

From: Lax, Stephen [slax@lehman.com]. Sent: 9/9/2008 8:22 PM.
To: Muthyala, Rajiv [rajiv.muthyala@lehman.com]; Thatcher, Kevin [kevin.thatcher@lehman.com]; Tonucci, Paolo [paolo.tonucci@lehman.com].
Cc: .
Bcc: .
Subject: Re: Fitch Watch Negative?.

Did we know about it or have a chance to review? Why didn't they wait until tomorrow, given that LEH pre-announce already sent?

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

From: Muthyala, Rajiv
To: Lax, Stephen; Thatcher, Kevin; Tonucci, Paolo
Sent: Tue Sep 09 20:20:32 2008
Subject: RE: Fitch Watch Negative?

This is from Fitch Ratings website issued at 7:26 pm today

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

From: Lax, Stephen
Sent: Tuesday, September 09, 2008 8:18 PM
To: Muthyala, Rajiv; Thatcher, Kevin; Tonucci, Paolo
Subject: Re: Fitch Watch Negative?

Rajiv, what is the source of this? It is very similar to previous downgrade PR. Is this a real PR. We need to make an asap call to Fitch...

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

From: Muthyala, Rajiv
To: Lax, Stephen
Sent: Tue Sep 09 20:15:28 2008
Subject: Fitch Watch Negative?

Fitch Places Lehman Brothers on Rating Watch Negative
09 Sep 2008 7:26 PM (EDT)

Fitch Ratings-New York/Chicago-09 September 2008: Fitch Ratings has placed the long- and short-term Issuer Default Ratings (IDRs) of Lehman Brothers Holdings Inc. (Lehman; NYSE: LEH) and its subsidiaries on Rating Watch Negative. A complete list of ratings follows below. The Rating Watch Negative designation is in light of heightened pressures that have adversely limited, in Fitch's view, Lehman's financial flexibility, most acutely, its ability to raise capital. Capital raises over the past twelve months have offset operating losses, however, the costs of the most recent raises are considered steep relative to its historic valuation and reputation. In the likely event that additional capital is required -- due to more writedowns, valuation adjustments and/or trading losses -- the cost could be prohibitively expensive given investors' decreasing appetite for financial institutions exposure.

Core operating profitability is expected to be challenged in 2H08. Trading volumes may contract for both institutional and retail investors. In addition, the lack of a securitization market may also result in lower revenues compared to historical results. Additional losses emanating from high risk exposures are expected to occur, although the magnitude may be tempered by asset

reductions and successful asset sales around existing marks.

Rating downgrades could be more than one notch and could occur in the near-term. Foremost rating considerations include: ongoing losses in commercial and residential mortgage-related assets, no reduction of less liquid assets (relative to total assets), increasing leverage, diminishing common capital and impairment to reputation or other factors that limit LEH's ability to exercise the power of its franchise. Fitch will maintain an open dialogue with management, and assess ongoing performance with the expectation of resolving the Rating Watch Negative designation within the next 90 days.

Fitch has placed the following ratings on Rating Watch Negative:

Lehman Brothers Holdings Inc.

- Long-term IDR 'A+';
- Short-term IDR 'F1';
- Long-term senior 'A+';
- Senior unsecured debt 'A+';
- Short-term debt 'F1';
- Subordinated debt 'A';
- Preferred stock 'A';
- Individual B/C;
- Support '5';
- Support Floor 'NF'.

Lehman Brothers Inc.

- Long-term IDR 'A+';
- Short-term IDR 'F1';
- Long-term senior 'A+' ;
- Short term debt 'F1';
- Subordinated debt 'A';
- Individual B/C;
- Support '1'.

Lehman Brothers Holdings PLC

- Long-term IDR 'A+';
- Short-term IDR 'F1';
- Long-term senior 'A+';
- Short term debt 'F1';
- Subordinated debt 'A';
- Preferred stock 'A';
- Individual B/C;
- Support '1'.

Lehman Brothers International (Europe)

- Long-term IDR 'A+';
- Short-term IDR 'F1'.

Lehman Brothers Bank, FSB

- Long-term IDR 'A+';
- Long-term deposits 'AA-';
- Senior debt 'A';
- Short-term IDR 'F1';
- Short-term deposits 'F1+'
- Individual B/C;
- Support '1'.

Lehman Brothers Commercial Bank

- Long-term IDR 'A+'

- Long-term deposits to AA-';
- Short-term IDR to 'F1'
- Short-term deposits 'F1+';
- Individual 'B/C';
- Support '1'

Lehman Brothers Holdings Capital Trust III - VII --Preferred stock 'A'.

Lehman Brothers UK Capital Trust LP, II and III --Preferred stock 'A'.

Lehman Brothers E-Capital Trust I

--Preferred stock 'A'.

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Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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