From: McGee III, Hugh E [hmcgee@lehman.com]. Sent:8/20/2008 1:10 PM.
To: Welter, Carol [cwelter@lehman.com].
Cc: .
Bcc: .
Subject: FW: ICD Materials.

> ____
> From: Surbaugh, Kelsey E
> Sent: Wednesday, August 20, 2008 12:06 PM
> To: McGee III, Hugh E; Sullivan, Tim [IBD]
> Cc: Whitman, Brad; Trock, Jason; Morrell, Ryan J
> Subject: ICD Materials
>
> Skip,
>
> Attached are the ICD materials as well as a file with "back pocket"
> pages we removed from a previous version.
>
> Regards,
> Kelsey
>
> <<080820 ICD Meeting v Backup.ppt>> <<080820 ICD Meeting v2.ppt>>
>
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Preliminary Q3 Results

- Decreased baseline net revenue
- Larger net loss

- Capital offerings more than offset projected 3Q loss: equity base and leverage ratios better than reported 2Q
- Book value per share diluted by common stock offering and projected 3Q loss
- Decline in less liquid assets driven by residential and commercial mortgage sales

Income Statement

($ in millions)	Actual 2Q 2008	Projected 3Q 2008
Baseline Net Revenue	**$4,270**	**$3,287**
Reported Net Revenue	**($668)**	**($1,513)**
Compensation	2,325	1,947
Non-Personnel Expense	1,094	1,025
Pre-tax Income	($4,087)	($4,485)
Taxes	1,313	1,346
Net Income	**($2,774)**	**($3,140)**
Preferred Dividends	(99)	(166)
Net Income to Common	**($2,873)**	**($3,305)**

Balance Sheet and Capitalization

($ in millions, except per share data and where noted)	Actual 2Q 2008 As Reported	Actual 2Q 2008 Pro Forma for Capital Offerings [1]	Projected 3Q 2008
Common Equity	**$19,282**	**$23,286**	**$20,061**
Preferred Equity	6,993	8,993	8,993
Shareholders' Equity	$26,275	$32,279	$29,053
Net Leverage Ratio	**12.1x**	**10.1x**	**10.8x**
Tier 1 Capital Ratio	10.7%	13.5%	11.9%
Book Value per Share	**$34.21**	**$32.95**	**$28.30**
Commercial Mortgages (bn)	$29.4	$29.4	$26.0
Residential Mortgages (bn)	24.9	24.9	12.0
Total Less Liquid Assets (bn) [2]	92.2	92.2	64.0
LLA / Leverage Equity [2]	339%	278%	213%

1. *Capital offerings closed on June 12, 2008: $4.0 billion of common stock and $2.0 billion of mandatory convertible preferred stock.*
2. *Less Liquid Assets include: residential mortgages, commercial mortgages, real estate for sale, other ABS, other real estate related and high yield acquisition financing.*

Preferred Buyback + CRE Spin + Capital Raise

Assumptions

- In the beginning of 4Q08, Green repurchases $3.0B of Series P convertible preferred stock at a 10% premium to current market using its common stock
- At the end of 4Q08, Green spins off $31.7B of CRE assets
  - 25% equity ($7.9B)
  - 75% debt ($23.8B)
- Green raises **$4.0B** of new capital
  - **$3.0B** common equity investment in Green at $16.74 (10-day average closing price) per Green share
  - **$1.0B** of preferred stock
- Leverage and Tier 1 ratios below assume third party invests $2.0B in SpinCo debt

($ and shares in millions, except per share data)

	4Q08						
	Standalone	**Convertible Preferred Buyback**	**Pro Forma Conv. Pref. Buyback**	**CRE Spin-off**	**Capital Raise**	**CleanCo**	**CRE SpinCo**
Revenue	$3,175					$3,175	
Net Income to Common	(1,468)	54				(1,414)	
Common Equity	$18,852	$3,054	$21,906	($7,925)	$3,000	$16,981	$7,925
Preferred Equity	8,993	(3,000)	5,993		1,000	6,993	
Shareholders' Equity	$27,845	$54	$27,899	($7,925)	$4,000	$23,974	$7,925
Net Leverage Ratio (Incl. Excess Pref. / Sub Notes)	10.4 x		10.4 x			**11.9 x**	4.0 x
Net Leverage Ratio (Excl. Excess Pref. / Sub Notes)	12.0		10.4			13.4	4.0
Book Value per Share	$26.69		$26.05			**$16.65**	**$7.79**
Tier 1 Capital Ratio	12.3 %		12.3 %			11.1 %	
Basic Shares	703.4	134.5	837.8		179.2	1,017.0	1,017.0
New Investor Ownership %						**17.6 %**	**17.6 %**

If a single investor owns between 20%-30%, there is a $500M tax benefit in common equity. If a single investor owns more than 30%, there is a one-time DTA writedown of $700M in common equity.

LEHMAN BROTHERS

August 20, 2008

Discussion Materials

Confidential Presentation

ICD Investment in Green

Green is preparing to take a series of steps to bolster its balance sheet and capital structure to position the Firm for renewed growth and profitability

- Will announce intention to spin off Commercial Real Estate assets to shareholders
- Conversion of convertible preferred stock into common equity
  - Improves "quality" of equity capital and reduces projected preferred dividends
- Intention to raise ~$3-$4 billion of equity capital
  - Exploring strategic alternatives to monetize all or a portion of the Investment Management Division
  - Potential primary common equity offering
  - Potential additional preferred stock issuance

Preferred Buyback + CRE Spin + Capital Raise

Value to Green Shareholders Sensitivity

4Q08 Value Creation							
			CRE SpinCo P/BV Multiple / Implied Share Price				
			0.00x	**0.20x**	**0.40x**	**0.60x**	**0.80x**
			$0.00	**$1.56**	**$3.12**	**$4.68**	**$6.23**
RemainderCo P/BV Multiple / Implied Share Price	**1.00x**	**$16.65**	$16.65	$18.21	$19.77	$21.32	$22.88
	1.10x	**$18.31**	$18.31	$19.87	$21.43	$22.99	$24.55
	1.20x	**$19.98**	$19.98	$21.54	$23.10	$24.65	$26.21
	1.30x	**$21.64**	$21.64	$23.20	$24.76	$26.32	$27.88
	1.40x	**$23.31**	$23.31	$24.87	$26.43	$27.98	$29.54

Peer Comparison

Peer Exposure to Real Estate and Level 3 Assets

($ in billions)	2Q Green	PF 2Q MER	2Q GS	2Q MS	PF for CRE Spin Green Q408
Residential	$24.9	$43.7	$15.2	$12.4	$10.0
Commercial	39.8	14.9	16.6	22.1	5.3
Total Real Estate	$64.7	$58.6	$31.8	$34.5	$15.3
Level 3 assets	$37.9	$58.1	$78.1	$69.2	

Peer Historical Price to Book

	Current		Average 1-Yr		Average 3-Yr		Average 5-Yr	
GS	1.62	x	2.07	x	2.34	x	2.23	x
MER [1]	1.12		1.73		1.91		1.87	
MS	1.26		1.62		2.01		2.09	
Green [2]	0.40	x	1.19	x	1.85	x	1.80	x

Market data as of August 19, 2008.
1. *MER is pro forma for capital offering and announced initiatives.*
2. *Green's common book value is pro forma for $4.0 billion common stock issuance in June 2008.*