From: Wait, Christian [cwait@lehman.com]. Sent:7/17/2008 8:52 PM.
To: Tonucci, Paolo [paolo.tonucci@lehman.com].
Cc: .
Bcc: .
Subject: Re: Did we just get downgraded?.

Got u covered Shermanator!!!!!

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Tonucci, Paolo
To: Wait, Christian
Sent: Thu Jul 17 20:39:40 2008
Subject: Re: Did we just get downgraded?

Make sure it doesn't happen. The future is in your hands.

----- Original Message -----
From: Wait, Christian
To: Tonucci, Paolo
Sent: Thu Jul 17 20:20:15 2008
Subject: Re: Did we just get downgraded?

Don't like the Potential for franchise erosion vergage

Sent from my BlackBerry Wireless Handheld

----- Original Message -----
From: Tonucci, Paolo
To: Wait, Christian
Sent: Thu Jul 17 19:58:57 2008
Subject: RE: Did we just get downgraded?

Afraid so. Tomorrow will be tough.

Attached is the full text.

Moody's lowers Lehman Brothers rating to A2; outlook negative
2008-07-17 22:36:04.260 (New York)

New York, July 17, 2008 -- Moody's Investors Service lowered the long-term senior rating of Lehman Brothers Holdings Inc. ("LBHI") to A2 from A1.
Moody's also lowered the ratings on the senior long-term debt of the company's principal rated operating and guaranteed subsidiaries (referred to collectively with LBHI as "Lehman"). Lehman's Prime-1 short-term rating was affirmed. Lehman's rating outlook is negative. Today's rating actions conclude the rating review that was initiated on June 13, 2008.

The rating agency said that the rating actions reflect Moody's expectations for additional mark-to-market losses on Lehman's residential and commercial mortgage portfolios, which continue to pose a significant challenge to the company's ability to return to an acceptable level of ongoing profitability, a material rating concern.

Moody's noted that Lehman has been proactive in its efforts at bolstering capital and de-leveraging its balance sheet. Moody's said that over the past two quarters Lehman has made significant progress reducing its exposures to commercial and residential real estate. "Despite these notable risk reductions, Lehman's mortgage exposures and concentrations remain high and have weighed heavily on the firm's operating results and market confidence," said Moody's Senior Vice President, Blaine Frantz.

Given Lehman's recent capital raises, including $4 billion of common and
$2 billion of convertible preferred issued in June, Moody's believes Lehman is well positioned to absorb potential valuation marks that are within Moody's stress-case expectations. However, the firm remains exposed to uncertainty, and its financial flexibility has become more limited. This is due to Moody's view that Lehman has very limited capacity for additional preferred securities in its capital structure, and the difficult market environment for Lehman in raising common equity capital. This limits its ability to respond to further unexpected losses.

The rating agency noted that the negative outlook factors in continued concerns over the potential for franchise erosion to emerge over time.

To the extent that challenging operating conditions and persistently negative headlines continue, it may pressure Lehman and its employees, and potentially client confidence, eventually hindering the firm's ability to sustain its underlying performance and franchise value through this environment. The rating agency added that to date, including in June and July, Lehman's underlying customer franchises have continued to perform very well. Voluntary employee attrition levels and trends have also been good despite pressures on the firm. Nevertheless, franchise erosion has the potential to evidence itself over an extended period of time, and Moody's will carefully monitor this risk.

Mr. Frantz further added that as a prerequisite for the outlook to return to stable, "Lehman must continue to lower its real estate exposures and demonstrate that it can generate consistent and sustainable profitability."

Moody's also said that Lehman's rating reflects the firm's product and geographic earnings diversification. Though not as diversified as some industry peers, Lehman's earnings diversification has improved materially over the past five years on steady growth in primary equities, global advisory, and investment banking. The firm has built strong franchises in investment banking and equity capital markets, including increasing its penetration in prime brokerage and secondary cash equities and derivatives, in both the U.S. and abroad. The rating agency said that despite tough market conditions, Lehman's core customer-flow franchises continue to produce solid revenues, with profits generated from outside of fixed income adding a helpful buffer against the weakness in residential and commercial real estate and leveraged lending. Lehman's investment management business has also been an important earnings contributor to the firm.

Lehman's liquidity management and stand-alone liquidity position remain sound. Lehman ended Q2-08 with a record $45 billion of liquidity available to the holding company, and an additional $150 billion of unencumbered assets, with substantial loan value. The firm also has benefited from the supportive actions of the Federal Reserve, including access to the Primary Dealer Credit Facility ("PDCF") and the Term Securities Lending Facility ("TSLF").

As Moody's has noted in prior rating actions, the collapse of Bear Stearns highlights the vulnerability of the secured funding model of broker-dealers on overall market liquidity. When market liquidity dries up, collateral becomes harder to value, margin disputes arise and liquidity pressure increases on broker-dealers. The supportive actions of the Federal Reserve, including the temporary introduction of the Primary Dealer Credit Facility ("PDCF") and the Term Securities Lending Facility ("TSLF"), have played a critical role in helping to stabilize funding markets in the wake of the Bear Stearns collapse. These actions have provided at least an interim solution to industry-wide structural liquidity challenges. However, neither facility is permanent in nature.

The negative outlook also reflects the risk that a more permanent solution to the inherent confidence sensitivity of the securities industry funding model may not be forthcoming. In the absence of a more permanent solution, Moody's believes the newly revealed vulnerability of the secured funding model may warrant negative rating action on Lehman and on other independent investment banks.

The long-term ratings of Lehman Brothers Holdings Inc. and its subsidiaries were downgraded one notch; the short term ratings of Lehman and its subsidiaries remain at P-1. The outlook for all entities is negative. The following is a list of Lehman's major operating
subsidiaries:

Lehman Brothers, Inc. -- long term issuer rating to A1 from Aa3,

Lehman Brothers Bank, FSB -- deposits to A2 from A1.

Lehman Brothers Holdings Inc. is a global investment bank and financial services firm headquartered in New York, NY with total stockholders equity of approximately $26.3 billion and $154.5 billion of long-term capital at May 31, 2008.

-----Original Message-----
From: Wait, Christian
Sent: 17 July 2008 19:58
To: Tonucci, Paolo
Subject: Did we just get downgraded?

Sent from my BlackBerry Wireless Handheld