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Sent: 9/10/2008 3:51 PM.

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Cc:

Bcc:

Subject: FW: (DJN) PRESS RELEASE: Moody's Places Lehman's A2 Rating On Review With

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

From: STEPHEN B LAX, LEHMAN BROTHERS, INC [mailto:slax@bloomberg.net]

Sent: Wednesday, September 10, 2008 3:26 PM

To: Lax, Stephen

Subject: (DJN) PRESS RELEASE: Moody's Places Lehman's A2 Rating On Review With

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PRESS RELEASE: Moody's Places Lehman's A2 Rating On Review With  
2008-09-10 19:26:08.90 GMT

Direction Uncertain

The following is a press release from Moody's Investors Service:

New York, September 10, 2008 -- Moody's Investors Service has placed on review with direction uncertain the long-term ratings of Lehman Brothers Holdings Inc. ("LBHI", senior at A2), as well as the long-term ratings of the company's principal rated operating and guaranteed subsidiaries (all referred to collectively as "Lehman"). Lehman's Prime-1 short-term ratings were placed on review for possible downgrade.

Today's rating action follows Lehman's pre-announcement of a multi-faceted restructuring plan and Q3-08 results, which included a \$3.9 billion net loss for the quarter, driven largely by a \$7.8 billion decline in gross asset valuations of residential real estate, commercial real estate and, to a lesser degree, other assets.

Moody's said that the review with direction uncertain reflects the high degree of fluidity in Lehman's current situation. Moody's believes that Lehman's financial flexibility has become more limited as its stock price has fallen to near all-time lows and the firm is experiencing a crisis of confidence. Although Moody's believes liquidity remains firm and has not shown signs of material erosion, the potential for rapid franchise impairment in this environment remains a significant rating concern for Moody's. Blaine Frantz, a Moody's Senior Vice President, said: "A key ratings factor will be Lehman's ability to turn around market sentiment."

The sharp reduction in market confidence has led Lehman's management to consider all strategic alternatives, including the possible sale of the firm. Moody's believes that the heightened level of market stress on Lehman has increased pressure on the firm to consider this option. The ratings review with direction uncertain reflects the fluidity of the current situation, as well as our assessment of the likelihood of such a transaction. Mr. Frantz remarked that "A strategic transaction with a stronger financial partner would likely add support to the ratings and result in a positive rating action."

Conversely, should a strategic arrangement fail to materialize in the near term, Moody's said that the ratings would be downgraded, likely into the Baa category, with the ratings continuing on review for possible downgrade. The rating agency also expects that, should this occur, the rating differential between Lehman's preferred stock ratings

and senior ratings would be widened. Moody's said that the wider differential would reflect the increased risk of a suspension of dividend payments in such a scenario.

In assessing the plan that Lehman's announced today, Moody's is considering the extent to which the plan achieves risk reduction and capital replenishment, has the capacity to restore confidence as well as the trade-offs associated with the proposed spin-off of commercial real estate. Additionally, Moody's will evaluate the execution risk of achieving this ambitious plan.

Moody's believes that Lehman's liquidity pool and its access to the Primary Dealer Credit Facility provide the firm with time to address these challenges. The rating agency believes that Lehman's liquidity management and stand-alone liquidity position remain acceptable. Lehman ended Q3-08 with \$42 billion of liquidity available to the holding company in addition to unencumbered assets with substantial loan value. Further, Lehman has extended the maturities and added capacity to its secured financing. Lehman's market access to funding also has benefited from the supportive actions of the Federal Reserve, including access to the Primary Dealer Credit Facility and the Term Securities Lending Facility.

Moody's said that its most recent rating action on Lehman was on July 17 when the rating agency lowered Lehman's long-term senior rating to A2 from A1 and assigned a negative outlook to the firm's long-term ratings.

Today, the long-term ratings of Lehman Brothers Holdings Inc. and its subsidiaries were placed on review with direction uncertain; short-term ratings were placed on review for possible downgrade. The following is a list of Lehman's major operating subsidiaries:

Lehman Brothers, Inc. -- long-term issuer rating of A1 placed on review with direction uncertain; commercial paper rating of P-1 placed on review for possible downgrade,

Lehman Brothers Bank, FSB -- long-term deposits of A2 placed on review with direction uncertain; short-term deposits of P-1 placed on review for possible downgrade.

Lehman Brothers Holdings Inc. is a global investment bank and financial services firm headquartered in New York, NY with total stockholders equity of approximately \$28.4 billion and \$143 billion of long-term capital at August 31, 2008.

Additionally, Moody's will host a teleconference to discuss these rating actions on Wednesday, September 10th, at 4:00PM EDT. Please visit [www.moody.com/events](http://www.moody.com/events) for further information.

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