LEHMAN BROTHERS

May 20, 2008

R3 Capital Partners
Strategic Acquisition Review Committee

Confidential Presentation

Table of Contents

Transaction Overview

Spin-out of Global Principal Strategies

- Lehman Brothers ("LB" or the "Firm") is seeking approval from the Strategic Acquisition Review Committee to spin-out the current Global Principal Strategies group ("GPS") into a stand-alone hedge fund (the "Spin-Out") to be called R3 Capital Partners ("R3" or the "Hedge Fund")
  - Target Effective Date: May 28, 2008 ("Launch Date")
  - The Firm will obtain a passive 45% stake in R3's General Partner, Special Limited Partner and Management Company (collectively, the "GP") (the "GP Investment")
    - Ownership stake subject to weighted average ratchet linked to the Hedge Fund's NAV
  - The Firm will make a seed capital investment in the Hedge Fund equal to 45% of NAV up to a cap of $1.1B (the "LP Investment")

- In connection with the Spin-Out, R3 will acquire from the Firm a substantial majority of the current GPS portfolio (the "Asset Purchase", and together with the Spin-Out, the "Transaction")
  - Cash consideration for the Asset Purchase will be funded from:
    - LP Equity
      - The Firm's LP Investment and an additional $11.25M funded through the GP (45% of LP equity)
      - Equity from outside investors (~54%)
      - $13.75M funded through the GP by Rick Rieder and other R3 senior principals (~1%)
    - Leverage
      - Launch Date financing provided by the Firm as R3's Prime Broker

Summary of Transaction Terms

GP Investment

Summary of Terms for the Firm's Stake in the R3 General Partner and Management Company

- GP Ownership Stake: 45%
  - Subject to weighted average adjustment based on Hedge Fund NAV as of relevant measurement date, according to the following schedule:

Hedge Fund NAV[1]	Applicable Percentage
Up to $3B	45%
Amount above $3B up to $6B	30%
Amount above $6B	20%

  - For example, assuming Hedge Fund NAV of $9B as of an applicable measurement date, the Firm's GP ownership stake at that time would equal 31.67%
  - The Firm will fund the GP with $11.25M, contingent on concurrent $13.75M funding by R3 Senior Principals
    - $25MM aggregate GP funding will be invested downstream into the Hedge Fund

- GP Expense Cap:
  - The GP is subject to restrictions on compensation and other expenses,[2] based on the following schedule:

Fiscal Year	Expense Cap
2008-2009	Greater of (i) $30M and (ii) 60% of annual gross income
2010-2012	Greater of (i) $30M and (ii) 50% of annual gross income
2013-	No expense cap

1. *NAV equals aggregate unlevered value of LP equity – i.e., the fair value of the Hedge Fund's assets less liabilities (including leverage and accrued expenses)*
2. *Expense Cap includes all compensation, non-personnel, operating and other expenses but excludes non-recurring extraordinary expenses and 2008 start-up expenses*

GP Investment (cont'd)

Summary of Terms for the Firm's Stake in the R3 General Partner and Management Company

- Other Terms of GP Investment:
  - Non-compete/Non-Solicit: Rieder and at least four of the other Senior Principals will enter into non-compete/non-solicitation agreements that extend for two years from departure from LB
  - Key Person: Rieder will be subject to a key person provision requiring him to devote substantially all of his business time to R3
  - Lock-Up: LB and the Senior Principals will be subject to a two-year lock-up on their GP equity
  - Right of First Offer: LB and RR will each have customary ROFOs on transfers of GP equity (other than certain defined permitted transfers)
  - Tag-Along: LB and the Senior Principals will have customary tag-along rights
    - LB can sell 100% of its stake on a priority basis via the tag-along if the transaction would otherwise result in LB owning less than 5% of the GP
  - Drag-Along: Rieder will have a drag-along right on LB if he sells all or substantially all of his GP equity
  - Pre-emptive Rights: LB will have customary pre-emptive rights
  - Registration Rights: LB will have customary piggyback registration rights and two post-IPO demand rights
  - Minority Protections: LB will have customary minority protection rights consistent with recent LB minority stake transactions
  - Prime Broker: LB will be R3's prime broker (sole prime broker on Launch Date; other prime brokers expected to be engaged in Q3)
    - LB obligated to provide financing to R3 on market terms for one year from Launch Date

LP Investment

Summary of Terms for the Firm's Seed Capital Investment in the R3 Hedge Fund

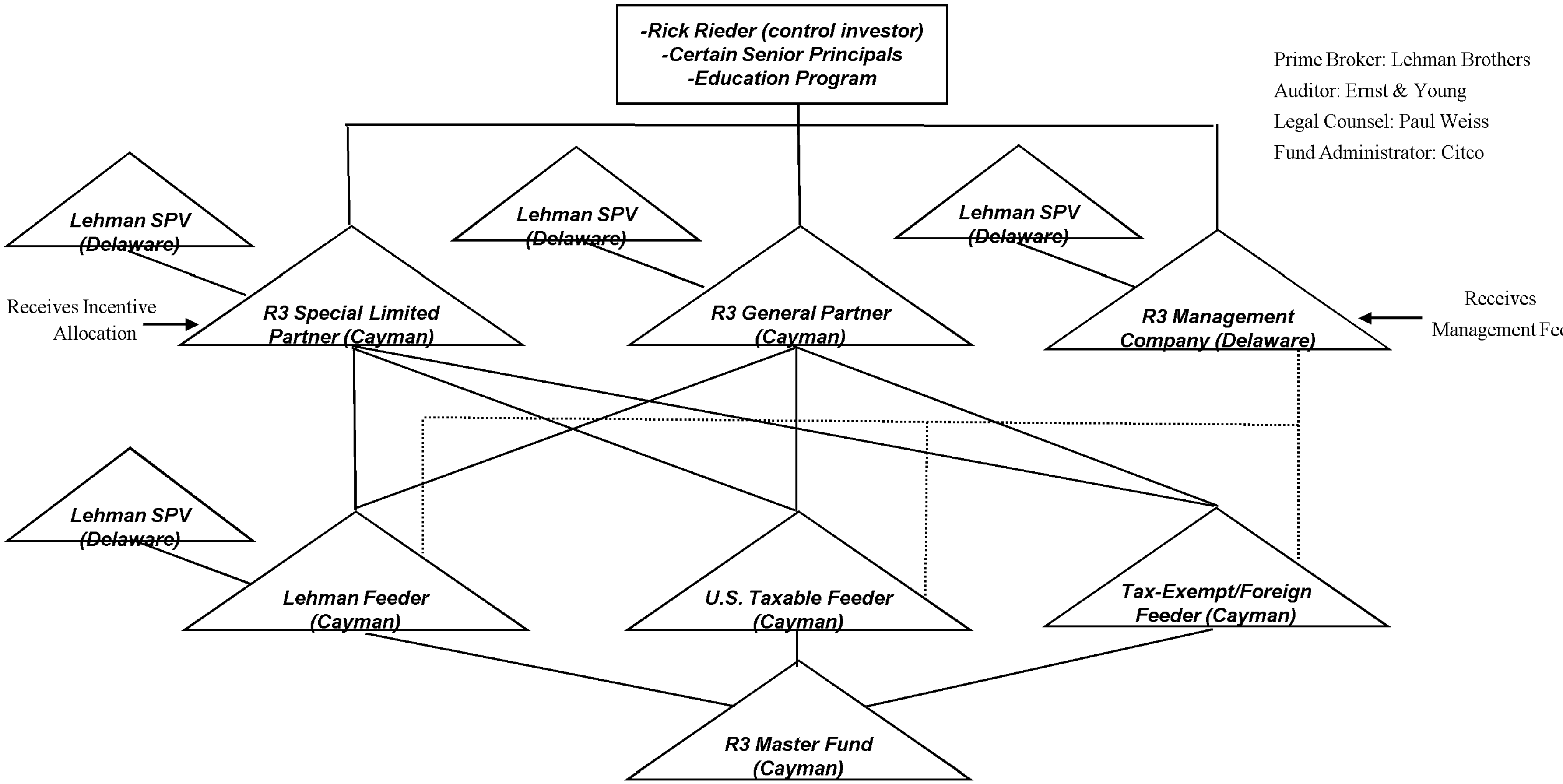
- LP Investment:
  - 45% of Hedge Fund NAV up to a cap of $1.1B
  - Expected to be ~$750MM on Launch Date, with remaining portion funded in tranches commensurate with third party fundraising (Launch Date seed capital funding will be used to pay LB for the Asset Purchase)
- Fees:
  - Management Fee: 2%
  - Incentive Allocation: 20%
- Lock-Up:
  - Hard Lock-Up: Two years
  - Soft Lock-Up: One year (5% redemption fee)
- Withdrawal:
  - Special Withdrawal Right: At any time (including during the lock-up period), LB can withdraw capital such that the LP Investment represents no more than 45% of the Hedge Fund's NAV
  - Periodic Withdrawal Right: After two years (subject to 5% redemption fee in year three), LB can withdraw capital semi-annually, subject to:
    - 50% limit on any withdrawal date, provided LB can withdraw 100% of LP Investment over two year period (i.e., four successive withdrawal periods)
    - Customary 20% gate provision can be exercised by the GP
- Incremental Investment Capacity: LB will have the right (but not the obligation) to invest 25% of incremental investment capacity after $1.1B LP Investment has been funded

R3 Structure & Team

R3 Fund Structure

R3 Summary Structure Chart

- Cayman Master Fund with Cayman Feeders for each of Lehman Brothers, U.S. Taxable Investors and Tax-Exempt/Foreign Investors



R3 Organizational Structure

R3 Senior Management Team

◆ Chief Executive Officer:	Rick Rieder
◆ Chief Operating Officer:	Paul Tice
◆ Chief Financial Officer:	Michael Weaver
◆ Chief Administrative Officer:	Chris Kelly
◆ Chief Risk Officer:	Joe Li
◆ Chief Marketing Officer:	John Stein
◆ Head of Operations:	Ed O'Connell
◆ Head of Human Resources:	Deborah Millstein

R3 Senior Investment Team

◆ Co-Chief Investment Officers:	Rick Rieder & Paul Tice
◆ Head of Capital Structure Arbitrage:	Shannon Bass
◆ Head of Securitization and Insurance Products:	Dik Blewitt
◆ Head of Distressed Products:	Michael Lipsky
◆ Head of Leveraged Loans:	Thomas Durney
◆ Head of Aviation:	Josh Tarnow
◆ Head of International Business:	Assan Din
◆ Head of European Business:	Michael Phelps
◆ Head of European & Middle East Private Equity:	Jay Koh
◆ Senior Trader:	Russell Brownback

Financials / Returns

Key Assumptions and Summary Returns

Key Assumptions and Summary Returns

- Base Case
  - $3B of AUM by end of 2008 and with steady net inflow and portfolio appreciation, $12.0B AUM by end of 2012
  - Gross returns on investible assets (including leverage of 1.5x; defined as 1.5 debt: 1 equity) of 12%, which translates to net returns of 15% to LPs
  - 5-year IRR to LB 30%, ~50% of which is driven by LP return and the other 50% by exit value and GP dividends
  - Implied ROE to LB 41% (assumes 35% risk equity and 95% pre-tax margin)
- Sensitized Case
  - $2B of AUM by end of 2008; 2012 AUM $3.6B due to lack of performance (5% net returns to LPs)
  - 5-year IRR to LB 10% with an ROE of 9% (cost of carry has a greater impact on ROE at low IRR levels)
- Moderate Case
  - $2.5B of AUM by end of 2008; 2012 AUM $8.5B with moderate performance (11% net returns to LPs)
  - 5-year IRR to LB 23% with an ROE of 29%

	Base Case	**Sensitized Case**	**Moderate Case**
Key Assumptions			
Start Date	6/1/2008	6/1/2008	6/1/2008
2012 EOY AUM	$12.0B	$3.6B	$8.5B
Asumed Leverage ($1.5 of debt for $1 of equity)	1.5x	1.5x	1.5x
Gross Returns on Investible Assets (including debt)	12%	7%	10%
Net Returns to LPs	15%	5%	11%
Returns to LB			
5-Year IRR	30%	10%	23%
Implied ROE	41%	9%	29%

Base Case – R3 Summary P&L

Base Case – R3 Summary P&L

($ in millions)	2008	2009	2010	2011	2012
Net Flows	$3,000	$2,000	$1,500	$500	$500
EoY AUM	$3,173	$5,791	$8,261	$10,022	$12,045
% growth		*82.5%*	*42.6%*	*21.3%*	*20.2%*
Average AUM	$2,404	$4,482	$7,026	$9,142	$11,034
% growth		*86.4%*	*56.8%*	*30.1%*	*20.7%*
Asumed Leverage ($1.5 of debt for $1 of equity)	1.5x	1.5x	1.5x	1.5x	1.5x
Gross Returns on Investible Assets (including debt)	6.0%	12.0%	12.0%	12.0%	12.0%
Net Returns to LPs	7.6%	15.2%	15.2%	15.2%	15.2%
Management Fee Revenue	$24.0	$89.6	$140.5	$182.8	$220.7
Performance Revenue	43.1	154.6	242.4	315.4	380.7
Total Revenue	$67.2	$244.3	$382.9	$498.2	$601.4
% growth		*263.5%*	*56.8%*	*30.1%*	*20.7%*
Comp and NPE [1]	$33.6	$122.1	$172.3	$199.3	$240.5
% of revenue	*50.0%*	*50.0%*	*45.0%*	*40.0%*	*40.0%*
Pretax Profit	**$33.6**	**$122.1**	**$210.6**	**$298.9**	**$360.8**
	NM	*263.5%*	*72.4%*	*41.9%*	*20.7%*
LB GP Stake	45%	40%	35%	31%	30%
Annual LB Dividends	$15.1	$48.9	$73.6	$94.1	$106.5
Cumulative LB Dividends	$15.1	$64.0	$137.6	$231.7	$338.2

(1) Comp and NPE may be at a maximum of 60% in 2008/2009 and 50% in 2010-2012

- Significant AUM growth due to strong performance; AUM $12B by end of 2012
- Strong revenue growth as a result of AUM growth and strong performance
- With scale, comp and NPE as a % of revenues reduced over time
- LB GP stake reduced over time with increased AUM, but dividends to LB increase due to strong profitability

Base Case – LB Returns

Base Case – LB Returns

- Assumes LB redeems $500M in 2011; all remaining LP capital redeemed by end of 2012
- GP capital of $11M not subject to management and performance fees
- Terminal value calculated using 8x LTM pretax earnings
- ~50% of the IRR driven by return on LP capital, ~35% by terminal value and ~15% by GP dividends

	5/31/2008	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LP Return						
LB LP Capital Contribution	$736.2	$363.8	$0.0	$0.0	($500.0)	$0.0
LB Total LP Contribution to Date		$1,100.0	$1,100.0	$1,100.0	$600.0	$600.0
Value (Year-end, Net of Fees)		$1,168.4	$1,341.6	$1,540.4	$1,231.7	$1,414.3
Marked-to-Market Gain		$68.4	$173.2	$198.9	$191.3	$182.6
GP Return						
LB GP Capital Contribution	$11.3	$0.0	$0.0	$0.0	$0.0	$0.0
LB Total GP Contribution to Date		$11.3	$11.3	$11.3	$11.3	$11.3
Value at Year-end [1]		$12.4	$15.0	$18.2	$22.0	$26.6
Marked-to-Market Gain		$1.2	$2.6	$3.2	$3.8	$4.6
LB GP Stake		45%	40%	35%	31%	30%
Dividends to Lehman		$15.1	$48.9	$73.6	$94.1	$106.5
Terminal Value (Pretax)						$852.0
Net Cash Inflow / (Outflow)	**($747.5)**	**($348.7)**	**$48.9**	**$73.6**	**$594.1**	**$2,399.4**
Cumulative Cash Inflow / (Outflow)		($1,096.1)	($1,047.2)	($973.6)	($379.5)	$2,019.9
Year 5 IRR (Pre-tax)						**29.7%**

Base Case – Revenues to LB

	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LB MTM Gains (including Dividends)	$84.7	$224.7	$275.6	$289.2	$1,145.7
Cost of Carry @ 6%	(28.9)	(76.2)	(87.6)	(84.5)	(81.0)
Revenues to Lehman	**55.7**	**148.5**	**188.1**	**204.7**	**1,064.7**

1. *Based on gross return; management and performance fees do not apply*

Base Case – ROE to LB

Base Case – ROE to LB	
($ in millions)	
Pre-Funding IRR	29.7%
Less: Cost of Debt on Full Investment Amount	(7.5%)
Less: Equity Charge on Equity Usage	(1.8%)
ROA (IRR net of Cost of Debt/Equity Charge)	20.5%
Net Balance Sheet Capital Invested	$1,111.3
ROA	20.5%
Implied Revenues	227.5
Expenses	(11.4)
Pre-tax Income (@ 95% Margin)	216.1
Taxes @ 40%	(86.5)
Net Income	**$129.7**
% Risk Equity	35.0%
$ Risk Equity	$388.9
Return on Risk Equity	**40.8%**

- Cost of debt (7.5%) estimated at the marginal rate of long term debt issuance by the Firm
- Assumes 35% risk equity
- 95% pretax margin with no direct payout
- Tax rate of 40%

IRR and ROE Sensitivity Analysis

IRR Sensitivity Analysis

	Pretax Exit Multiple				
	6.0x	7.0x	8.0x	9.0x	10.0x
Base Case	27.6%	28.7%	29.7%	30.7%	31.7%
Sensitized Case	9.5%	10.0%	10.4%	10.8%	11.2%
Moderate Case	20.7%	21.6%	22.5%	23.3%	24.1%

ROE Sensitivity Analysis

% Risk Equity	IRR Pre-Funding Cost															
	10%	**12%**	**14%**	**16%**	**18%**	**20%**	**22%**	**24%**	**26%**	**28%**	**30%**	**32%**	**34%**	**36%**	**38%**	**40%**
50%	8%	10%	12%	14%	17%	19%	21%	23%	26%	28%	30%	33%	35%	37%	39%	42%
45%	8%	10%	13%	15%	18%	20%	23%	26%	28%	31%	33%	36%	38%	41%	43%	46%
40%	8%	11%	14%	17%	20%	22%	25%	28%	31%	34%	37%	40%	42%	45%	48%	51%
35%	9%	12%	15%	18%	22%	25%	28%	32%	35%	38%	41%	45%	48%	51%	54%	58%
30%	9%	13%	17%	21%	25%	28%	32%	36%	40%	44%	47%	51%	55%	59%	63%	66%
25%	10%	15%	19%	24%	29%	33%	38%	42%	47%	51%	56%	61%	65%	70%	74%	79%
20%	12%	17%	23%	29%	35%	40%	46%	52%	57%	63%	69%	74%	80%	86%	92%	97%
15%	14%	22%	29%	37%	45%	52%	60%	67%	75%	83%	90%	98%	105%	113%	121%	128%

Sensitized Case – R3 Summary P&L

Sensitized Case – R3 Summary P&L					
($ in millions)	**2008**	**2009**	**2010**	**2011**	**2012**
Net Flows	$2,000	$500	$500	$0	$0
EoY AUM	$2,045	$2,658	$3,301	$3,463	$3,633
% growth		*30.0%*	*24.2%*	*4.9%*	*4.9%*
Average AUM	$1,840	$2,351	$2,979	$3,382	$3,548
% growth		*27.8%*	*26.7%*	*13.5%*	*4.9%*
Asumed Leverage ($1.5 of debt for $1 of equity)	1.5x	1.5x	1.5x	1.5x	1.5x
Gross Returns on Investible Assets (including debt)	3.5%	7.0%	7.0%	7.0%	7.0%
Net Returns to LPs	2.6%	5.2%	5.2%	5.2%	5.2%
Management Fee Revenue	$18.4	$47.0	$59.6	$67.6	$71.0
Performance Revenue	11.2	28.2	35.7	40.6	42.5
Total Revenue	$29.6	$75.2	$95.3	$108.2	$113.5
% growth		*153.9%*	*26.7%*	*13.5%*	*4.9%*
Comp and NPE [(1)]	$17.8	$45.1	$47.7	$54.1	$56.8
% of revenue	*60.0%*	*60.0%*	*50.0%*	*50.0%*	*50.0%*
Pretax Profit	**$11.8**	**$30.1**	**$47.7**	**$54.1**	**$56.8**
	NM	*153.9%*	*58.4%*	*13.5%*	*4.9%*
LB GP Stake	45%	45%	45%	43%	43%
Annual LB Dividends	$5.3	$13.5	$21.4	$23.4	$24.2
Cumulative LB Dividends	$5.3	$18.9	$40.3	$63.7	$88.0

(1) Comp and NPE may be at a maximum of 60% in 2008/2009 and 50% in 2010-2012

- Slow AUM growth due to lack of performance; AUM $3.6B by end of 2012
- Slow revenue growth and profitability in the out years, impacting dividends to LB

Sensitized Case – LB Returns

Sensitized Case – LB Returns

- Assumes LB redeems $500M in 2011; all remaining LP capital redeemed by end of 2012
- GP capital of $11M not subject to management and performance fees
- Terminal value calculated using 8x LTM pretax earnings
- ~50% of the IRR driven by return on LP capital, ~35% by terminal value and ~15% by GP dividends

	5/31/2008	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LP Return						
LB LP Capital Contribution	$736.2	$163.8	$200.0	$0.0	($500.0)	$0.0
LB Total LP Contribution to Date		$900.0	$1,100.0	$1,100.0	$600.0	$600.0
Value (Year-end, Net of Fees)		$920.2	$1,170.3	$1,227.9	$775.9	$814.0
Marked-to-Market Gain		$20.2	$50.1	$57.5	$48.1	$38.1
GP Return						
LB GP Capital Contribution	$11.3	$0.0	$0.0	$0.0	$0.0	$0.0
LB Total GP Contribution to Date		$11.3	$11.3	$11.3	$11.3	$11.3
Value at Year-end [1]		$11.7	$12.7	$13.8	$15.0	$16.3
Marked-to-Market Gain		$0.5	$1.0	$1.1	$1.2	$1.3
LB GP Stake		45%	45%	45%	43%	43%
Dividends to Lehman		$5.3	$13.5	$21.4	$23.4	$24.2
Terminal Value (Pretax)						$193.8
Net Cash Inflow / (Outflow)	**($747.5)**	**($158.5)**	**($186.5)**	**$21.4**	**$523.4**	**$1,048.3**
Cumulative Cash Inflow / (Outflow)		($905.9)	($1,092.4)	($1,070.9)	($547.5)	$500.8
Year 5 IRR (Pre-tax)						**10.4%**

Sensitized Case – Revenues to LB

	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LB MTM Gains (including Dividends)	$26.0	$64.7	$80.0	$72.7	$257.4
Cost of Carry @ 6%	(25.2)	(63.5)	(72.8)	(61.0)	(48.7)
Revenues to Lehman	**0.8**	**1.2**	**7.3**	**11.6**	**208.7**

1. *Based on gross return; management and performance fees do not apply*

Sensitized Case – ROE to LB

Sensitized Case – ROE to LB	
($ in millions)	
Pre-Funding IRR	10.4%
Less: Cost of Debt on Full Investment Amount	(7.5%)
Less: Equity Charge on Equity Usage	(1.8%)
ROA (IRR net of Cost of Debt/Equity Charge)	1.1%
Net Balance Sheet Capital Invested	$1,111.3
ROA	1.1%
Implied Revenues	12.6
Expenses	(0.6)
Pre-tax Income (@ 95% Margin)	11.9
Taxes @ 40%	(4.8)
Net Income	**$7.2**
% Risk Equity	35.0%
$ Risk Equity	$388.9
Return on Risk Equity	**9.3%**

- Cost of debt (7.5%) estimated at the marginal rate of long term debt issuance by the Firm
- Assumes 35% risk equity
- 95% pretax margin with no direct payout
- Tax rate of 40%

Moderate Case – R3 Summary P&L

Moderate Case – R3 Summary P&L

($ in millions)	**2008**	**2009**	**2010**	**2011**	**2012**
Net Flows	$2,500	$1,500	$1,000	$500	$500
EoY AUM	$2,613	$4,478	$6,019	$7,199	$8,508
% growth		*71.4%*	*34.4%*	*19.6%*	*18.2%*
Average AUM	$2,124	$3,545	$5,248	$6,609	$7,854
% growth		*66.9%*	*48.0%*	*25.9%*	*18.8%*
Asumed Leverage ($1.5 of debt for $1 of equity)	1.5x	1.5x	1.5x	1.5x	1.5x
Gross Returns on Investible Assets (including debt)	5.0%	10.0%	10.0%	10.0%	10.0%
Net Returns to LPs	5.6%	11.2%	11.2%	11.2%	11.2%
Management Fee Revenue	$21.2	$70.9	$105.0	$132.2	$157.1
Performance Revenue	28.2	91.3	135.2	170.2	202.3
Total Revenue	$49.4	$162.2	$240.1	$302.4	$359.3
% growth		*228.1%*	*48.0%*	*25.9%*	*18.8%*
Comp and NPE [(1)]	$24.7	$81.1	$108.1	$120.9	$143.7
% of revenue	*50.0%*	*50.0%*	*45.0%*	*40.0%*	*40.0%*
Pretax Profit	**$24.7**	**$81.1**	**$132.1**	**$181.4**	**$215.6**
	NM	*228.1%*	*62.8%*	*37.4%*	*18.8%*
LB GP Stake	45%	43%	39%	36%	33%
Annual LB Dividends	$11.1	$34.6	$50.9	$65.1	$71.9
Cumulative LB Dividends	$11.1	$45.8	$96.7	$161.8	$233.7

(1) Comp and NPE may be at a maximum of 60% in 2008/2009 and 50% in 2010-2012

- With reasonable performance (11% net return to LPs), AUM grows to $8.5B by end of 2012
- With scale, comp and NPE as a % of revenues reduced over time
- LB GP stake reduced over time with increased AUM, but dividends to LB continues to increase moderately

Moderate Case – LB Returns

Moderate Case – LB Returns

- Assumes LB redeems $500M in 2011; all remaining LP capital redeemed by end of 2012
- GP capital of $11M not subject to management and performance fees
- Terminal value calculated using 8x LTM pretax earnings
- ~50% of the IRR driven by return on LP capital, ~35% by terminal value and ~15% by GP dividends

	5/31/2008	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LP Return						
LB LP Capital Contribution	$736.2	$363.8	$0.0	$0.0	($500.0)	$0.0
LB Total LP Contribution to Date		$1,100.0	$1,100.0	$1,100.0	$600.0	$600.0
Value (Year-end, Net of Fees)		$1,150.1	$1,275.0	$1,413.4	$1,039.8	$1,152.7
Marked-to-Market Gain		$50.1	$124.9	$138.5	$126.4	$112.9
GP Return						
LB GP Capital Contribution	$11.3	$0.0	$0.0	$0.0	$0.0	$0.0
LB Total GP Contribution to Date		$11.3	$11.3	$11.3	$11.3	$11.3
Value at Year-end [1]		$12.2	$14.1	$16.3	$19.0	$22.0
Marked-to-Market Gain		$0.9	$1.9	$2.3	$2.6	$3.0
LB GP Stake		45%	43%	39%	36%	33%
Dividends to Lehman		$11.1	$34.6	$50.9	$65.1	$71.9
Terminal Value (Pretax)						$575.5
Net Cash Inflow / (Outflow)	**($747.5)**	**($352.7)**	**$34.6**	**$50.9**	**$565.1**	**$1,822.2**
Cumulative Cash Inflow / (Outflow)		($1,100.1)	($1,065.5)	($1,014.6)	($449.4)	$1,372.8
Year 5 IRR (Pre-tax)						**22.5%**

Moderate Case – Revenues to LB

	11/30/2008	11/30/2009	11/30/2010	11/30/2011	11/30/2012
LB MTM Gains (including Dividends)	$62.1	$161.5	$191.7	$194.1	$763.4
Cost of Carry @ 6%	(28.7)	(73.6)	(81.6)	(74.7)	(67.1)
Revenues to Lehman	**33.4**	**87.9**	**110.0**	**119.3**	**696.4**

1. *Based on gross return; management and performance fees do not apply*

Moderate Case – ROE to LB

Moderate Case – ROE to LB	
($ in millions)	
Pre-Funding IRR	22.5%
Less: Cost of Debt on Full Investment Amount	(7.5%)
Less: Equity Charge on Equity Usage	(1.8%)
ROA (IRR net of Cost of Debt/Equity Charge)	13.2%
Net Balance Sheet Capital Invested	$1,111.3
ROA	13.2%
Implied Revenues	146.7
Expenses	(7.3)
Pre-tax Income (@ 95% Margin)	139.4
Taxes @ 40%	(55.8)
Net Income	**$83.6**
% Risk Equity	35.0%
$ Risk Equity	$388.9
Return on Risk Equity	**29.0%**

- Cost of debt (7.5%) estimated at the marginal rate of long term debt issuance by the Firm
- Assumes 35% risk equity
- 95% pretax margin with no direct payout
- Tax rate of 40%

Asset Transfer / Financing Overview

Asset Transfer Mechanics

Transfer Plan by Asset Class

Asset Class	Transfer Plan	Current Status	Next Steps	Responsibility
Cash Credit (equity, converts, bonds, ABS/MBS, preferreds)	◆ Internal book entry transfer to R3 account at LB Prime Services	◆ Finalizing tape requirements for exchange traded equity ◆ Coordinating with ops on timing of transfer to meet initial margin requirements and ownership restrictions ◆ Working with outside counsel to ensure Day 1 transferability of certain non-US, non-EU positions	◆ Complete license applications for certain jurisdictions ◆ Counsel reviewing restricted securities to determine whether any specific securities restrict transfer to R3	Willoughby, Forrest
Derivatives (CDS, TR Swaps, IR Swaps)	◆ Intermediation, or "Back to back" trades between LB Prime Services and R3 that mirror existing GPS derivative trades	◆ LB and R3 finalizing ISDA ◆ R3 beginning to negotiate ISDA with current GPS derivative counterparties	◆ Finalizing LB desks backing the R3 trades for certain equity underlying and other less common derivatives ◆ Completion of ISDA documentation	Willoughby, McMurray, Carmi
Futures	◆ "Trade in trade out"	◆ Intraday, LB will trade the futures position into the exchange and R3 will trade the same position back out	◆ Finalizing mechanics of LB employee trading futures position into the market on behalf of GPS	Filler, Forrest
LCPI Loans	◆ Participation and assignment of portfolio to Delaware Trust controlled by R3	◆ LB and R3 finalizing master participation agreements for par and distressed loans ◆ Documentation for financing arrangements underway	◆ Delaware Trust must be established and tax ID and account obtained ◆ Completion of participation and financing documentation ◆ Commencement of assignment process	McLoughlin, Lukow, Egleston, Nancoz

Asset Transfer Mechanics (Cont'd)

Transfer Plan by Asset Class

Asset Class	Transfer Plan	Current Status	Next Steps	Responsibility
LBCB, Freedom and LCPI UK Loans	◆ TR Swap and subsequent assignment for UK Loans	◆ LB and R3 finalizing swap agreement	◆ Completion of swap documentation	Lukow, Azerad
Aircraft	◆ Aircrafts transferred to Trusts; Trust beneficiary to be a SPV controlled by R3	◆ Awaiting FAA approval for Trust documentation ◆ Finalizing SPV Financing Structure	◆ Completion of financing documentation	Akin Gump, Krugel, Bailey, Muller, Azerad
Private Equity	◆ LB and R3 to enter into subadvisory agreement for R3 to manage certain private equity investments	◆ Terms for sub-advisory arrangements being established	◆ Completion of sub-advisory documentation	Akin Gump, Rao, Muller

GPS Assets to be Held Behind

- Some assets will not transfer on day 1 due to the equity short fall required to support the full portfolio, and a few regulatory / operational hurdles
  - Assets not transferring to free up equity for R3: Private Equity, CDS curve book (still under discussion)
  - Assets not transferring due to regulatory / operational issue: India equities, open loan sales
  - Assets not transferring at request of R3: 737 Trust (airplanes already sold; just awaiting delivery)

Summary of Assets to be Held Behind

Assets	Carrying Value ($m)	Comments
Private Equity	$477	~$586M including unfunded portions
		Certain assets will be bought when additional capital raised (to be negotiated)
737 Trust	$20	Staying behind - will not transfer
India	$3	Can be transferred once R3 has FII
CDS Curve Book	TBD	Under discussion; some portion likely to stay with Felder's desk
Open Sales	$50 (TBD)	Loans between trade and settlement will stay behind

Other potential leave-behinds:
*UK loan book ($220M) has some issues being worked through; hopefully will transfer, or at minimum be TRS'd
*Other - any fails will stay behind and transfer in June (value TBD)

Detailed Summary of Assets to be Held Behind

Assets	Carrying Value ($m)	Comments
Private Equity		
Strategic Influence *(to be purchased once additional equity raised)*		
Data Systems Consulting	$35	Taiwanese LBO
Lightfoot	$25	Start-up non-traditional MLP
D&S Consultants Inc.	$29	Sole institutional investor
Amquip	$20	Equity investor
Voss of Norway	$7	Largest investor in 144A
XO Jet	$5	Equity plus $225M lease finance and warrants
Day Jet	$1	Private placement
Private Placements/Participations *(R3 may not want to transfer)*		
MEG Energy (also in GTS)	$58	144A equity issue by SAGD oil sands company
MEG Energy 2	$35	144A equity issue by SAGD oil sands company
Drug Royalty (cannot transfer)	$14	Off-shore investment in drug royalty company; total $42M committed
Antero Resources	$8	Part of $1B private placement in natural gas E&P company; $20M committed
Calypso (Energy 50:50 with Romita)	$13	
Mezzanine *(R3 does not want to trasfer)*		
Firth Rixson (also in PE Mezz Fund)	$30	Lehman PE invested in equity
Large LBO Co-invest *(R3 does not want to transfer)*		
Chrysler (cannot transfer)	$75	
Freescale	$43	
GMAC (cannot transfer)	$11	
Other *(to be purchased once additional equity raised)*		
Quadrant (DPC 50:50 with FID)	$40	
505 Capital (CIT/Magnetar)	$5	$75M committed
Jupiter Securitization	$12	
Northwest Upgrading	$15	
737 Trust		
11 Planes	$20	On lease to US Air; already pre-sold, P&L take (receivable); delivery to GE or AerCap
India		
Prajay Eng	$3	GPS will not get these stocks until early June and need FII before they can transfer; LEH will need to monitor until then
India Hotels	$0.1	
CDS Curve Book		
Currently being sold down and collapsed		Discussions to leave behind
Total	**$500**	Does not include open sales, CDS book, UK loan book or potential fails

Overview of Margin Requirements

For assets being transferred, equity contributed on day 1 will be sufficient to fund the contributed assets

Day 1 Equity

Lehman	$750M
Soros	$750M
Quellos	$150M
Total	**$1,650**

PB Margin Requirements at Market Terms

Asset Class	Margin Required by PB ($m)
Scenario Eligible (e.g., equity, converts, bonds, IR swaps, FX, futures)	**$475**(1)
Loans	**$270**
Tranche & Index Book	**$200**
ABS/MBS	**$135**
Bond Options, Physical Bonds, Bankruptcy Claims	**$90**
Aircraft	**$40**(2)
Other (TRS-bonds, ABS CDS, Swaptions, LCDS)	**$25**
Preferreds	**$18**
Total	**$1,253**
Cash Day 1	**$397**
	$1,650

1. *Excludes CDS curve book.*
2. *Not PB financed – secured loan with 70% advance rate.*

PB / Financing Margin and Pricing Summary

Lehman prime brokerage providing financing at market terms to R3 for up to 1 yr; expect R3 to establish other PB relationships in near term, and business will be moved

Margin and Pricing by Asset Class

Asset Class	Net B/S ($m)	Margin Method/Rate	Type of Financing	Financing Rate O/N	Financing Rate 3m	
Equity	200	Scenario	Margin Lending	-25	-25	Shorts
		Scenario	Margin Lending	30	30	Index
		Scenario	Margin Lending	75	125	Non index / options
Convertibles	890	Scenario	Rev Repo	62.5	FF+75	High Grade
				125	FF+150	High Yield
				200	FF+250	Not Rated
Corporates - High Grade	789	Scenario	Rev Repo	62.5	FF+75	
Corporates - High Yield	727			125	FF+150	
Corporates - Not Rated	N/A[1]			200	FF+250	
Govt Bond	388	Scenario	Margin Lending	Market		
Loans I	731	20%	Rev Repo		3mL+150	
Loans II	620	20%	Banks / TRS[2]		3mL+150	
Preferreds	92	20%	Margin Lending	Corps+25	Corps+25	
ABS / MBS	546	25%	Rev Repo	FF+100	3mL+100	
Aircraft	117	30%	Loan[2]		TBD	
Physical Bonds / Bond Options / Bankrupcy	83	100%	Fully Paid	N/A	N/A	

1. *Included in High Yield.*
2. *Not provided by PB. Treasury providing TRS on loan to, and Structured Finance providing aircraft loan.*

LB Balance Sheet Impact

LB Net Balance Sheet Post Transaction

Substantial net balance sheet relief in 2008 from GPS spinout

Post Transaction Net Balance Sheet

($ in Millions)

Items	Net B/S
Lehman Equity Investment	$750
Items Remaining on Balance Sheet with Risk Transfer	
Freedom / LBCB loans [1]	$620
UK LCPI Loans	$220
Est. Derivatives MTM [2]	$375
Aircraft (70% loan)	$108
Items Not Transferred Day 1 (Risk stays with LB)	
Private Equity	$477
Other [3]	$150-300
Estimated Net Balance Sheet May 31	$2,700-2,850
Current GPS Net Balance Sheet	$5,900 [4]
Savings	$3,050-3,200

1. *Loans funded through LBCB ($380M) and Freedom CLO ($240M)*
2. *Currently intermediating and moving toward novation*
3. *India positions $3M, 737 Trust $20M, open loan sales $50 and other including fails $77-227M*
4. *Down from $7,311M on March 31 (comparison date set by management). Total savings of $4,500M*

- LB will realize ~$3B in net balance sheet relief from this transaction
- In addition to equity investment, some items will continue to use balance sheet including:
  - Loans being TRS-ed (Freedom/LBCB loans remaining on balance sheet at the request of Treasury for cash capital reasons)
  - Intermediated derivatives
  - Aircraft loan (if cannot syndicate)
  - Private equity (not transferring)
- Expect additional net b/s reduction in 3-4Q 08

LB Gross Balance Sheet Post Transaction

As R3's sole PB on day 1, no gross balance sheet relief expected

Post Transaction Gross Balance Sheet

($ in Millions)

Items	Gross B/S
Estimated Net Balance Sheet Post Transaction	$2,700-2,850
Financing / Leverage Provided by Lehman (1)	$3,500
Total Equity (2)	-$1,100
FAS 140 Gross Up	$1,500
Cash Borrows	$500
Estimated Gross Balance Sheet May 31	$7,100-7,250
Current GPS Gross Balance Sheet	$7,100 (3)

- No gross balance sheet relief expected day 1 as LB will be the sole PB
  - Providing all the financing which uses gross balance sheet
- As R3 engages other prime brokers, LB will get substantial gross balance sheet relief
  - Expect other PB relationships to be established in 3Q08

1. *Margin lending of $200M + gross reverse repo of $3,300M*
2. *Calculated as $1,650M of equity - $300M cash held - $250M equity held against derivatives*
3. *Down from $8,696M on March 31 (comparison date set by management). Total savings of ~$1,500M*

LB Pre-Launch Support

Summary of LB Support

	Status	LB Lead
Legal	◆ **Term sheet:** Negotiated and signed ✓	◆ Rao
	◆ **Entity set up:** Supported establishment of LP, GP, Partnership Agreement documents ✓	◆ Rao
	◆ **Asset transfer process:**	
	– Laid out mechanics for each product by asset class and region	◆ Bailey
	– Estimate impact of transfer on LB balance sheet	◆ Muller / Emmert
	– Begun negotiations on valuation process at time of transfer	◆ Reilly / Chopra
	– Confirming assets to be left behind at LB (some potentially to be managed bv R3 under sub-advisory)	◆ Muller
	◆ **Regulatory approvals:**	
	– Singapore: Obtaining approvals	◆ Ismail / Chia
	– London: Drafting FSA application (To operate on Day One under group exemption)	◆ Lee / Harris
	◆ **IP / IT agreement:** Drafting licensing agreement to govern use of LB applications / models / network	◆ Kwalwasser
	◆ **Tax indemnification:** Assess need to provide tax indemnification to R3, if any	◆ Steinberg / Rao
Real Estate	◆ **New York:**	◆ Darrah / Coogan
	– Completing build out to move R3 staff to 1271 Ave of Americas by May 29	
	– Negotiating sub lease agreement	
	– LB financing cost of furniture as part of build out	
	◆ **London:**	◆ N/A
	– Signed lease for new West End short term service location ✓	
	– R3 staff to move by May 29	
	◆ **Singapore:**	◆ Cruickshanks
	– Agreed to use current LB space on a temporary basis ✓	
	– Completing segregation of current space and signing of sublease	
	– Negotiate and sign lease for permanent office	

Summary of LB Support

	Status	LB Lead
Human Resources	◆ **Separation:** Distribute letters of separation and equity statements to staff ✓	◆ Millstein
	◆ **Onboarding:** Distribute employment agreement to staff	◆ Millstein
	◆ **Benefits:** Select third party providers	
	– Signed with ADP in US ✓	◆ Imbimbo
	– Selected Mercer in Singapore / Willis in London, contracts to be signed	◆ Han Keong / Farmer
	◆ **Payroll / T&E:** Select third party providers	
	– Signed with ADP Totalsource in US ✓	◆ Imbimbo
	– Selected Paymaster in Singapore / Moorepay in London ✓	◆ Han Keong / Farmer
	◆ **Immigration:** Transfer visas from LB to R3	
	– US / UK: Identified requirements and drafting applications, will require staff to remain on as LB employees after May 29 (2 staff in US, 2 staff in London)	◆ Johnson / Plotkin
	– Singapore: filed applications for May 29 transfer (5 staff) ✓	◆ Han Keong
IT	◆ **IT infrastructure:**	◆ Gatti / Somma / Plotkin
	– Selected RFA as IT vendor ✓	
	– Finalized build out plans, placed orders for equipment ✓	
	– Completing build out (e.g., data room, servers)	
	– Access to LB voice and data networks on temporary basis	
	– Access to some LB applications and add ins being provided (e.g., SwapDesk, CreditDesk)	
	– LB phones and PCs on being provided on a temporary basis	
	◆ **GPS data transfer:**	◆ Jestin / Plotkin / Somma
	– Compliance approval in place for GPS to take specific data files ✓	
	– File transfer plan in place, staff loading files to shared drive	
	◆ **BCP / DR:**	◆ Jestin / Plotkin / Somma
	– Alternative office location at LB being considered if remote access is not possible	
	– Over longer term, RFA to provide back up facility	

Summary of LB Support

	Status	LB Lead
Fund Admin	◆ **Fund Administrator:** – Selected Citco, negotiated and signed contract ✓ – Building operational and IT requirements for Day One	◆ Kollin
Marketing and Branding	◆ **Fund name:** – Selected 'R3 Capital Partners' ✓ – Registered name, trademark and secure domain names in major jurisdictions ✓ ◆ **Logo:** – Designed logo ✓ – Designed business cards, letterhead and presentation materials ✓ – Developing signage	◆ Alcorn / Sciullo ◆ Kwalwasser ◆ Smith
Insurance	◆ **Insurance:** – Estimated insurance requirements (e.g., D&O, employment practices, property and casualty) ✓ – Obtained quotes ✓ – Finalize contracts	◆ Nebel
Tax	◆ **Tax implications:** – Assessing potential sales tax implication arising from 1) real estate sublease and / or 2) IT licensing arrangements – Assessing potential withholding implications of asset transfer process (e.g., on UK loan portfolio) – Assessing need to provide tax indemnification to R3, if any	◆ Steinberg / Grossman

Summary of LB Support

Prime Broker

Status	LB Lead
◆ **Operations:** – Proposed last day of trading in GPS: Wednesday, 28th May – Proposed first day of trading in R3: Thursday, 29th May – Transfer pricing and positions as of close on May 28th – Current transfer trade date: 28th May for settlement 29th May – Fund 1st NAV to be one month and two days (June 30th month end) – Product by product transfer script being developed – Documentation, Technology and Operations– signoff required by Friday 23rd May	◆ Forrest / Burleton / Day / Kollin / Carmi
◆ **Financing / Margins:** – Financing to be provided through reverse repos and margin loans – Separate ledger accounts being set up – Margins and financing rates being finalized • Scenario based requirements • Tranche and index book • All other assets – Regulation T and Regulation U implications for initial margin being confirmed – Some illiquid assets not being financed (e.g., private equity, aircraft)	◆ Nicholson / Feraca / Hraska
◆ **Documentation:** – All documentation to be signed with R3 by 5/23 – LB ISDA to be basis for negotiation with other counterparties (e.g., JPMC) for ISDA	◆ Willoughby / Simonte / McMurray / Sefton

Transition Related Compliance Requirements

	Prior to May 29	Day One	Day Two
Real Estate	◆ GPS continues to operate in LB offices	◆ New York: Access to subleased space ◆ Singapore: Access to subleased segregated space ◆ London: No access to LB space	◆ R3 Singapore to move to own space
HR	◆ All GPS employees to continue to be on LB payroll and receive LB benefits until May 29 ◆ Hire any new employees into R3, not LB ◆ LB Code of Conduct continues to apply	◆ Migrated to HR provider payroll ◆ UK and Singapore migrated to broker provided benefits ◆ US staff under COBRA for first month ◆ 2 staff to remain in each location to complete asset transfer process ◆ 4 staff to remain for visa issues ◆ R3's own Code of Conduct applies	◆ All staff globally migrated to R3 payroll and benefits (continue to use third party providers for cost and scale benefits) ◆ No staff remain at LB ◆ All work visas sponsored by R3
IT	◆ Access all LB systems and networks per normal course of business ◆ Prepare shared drive of files and data for transfer to R3 on May 29	◆ Continue to access some LB applications ◆ Limited service / support from LB under IP licensing agreement ◆ BCP / DR provided by LB if remote access unavailable ◆ Use R3 telephone numbers	◆ No ongoing service / support beyond that offered to PB clients
Finance	◆ Move LB support and ops staff going with R3 into GPS P&L	◆ Charge R3 support related expenses to separately established balance sheet account	◆ Any R3 related expenses to be deducted from LB capital/fee contribution to Fund
Marketing	◆ Investor meetings / Interviews may be held in 745 building	◆ Format of marketing materials / documents should be distinct from LB template ◆ Use Fund business cards ◆ Offering documents to note that Fund is not sponsored by LB	

R3 Day One IT Applications

Application List

Provided by LB for Day One

- Microsoft Office, excluding Outlook
- Adobe Acrobat
- Internet Explorer
- Swapdesk
- CreditDesk
- BondDesk

IP/IT licensing agreement being drafted to govern the use of applications being provided by LB and to indemnify LB against misuse

Provided by Third Party

- Citco Aexeo (Fund Admin)
- Bloomberg
- Bloomberg AIM
- Quantify
- Risk Metrics
- Quote Vision
- Cap IQ
- Factset
- Internet based applications
- Email based applications

- *R3 securing own contract with third party providers*
- *Interim access to 3rd party market data through LB being negotiated and to be included in IP / IT licensing agreement*

Sub-lease P&L - 1271 Avenue of Americas, 39^{th} Floor

Lehman Space

Deal Economics	Without Depreciation			With $7.3m Depreciation @ 5.2%			With $7.8m Depreciation @ 8.7%		
	1271 A of A - 39th Floor			1271 A of A - 39th Floor (5%)			1271 A of A - 39th Floor (8%)		
Millions ($)	Total	NPE	Interest Cost	Total	NPE	Interest Cost	Total	NPE	Interest Cost
Size (Rentable Square Feet)	20,607			20,607			20,607		
Seats (preliminary count)	95			95			95		
Initial Rent ($/sf)	$ 84.00			$ 84.00			$ 84.00		
Additional Rent ($/sf)	$ -			$ 48.51			$ 62.10		
Operational Costs ($/sf)	$ 17.00			$ 17.00			$ 17.00		
Lease Commencement	06/01/08			06/01/08			06/01/08		
Occupancy Date	06/01/08			06/01/08			06/01/08		
Lease Expiration	05/31/13			05/31/13			05/31/13		
Free Rent (months)	4			4			4		
Base Year	2008			2008			2008		
Base Tx & Opex ($/sf)	$ 29.80			$ 29.80			$ 29.80		
P&L Impact									
2008	0.879	0.879	0.000	1.349	1.349	0.000	1.480	1.480	0.000
2009	2.064	2.064	0.000	3.037	3.037	0.000	3.309	3.309	0.000
2010	2.093	2.093	0.000	3.066	3.066	0.000	3.339	3.339	0.000
2011	2.124	2.124	0.000	3.097	3.097	0.000	3.369	3.369	0.000
2012	2.156	2.156	0.000	3.129	3.129	0.000	3.401	3.401	0.000
2013	1.092	1.092	0.000	1.577	1.577	0.000	1.713	1.713	0.000

	Without Depreciation	With $7.3m Depreciation @ 5.2%	With $7.8m Depreciation @ 8.7%
Total Cashflow	$10.4	$15.3	$16.6
NPV of Cashflows	$8.9	$13.1	$14.2
Average P&L Cost	**$2.084**	**$3.054**	**$3.325**
Average P&L Cost/RSF	$101	$148	$161
Average P&L Cost/Seat	$21,932	$32,145	$35,005
RSF per Seat	217	217	217

Construction Costs	**$**	**$ / SF**	**$**	**$ / SF**	**$**	**$ / SF**
Fitout			$5,196,166	$252.16/sf	$5,723,388	$277.74/sf
FF&E (Furniture HF Owned)			$824,280	$40.00/sf	$824,280	$40.00/sf
A/V			$206,070	$10.00/sf	$206,070	$10.00/sf
Consultants			$329,483	$15.99/sf	$329,712	$16.00/sf
IT			$598,103	$29.02/sf	$598,103	$29.02/sf
Expensed			$102,917	$4.99/sf	$164,856	$8.00/sf
SUBTOTAL CRE	$0	$0.00/sf	$7,257,018	$352.16/sf	$7,846,409	$380.76/sf

Floor Plan – 1271 Avenue of Americas, 39th Floor