

From: O'Reilly, David [david.oreilly@lehman.com].

Sent: 8/30/2008 4:28 PM.

To: Madigan, Ann M [ann.madigan@lehman.com]; Gregory, Jeremiah [jeremiah.gregory@lehman.com].

Cc: Beeson, Lisa E [lisa.beeson@lehman.com].

Bcc:

Subject: Fw: SpinCo questions.

----- Original Message -----

From: Goldfarb, David

To: Rudofker, Beth; Beeson, Lisa E; O'Meara, Chris M (NY); O'Reilly, David

Sent: Sat Aug 30 16:01:25 2008

Subject: Re: SpinCo questions

On question relating to accounting for notes on LB books. Intention is to house a significant portion in our Bank subsidiaries, where we will use hold to maturity on debt and lower of cost or market on equity investments.

Remainder of notes will be house in broker dealer where we will use MTM on the seller financing notes.

On question relating to accounting on SpinCo, the debt will be accounted for @ hold to maturity with appropriation provisions for expected loan losses, and equity investments @ lower of cost or market.

Dave

----- Original Message -----

From: Rudofker, Beth

To: Goldfarb, David

Sent: Sat Aug 30 15:24:35 2008

Subject: SpinCo questions

Here's the list of questions. The first section of "Key Questions" mirrors those Bart asked you to complete with one added at the end that Shaun asked. The table (in the attachment you can't open) will show the answers/information in two columns, one for "Public Response" the second for "Private Information".

We should have a good draft of all answers tomorrow evening. We're getting together at 8pm to review in advance of meeting with you on Monday morning. Let me know if you want to add, change or chat in advance. Also let me know if you're still computer challenged for Monday morning's call so we can get this sent to you in bberry readable form.

B

Key Questions

1. What is the rationale for SpinCo?
2. What alternatives did you consider? Why were these rejected?
3. What assets are going into SpinCo? At what marks? How were these determined?
4. What Lehman CRE assets will not be part of SpinCo? How were these assets selected?
5. How will SpinCo be capitalized? Why is \$8B the right amount of equity? How did you arrive at that figure?
6. What are the major execution risks and how manageable are they? [Rudofker]
7. Given the expected timing of Q1 close and the volatility of the markets, what factors will drive the increase/decrease of equity contributed from \$8B?
8. What is targeted syndication of Lehman-funded debt? Timing? Status of discussions?
9. Discuss expected cash flows for debt service / equity distributions and stress tests to ensure adequate capitalization
10. How comfortable are you with the senior debt exposure to SpinCo?
11. Book value per share of Lehman vs. Partnership post-spin [Whitman]
12. Details of capital raise at Lehman post-spin [Whitman]
13. Status of SEC approvals [Rudofker]
14. Status of rating agency discussions and feedback [Rudofker]
15. What is the expected accounting of SpinCo (i.e. can it avoid mark-to-market accounting)? [Rudofker]
16. On what basis is SpinCo expected to trade (e.g. book value, dividend yield, multiple of cash flows, etc)?
17. What are major public comps and where do they trade?
18. What protections do you have on the 4-5 month period against further real estate markdowns prior to the execution of Spinco? [Rudofker]

19. How do you expect SpinCo equity to trade in the marketplace?
20. How will SpinCo be managed and governed? Who will be on the management team? [Rudofker]
21. How many employees will be part of SpinCo? How many will be current Lehman employees? [Rudofker]
22. How will this be treated on the Lehman balance sheet? Will the loan be marked to market as the value of SpinCo changes? At what SpinCo value is Lehman equity impaired? [Rudofker]
23. How will further real estate valuation declines be handled in the interim period of getting the new company established (e.g., potential 4th quarter impact of further write-downs)? [Rudofker]

SpinCo Questions

24. What are the terms of the SpinCo financing?
25. What will SpinCo be rated?
26. Is Lehman providing all of the financing?
27. How will the leverage compare with its peers?
28. Does any of the debt at the properties need to be refinanced as part of this transaction?
29. What are the 10 largest exposures?
30. Does SpinCo include: Archstone, Hilton, and SunCal?
31. What is the timing and process? [Rudofker]
32. Is this a tax free/taxable transaction to Lehman shareholders?
33. Is this subject to shareholder approval? [Rudofker]
34. Is the decision and process subject to any conditions or approvals? [Rudofker]
35. Are you spinning off these assets only because there is not a buyer?
36. If you received a good offer for SpinCo, would you sell it out-right to a third party? Would you consider selling the SpinCo business?
37. What is your guidance for SpinCo?
38. Will SpinCo pay a dividend?
39. What infrastructure will be needed to support SpinCo? [Rudofker]
40. When will additional information be available? [Rudofker]

Lehman Core Questions

41. Is Lehman getting out of the Real Estate business?
42. What will be the relationship between SpinCo and Lehman after the separation? [Rudofker]
43. What will Lehman look like after the spin-off of SpinCo? [Whitman]
44. What is Lehman's book value per share post spin? [Whitman]
45. Will the SpinCo financing be a Level 2 or 3 asset? What is the breakdown of assets being transferred to SpinCo by level? What is the impact of SpinCo on Lehman Level 2 and 3 assets? [Rudofker]
46. At what level are these assets marked for Q3?
47. Does SpinCo mark a change in Lehman strategy?
48. Would Lehman consider additional moves to realize value?
49. Does this have any impact on convertible securities? [Kerstein]
50. What happens to the Real Estate earnings contribution going forward? [Whitman]
51. What is the revenue run rate without the real estate business? [Whitman]
52. What is your guidance for Lehman? [Whitman]
53. What are your contingency plans if this cannot get done?

Employee Questions

54. What impact does SpinCo have on existing RSUs (vested and unvested)? [Kerstein/Collerton]
55. When do I receive SpinCo shares? [Kerstein/Collerton]
56. What is the impact of SpinCo on 2008 reward (including July grant)? [Kerstein/Collerton]
57. Are there any future trading restrictions on SpinCo shares? [Kerstein/Collerton]
58. What happens to employee stock options and RSUs? [Kerstein/Collerton]