860	High 16.130	Low 15.040	52-Week High 67.73(11/14/07)	52-Week Low 12.02 (07/15/08)	1-Yr Return -73.500%

Relevant CPC/Financial Sector Trends Intelligence

There has been no real change in banks' dealing with the investment banks. Citi continues to work on an acceptable collateral arrangement for **Lehman's** clearing lines. (Weekly Counterparty Update - 8/15/08)

Equity prices of selected financial institutions generally declined this past week, despite a 2% rise in the S&P 500. Barclays, Societe Generale, and Credit Suisse all declined by more than 6%. Among U.S. financials, Fannie Mae (-17%), Washington Mutual (-12%), Wachovia (-8%), and **Lehman Brothers** (-8%) witnessed the largest drops. JPMorgan Chase and Bank of America fell 5% and 4%, respectively.

CDS spreads of most selected financials widened last week. Spreads at Washington Mutual increased 166 basis points (bps) to 1212 bps. Four firms saw their spreads widen between 30 bps and 50 bps: Countrywide (+49 bps), Wachovia (+32 bps), Merrill Lynch (+37 bps) and **Lehman Brothers** (+30 bps). Citigroup's CDS spreads widened 19 bps.

(Market Indicator Charts (update through August 14))

Data for August 14

Holding Company Liquidity Pool: The pool increased to \$38.7B from \$38.4B. The pool has remained in this very narrow range for a week now.

Commercial Paper: Commercial paper balances decreased slightly, from \$ \$4.1B to \$4.0B, due to **Ameriprise's** \$100 million reduction in its day-to-day balances.

Repo: Less liquid repo balances also decreased slightly, from \$97.0B to \$96.9B. Balances with the ECB and Fed were \$12.4B and \$3.9B, respectively.

CDS End-of Day Spreads: Spreads have been oscillating over the past several days, from 281 on Tuesday to 313 on Wednesday and to 298 yesterday.

14:35 Stock Price

Price 16.380	Change 0.180	% Change 1.111	Bid N.A.	Ask N.A.	Open 17.120
Volume 24,877,652	High 17.380	Low 16.250	52-Week High 67.73(11/14/07)	52-Week Low 12.02(07/15/08)	1-Yr Return -67.709%

Data for August 13

LEHMAN IB UPDATE J^(2+L):F.R. Restricted

9/10/2008

Holding Company Liquidity Pool: The pool declined modestly (i.e., \$53 million) from \$38.5B to \$38.4B and continues to be in a very narrowly managed range (\$38B to \$40B).

Commercial Paper: Commercial paper balances increased from \$3.9 to \$4.1B due to two investors: **Ameriprise** and **Russell**, each purchasing an additional \$100 million.

Repo: Less liquid repo balances increased from \$95.3B to \$97.0B, due to increased interest among US investors. Balances were last at this level two weeks ago.

CDS End-of Day Spreads: Spreads further widened, moving from 281 on Tuesday to 313 yesterday.

17:18 Stock Price

Price	16.200	Change	0.630	% Change	4.046	Bid	N.A.	Ask	N.A.	Open	15.640
Volume	28,052,262	High	16.460	Low	15.280	52-Week High	67.73(11/14/07)	52-Week Low	12.02(07/15/08)	1-Yr Return	-69.238%
