

**Sabia, Cindy**

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**From:** Rudofker, Beth  
**Sent:** Tuesday, June 17, 2008 8:15 PM  
**To:** 'friedmani@sec.gov'; 'shulers@sec.gov'  
**Cc:** Russo, Thomas A; Wolfe, Bari  
**Subject:** Continued Rumors

Israel, Stephanie,

Rumors in market continue to be destructive and today have gained momentum on the story in the attached link. Our business people have heard that 3 hedge funds are collaborating to fuel the false information (I've been given names of the alleged Firms and am trying to obtain evidence).

<http://www.nakedcapitalism.com/2008/06/so-how-did-lehman-delever-not-very.html>

We have been able to prevent 3 stories containing these specific rumors that were set to run in the NY Post, WSJ and CNBC. As you'll see, this relates to the incorrect suggestion that the majority the Firm's assets sales in the 2nd quarter resulted from transfers to 2 entities started by former Lehman Brothers employees (R3, the rumor we discussed a couple of weeks ago, and One William Street).

The facts are:

- Both of these hedge funds are independent, external entities with majority outside investors.
- Lehman also invested in each of these opportunities because of the founding individuals' successful track records during their career at Lehman Brothers, in accordance with its alternative asset management business strategy.
- One William Street was set up earlier this year by David Sherr. No assets were transferred from Lehman Brothers' balance sheet to the fund at its inception in April 2008 and altogether from inception to now Lehman Brothers has sold assets worth less than \$5 million to the fund.
- R3 was set up by Rick Rieder. At the fund's inception on May 28, 2008, Lehman sold \$4.0 billion of long securities to R3. These assets represented positions that the R3 team managed when they were part of Lehman. These securities were predominantly public corporate credit bonds and loans and included only approximately \$237m of Level III securities. Note that in addition, \$1.1 billion of short securities were covered and a \$1.1 billion LP/GP equity investment was made. Therefore, there was a decrease in net assets of approximately \$3 billion (out of \$70 billion reduced in the quarter) and no impact on gross assets (out of \$147 billion reduction).

While we are working to obtain direct evidence, the following mail was received by our Chief Executive Officer of Europe and Asia from a concerned client in good faith:

----- Original Message -----  
From: Davide Serra <Davide@algebrinvest.com>  
To: Isaacs, Jeremy  
Sent: Tue Jun 17 22:01:24 2008  
Subject: Rumor by the short sellers

Jeremy, this is an email I got from US. This is what short sellers are saying. If true should be disclosed, if a lie, should be prosecuted. I leave it to you.

I have more colour if you want.

Davide

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Curious whether, to your knowledge, they've given much detail around the reduction in gross & net leverage they achieved in the May qtr. My understanding is that the vast majority of the reduction came from spinning out two large businesses into independent entities: the mortgage trading business (now called "One William St Capital") and the principal investing business (now called "R3 Capital"). R3 Capital is starting life with assets of around \$55 billion.

From friends both inside & outside LEH, I understand that LEH is keeping a 45% stake in each business. They are continuing to vest stock for former LEH employees who join the new ventures (so LEH is effectively paying much of their compensation...this may be why LEH's compensation expense spiked in the May qtr). LEH's continued economic interest in the two entities has been described to be as "complex" (ie, it's not as simple as 45% carried interest in profits or losses). The main driver, unsurprisingly, was to allow LEH to maintain as much econ interest as possible, consistent with meeting accounting standards to get the biz's off LEH's balance sheet.

I haven't spoken to anyone who has had much to say either way about whether (& to what extent) LEH would face contingent liabilities in the event the new entities were counterparties to losses...but it's not that hard to imagine a situation where either of these two entities faced losses from derivatives contracts that exceeded (by a wide margin) the capitalization of the newco's. Will the counterparties, in those cases, look to LEH as a backstop? How could they not?

Davide Serra  
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While senior management continues to take action on the Firm's behalf to be transparent and communicate detailed information about the Firm's financial position, it is critical that action is taken by regulatory authority to deal with those who are spreading false information. We are clearly very concerned about the continued ability for rumors to cause damage to the markets and shareholders. We appreciate your urgent focus to address those who are violating regulation. We will also be providing this information to the FSA given that the rumors seem to be crossing international jurisdiction.

I'll give you a call tomorrow to go through additional information we've gathered.

Regards,  
Beth