

Wieseneck, Larry

To: McDade, Bart; McGee III, Hugh E

I have spoken with a lot of the team (over the wall types) over the last 24 hours

I thought it might be worth summarizing perspectives relative to our discussion yesterday on timing of capital infusion and quarterly announcements:

1) We must decide if we are really willing to call the "market's bluff" relative to timing on filling the capital bucket. This all seems to come down to comfort from the Rating Agencies relative to if they will give us time. Requires them better understanding the IMD story and why that may be the best asset to sell.

2) The delay to fill the capital hole strategy relies on a few items to be successful:

- The risk reduction process must be real (Blackrock UK trade done/Resi's in the \$12-\$10 range, Commercial's down \$5 billion + announce SpinCo)
- Need to disclose enough about the IMD process for both employees and investors/creditors to feel it is a viable way to manage Clean Co net leverage
- We are ruling nothing out in our attempt to preserve and enhance shareholder value (all is on the table)

3) We would discuss in the quarterly release (whether it be pre-announced or on schedule) what our net leverage ratio targets are for Clean Co and that we are committed to fill the capital hole with any combination of actions that is most value enhancing to shareholders (inducement, strategic or public sale of common, IMD partial sale or IPO, etc).

4) Our announcements would highlight how significant our risk reduction has been to date and how clean we will be post Spin-Co.

5) It is my view that for the delay game to work, we must stop talking about a Nov 30 spin. It is not realistic from a timing standpoint and by setting such an early date, it adds pressure from the market regarding where the capital will come from. By saying it is early 1st half of '09, we buy time for filling the capital hole with whatever is value maximizing, we are able to buy time for finding 3rd parties to take some of the capital structure of Spinco and we can actually hit a target we set for ourselves.

6) We need to go into this cognizant that our employees want this noise to go away. While not selling stock now means that we do not dilute them and other shareholders at these low prices, it will mean that the legacy assets are not yet behind us - not until we raise the common/sell the IMD stake, etc. This is the second reason why point 2 above is so important.

7) If we are not attempting to sell equity prior to earnings announcement why are we announcing the package early? Why not wait until as much as we can have accomplished is completed and announce earnings on a regular timeline. There is lots of questions as to what a pre-release does for us if the announcement does not include the fact that we have raised the capital needed for Clean Co. This should be fully debated.

8) Maybe this should have been my first point - Everything we are doing should be draped around creating value for our shareholders. Not selling Real Estate in the hole in order to maximize shareholder value. Looking at all alternatives around IMD in order to ensure that we preserve the most value for shareholders by considering the sale of a highly valued asset rather than sell stock at a large discount to Clean Co book. Cleaning up the balance sheet of Clean Co so that LEH can thrive.....this is why we are willing to put so much equity beneath Spin Co. Spin Co will avoid selling real estate in bulk form and instead manage the assets over time for highest value. Bottom line is that we see real upside to the mid \$20's in the near term via Spin Co and Clean Co.

Wieseneck, Larry

From: Wieseneck, Larry
Sent: Wednesday, August 27, 2008 2:05 PM
To: McDade, Bart
Cc: McGee III, Hugh E
Subject: Spinco Announcement, etc

Tried you but no you are running from meeting to meeting.

In case we don't speak today.

There are a number of things that I think need to get planned out relative to how we get from here to Sept 10 on the announcement front (this says nothing about the actual moving the ball forward legally, accounting, operations, etc)

- 1) What media is used to communicate to employees and external constituents?
 - Do we put q&a relative to Spinco and other announcements on our website
 - Do we put a more detailed q&a out relative to the same issues for our employees
 - Is the employee communications done via a global video townhall, regional townhalls, taped messages with added comments, etc?
 - If communicated regionally, how do we ensure the messengers have the right level of detailed understanding - the nuances are key here
- 2) How do we layer in the employee retention plan and why LEH can be great again into the overall message above?
 - Individual meetings about personal impact
 - Broader meetings about group and divisional impact
 - Messaging to the market about LEH's ability to keep its key people
 - Manner in which headcount reductions fit into this
- 3) When we raise capital, can LEH employees buy shares? Can they buy shares at a discount as a means of employee retention? Can we reduce holding periods if they purchase shares? If this will occur, it should be part of the announcements we make in mid September and any plan by management to purchase should be as part of this new employee purchase program.
- 4) If an event occurs that would trigger liquidity for employees, can we set up the discounted employee share purchase program noted above as a means to get more equity back into the firm to effectively help pay for the triggering of RSU pay out. Not a bad trade for the employees that choose to do this since they pay income taxes at current levels and if the stock rebounds, gains would not be at capital gains rates.
- 5) The more I think about the announcements we have to make, the more I believe it is part of an overall repositioning of our story and the need to have it be wrapped inside a "shareholder value" message. Need to avoid being viewed as financial engineering and needs to be positioned as solid corporate governance, risk management and value maximization.

On a number of the issues above, I am concerned that nobody owns the process. I think it is worth considering putting someone in charge of owning the entire communications plan with the major emphasis on the internal message and getting key equity and debt investors up to speed. We get that group on board and the rest of the market falls in line.

Happy to discuss when you can.

LEH ANNOUNCEMENT OF QUARTERLY RESULTS

1. Announce:
 - a) Results in line with analyst expectations.
 - b) Asset sales that have occurred (including U.S. resi mortgages and BlackRock U.K. resi mortgage transaction).
 - c) Intention to spin-off commercial real estate.
 - d) Intention to pursue strategic alternatives for IMD.

All consistent with market expectations and media speculation.

2. On SpinCo:
 - a) Pursue spin-off on fast track (but not on “crisis” basis) including (i) preparation of required financials, (ii) placement of capital structure, (iii) obtaining consents for asset transfers and (iv) setting up SpinCo infrastructure to operate as independent public company.
 - b) During the interim period, continue to pursue asset sales as a non-distressed seller and remain open to SpinCo M&A opportunities.
 - c) Market has comfort there is a plan on commercial real estate and LEH has de-risked this exposure, even if subject to some continuing mark risk.
 - d) If SpinCo will be a liquidating trust, then consider a SpinCo Lite with many, if not all, of the equity assets retained by LEH - (i) easier to finance senior debt and mezz positions, (ii) less book equity required, (iii) significantly fewer transfer consents required, (iv) retained assets still need to be marked, but more as a specific asset-by-asset quarterly valuation than a reflection of market spreads and pricing, (v) less taxes owed by stockholders.
3. On IMD, announcement allows the Firm to conduct a better sale process to maximize value. And, if there is an alternative capital raise, can always decide not to sell any of the business.
4. Do not raise any equity capital at LEH until closer to execution of spin-off when the equity need (pro forma the IMD process) is clearer and the valuation should be better with more certainty on the SpinCo, unless capital can be raised pre-announcement privately and on attractive terms (on both a converted and non-converted basis)
5. Threshold pre-announcement issues on SpinCo:
 - a) Rating Agency reaction
 - b) SEC consent on SpinCo financial statements
 - c) Key transfer consents (including Bank of America and Barclays on Archstone)

Discussion with Senior Management

Critical path items

Item	Description	Outcome
<ul style="list-style-type: none"> ◆ SEC Discussion <ul style="list-style-type: none"> – Financial disclosure – Deconsolidation of SpinCo 	<ul style="list-style-type: none"> ◆ Waiver of 3-year historical financial requirement ◆ Ask for audited opening B/S; 3-year projections ◆ Given that sale of most junior piece of capital structure may be difficult, determine if a sale of these securities is mandatory 	<ul style="list-style-type: none"> ◆ Likely time required to compile historical financials may be too burdensome to continue path to spin ◆ Risk that announce intent to spin, but unable to achieve B/S separation
<ul style="list-style-type: none"> ◆ Business Plan 	<ul style="list-style-type: none"> ◆ Need to understand SpinCo forward business model ◆ Assets to be included – consents likely required on significant portion of real estate equity portfolio 	<ul style="list-style-type: none"> ◆ Business or liquidating trust (i.e., is this a real business?) ◆ Establish plan to gain desired consents, if any
<ul style="list-style-type: none"> ◆ Data / Financial Reporting 	<ul style="list-style-type: none"> ◆ 3 – 6 months to prepare SpinCo financials 	<ul style="list-style-type: none"> ◆ Significant resources required (internal vs. external) ◆ Auditors could add delay
<ul style="list-style-type: none"> ◆ Other Items <ul style="list-style-type: none"> – SpinCo capital structure – Corporate discussions / tasks – Parent capital structure 	<ul style="list-style-type: none"> ◆ Feasibility of capital structure (ECB repo, credit facilities, etc.) ◆ Employee compensation adjustments, financial modeling, tax / legal / accounting review, SpinCo financing ◆ ECAPS – mandatory deferral trigger ◆ Dividend cut ◆ Credit facilities 	<ul style="list-style-type: none"> ◆ Continuing to move forward ◆ Continuing to move forward ◆ Need to be prepared for possible outcomes