FINAL TRANSCRIPT

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LEH - Q4 2007 Lehman Brothers Holdings Inc. Earnings Conference Call

Event Date/Time: Dec. 13. 2007 / 10:00AM ET

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PRESENTATION

Operator

Good morning and welcome to the Lehman Brothers fourth quarter earnings conference call. Your lines will be on a listen-only mode until the question and answer segment of the call today. This call is being recorded. If you do have any objections, you may disconnect at this time. I would now like to turn the call over to Ms. Shaun Butler, Director of Investor Relations. Thank you, you may begin.

Shaun Butler - *Lehman Brothers Holdings Inc. - Director IR*

Thank you for joining us today for our fourth quarter and year end update. Before we begin, let me point out that this presentation contains forward-looking statements. These statements are not guarantees of future performance. They only represent the firm's current expectations, estimates and projections regarding future events. The firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are difficult to predict and beyond our control.

For more information concerning the risks and other factors that could you affect the firm's future results and future conditions, see Risk Factors and Management's Discussion and Analysis of FInancial Condition and Results of Operations in firm's most recent annual report on Form 10-K and quarterly report on Form 10-Q as filed with the SEC. This presentation contains certain non-GAAP financial measures. Information relating to these non-GAAP financial measures can be found under selected statistical information, reconciliation of average stockholder's equity to average tangible common stockholders equity, and leverage and net leverage calculations in this morning's earnings press release which has been posted on the firm's website, www.lehman.com, and filed with the SEC in a form 8-K available at www.SEC.gov.

This morning I'm joined by Chris O'Mara, our Global Head of Risk Management and former CFO, and Erin Callan, our newly appointed CFO, who will be conducting these discussions in the future. Chris will be reviewing our results for the fourth quarter and he will provide an update on certain key exposures at our fiscal year end. Erin will then discuss some of our key accomplishments in 2007 while providing a framework for how we're thinking about our outlook going into '08. Chris?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Thank you, Shaun. Good morning, everyone, and happy holidays. As you've seen in this morning's earnings release, we posted respectable results this quarter in what became a extremely difficult market environment as the period unfolded. Despite the market turmoil during the quarter, we achieved record results in both our equities capital markets business and investment management segment. Regionally, we generated 62% of our revenues this quarter outside the U.S., our highest proportion ever, and clearly strength in these areas helped to partly mitigate the significant dislocations and supply demand imbalances in parts of the U.S. and European fixed income businesses over much of the period.

Let me start with the overall market environment. In the first part of the quarter, we saw a stabilization and then a recovery, in both the corporate debt and equity markets, underpinned by interest rate relief provided by the Fed. However, conditions reversed dramatically in November, as we saw a major wave of risk aversion prompted by rating agency downgrades and of certain structured products, asset repricing, leading to large writedowns, unresolved issues with SIVs and dislocations in the interbank market. These factors resulted in higher risk premiums across the board and fundamental questions about the valuation of securities.

In Fixed Income, U.S. credit spreads hit multi-year wides with investment grade spreads at their widest level since December 2002, and high yield spreads at their highest level since July 2003. As a result, November was the single worst month on record for U.S. investment grade corporate and asset backed securities, tallying negative excess returns ranging from negative 300 to 338 basis points. This dramatic spread widening load to a flight to quality as the two year treasury rallied over 100 basis points and the yield curve steepened. The equity markets followed a similar pattern, rallying in the first half of the period, mainly in response to a larger than expected cut in interest rates, a general feeling that the credit crisis was behind us and sentiment that there would be a soft landing, and the Dow reached a new all-time high. The selloff in the later part of the quarter reflected weaker corporate earnings, renewed concerns about credit and the consumer, oil reaching all-time highs and a further slowdown in housing.

Volatility rose dramatically. In fact, it was the most volatile November for the S& P 500 since 1987. The investment banking weaker valuations, higher credit spreads, and increased volatility in the secondary markets also had a negative impact on underwriting activity. Industrywide, Fixed Income underwriting volumes fell 29% on a sequential basis. With slower financial sponsor activity due to a large overhang of deals and weaker financing markets, the volume of announced M&A transactions declined 28%, and equity underwriting volumes dropped in the Americas and Europe, the markets most affected by the downdraft. So overall, a very challenging back drop over the period.

In this extremely difficult environment, we posted net revenues of approximately $4.4 billion. Down 3% year-over-year, and up 2% from last quarter. Net income was $886 million, down 12% year-over-year, and flat to the sequential period. Diluted EPS was $1.54, down 10% year-over-year and flat to the sequential period. ROE, return on equity, was 16.6% for the quarter and return on tangible equity was 20.6%. We consider this a reasonable performance in light of the difficult conditions that prevailed over the period. We attribute this performance to several factors. From the business standpoint, it reflects our growing footprints in investment banking, equities and investment management, as well as in Europe and Asia which have reduced the proportional contribution of any one business or region.

It also reflects our commitment to customer flow activities versus proprietary as a primary source of revenues which has helped us mitigate the impact of difficult market environments as institutional and high net worth investors remain active. More fundamentally, it reflects the strength of our risk management culture in terms of managing our overall risk appetite, seeking appropriate risk reward dynamics and exercising diligence around risk mitigation. Lastly, it reinforces the importance of our disciplined liquidity and capital management framework which sets us up to operate our business through periods of market stress.

Now I'll review each of our three business segments. Starting with investment banking, we posted revenues of $831 million, down 3% year-over-year, and down 22% from the sequential period, due to the weakening market climate I mentioned earlier. Our pretax income for this segment was $207 million. Within the segment, our M&A advisory revenues were $388 million, up significantly from the year-ago period, but down somewhat from last quarter's record levels. Nevertheless this represents the second highest level of quarterly revenues ever for the M&A advisory business. For the quarter, our volume of completed M&A transactions totaled approximately $380 billion. We advised on three of the top four deals completed in all of 2007. Our global announced M&A market share rose to 17.3% year-to-date, versus 15.5% for full year '06 and our completed M&A market share rose to 20.9% year-to-date versus 15.8% for full year 2006, all on a calendar year basis. So strong share gains in this business overall.

In Equity Origination, our revenues were $210 million, down 6% year-over-year and a decrease of 29% from last quarter's level. For the quarter, our volume of Equity Origination totaled approximately $4.6 billion, down significantly from last quarter's level with convertibles accounting for a significant part of the decline. Despite a particularly difficult IPO market where many transactions were pulled in the period, our IPO franchise realized particular success. For the quarter, we rank number one in U.S. IPOs and had a 13.8% market share as we completed transactions for [Op Ziff] , DuPont Fabrose, and Sand Ridge Energy.

Fixed Income origination revenues were $233 million, down significantly from both benchmark periods due to the weakness in the leverage loan and high yield markets as credit spreads hit their wides for the year as I noted earlier. This deterred a number of high grade and high yield borrowers from accessing the markets, and despite these pressures, we ended the quarter on a positive note, leading the $6 billion preferred transaction for Freddie Mac, something Erin will discuss in more detail later on. Despite recent market conditions, we continue to have momentum in the investment banking business. Although our aggregate fee backlog of over $800 million at year end was lower than its peak during '07, it is 7% higher than it was when we started 2007. Over the course of the year, we made significant progress in building market share in M&A, IPOs and high yield and led transactions for a number of new clients in a broader range of geographies than ever before.

Moving to our capital markets segment, we posted revenues of over $2.7 billion, down 10% year-over-year but up 12% sequentially. This segment absorbed the bulk of the risk repricing we witnessed over the period. Our pretax income for this segment was $761 million. In the equities component of our capital market segment, we posted record revenues of approximately $1.9 billion, up significantly versus both benchmark periods and reflecting the higher revenue run rate we have achieved in this business all year. These gains reflect our broader customer franchise around the globe where for the current quarter our sales credit volumes were up by 66%, versus the prior year's period. As a result, we posted higher revenues year-over-year in our Execution Services business, driven by significant increases in our European and Asian franchises. Results in our equity derivatives business continued to be strong as market volatility remained at far higher levels and we tripled our results relative to the comparable 2006 period.

In prime brokerage, our balances rebounded from third quarter levels and given the relative stability of our franchise, we added 45 new clients over the period, bringing our total client base to 630 at year-end. Our principal trading strategies were also stronger versus both benchmark periods. Lastly, gains from private equity and our investment in GLG were approximately $500 million, significantly higher than both comparable periods.

In the Fixed Income component of our Capital Market segment, we posted revenues of $860 million, down significantly from both benchmark periods. Compared to last quarter's results, the variance was the result of contagion that was broader in the current quarter, encompassing more asset classes and regionally, Europe as well as the U.S. This impacted our business in three major ways. We had negative marks on our Fixed Income inventory, in some instances our risk mitigation strategies were less effective correlations he broke down and we incurred a higher degree of basis risk and heightened risk aversion among investors caused them to shift their trading activity to higher quality and more liquid products which are generally somewhat less profitable for the firm.

Now I'll walk you through the valuation adjustments. For the period, we incurred a net revenue reduction from positioned valuation changes of approximately 830 million in our Fixed Income capital markets business. Most significantly in residential and commercial mortgage related positions. On a gross basis, these valuation changes reduced revenues by approximately $3.5 billion, including $2.2 billion from our residential mortgage business. We had gains on hedges of about $2 billion, which reduced the aggregate revenue impact from $3.5 billion negative to $1.5 billion negative.

Additionally, the impact was further reduced by two items. Approximately $320 million of realized gains from the sale of certain leveraged lending positions during the quarter versus their valuations at the end of the third quarter, and approximately 320 million of gains on our structured note liabilities under FAS 159 and 157. As a result, revenues in our residential mortgage business were negative for the period, given the significant asset repricing that extended across subprime, Alt A and prime mortgage product, coupled with declines in both origination and securitization volumes. On a positive note, we posted reasonable results in secondary trading, particularly in synthetics where we are a major market maker and Asia securitizations, which was less affected by the subprime contagion than other regions.

Results in our commercial real estate business were weaker due to spread widening and a lower number of securitizations during the period. However, our results in credit improved versus last quarter as the market recovered in September and October, such that we were able to realize gains on certain leverage lending positions as transactions closed and were distributed, as I mentioned previously. A number of product areas benefited from the heightened risk aversion. Consequently, we saw year-over-year improvements in liquid markets, including interest rate products and foreign exchange and commodities. This is also reflective of our larger scale in each of these businesses.

Lastly, while our customer franchise remains strong, the magnitude of the market dislocations in November caused overall customer trading activity to slow and migrate into more liquid products. As a result, our sales credits in Fixed Income dropped approximately 20% sequentially, and they were 8% lower than the average for the first three quarters of '07. Clearly one of the most difficult quarters we have seen in Fixed Income.

Moving to our third segment, investment management, we posted record revenues of $832 million, up 30% year-over-year and a 4% increase over last quarter's record level. Our pretax income for this segment was 261 million as we continued to benefit from our expanded presence in higher margin Asset Management products. For the asset management component of this segment, we reported revenues of $533 million, our highest level ever, up 45% year-over-year and up 14% from last quarter's record level. We ended the quarter with a record level of assets under management, $282 billion, up 3% from last period. In private investment management which encompasses our high net worth client distribution business, we realized revenues of $299 million, up 10% from the year-ago period but down 10% from last quarter as higher volatility and credit concerns caused our clients to become less active in Fixed Income related products. As these results illustrate, our investment management segment continues to grow, accounting for a larger proportion and a more stable source of revenues for the firm.

Now let me briefly review our non U.S. results. For the quarter, our non U.S. revenues were approximately $2.7 billion, up versus both benchmark periods. This marks our highest level of revenues for outside the U.S. Non-U.S. revenues accounted for 62% of our firm wide revenues for the period. In Europe and the Middle East, we posted revenues of approximately $1.6 billion, up 38% year-over-year and up 7% from the sequential period. Our improvement from the year-ago period in European equity capital markets was driven in part by strong performances in Execution Services and in derivatives as we continued to increase our overall market share in these businesses and benefited from a higher volatility.

Our investment banking revenues in Europe increased year-over-year but declined from last quarter's record level. This improvement is due to our best quarter ever in M&A and higher Equity Origination activity partially offset by lower debt origination activity. Revenues in investment management in Europe increased year-over-year driven in part by our alternatives business. These gains were partially offset by weaker results in Fixed Income from the year-ago period, most notably in securitized products and credit, consistent with the negative tone in these markets. In Asia-Pacific, we posted record revenues of approximately 1.1 billion, up significantly versus both benchmark periods. In Asia capital markets, we posted your record results in equities, driven by strong performances in Execution Services and derivatives, due to strong customer flow activity as the Asian equity markets continued to outperform other regions. We also posted strong results in Fixed Income, driven by securitized products, real estate, high yield, and infrastructure investments.

Our investment banking revenues in Asia were higher versus both comparable periods as we completed three IPOs over the course of the quarter and we are advising on the largest buyout transaction in Japan this year, [Primira]'s purchase of [Aristel Life Science]. Moving briefly to expenses, for the quarter, we posted a compensation revenue ratio of 49.3%, a level consistent with the ratio we realized in 2006 and for the first nine months of this year. Over the period, our headcount declined slightly. This decrease was attributable to the restructuring of our global mortgage origination business. For the quarter, our non personnel expenses totaled $996 million, up approximately 2% from last quarter's level with higher technology and communications and brokerage and clearance expenses, partly offset by lower professional fees for the period.

Overall, the increase in our non personnel expenses reflects the ongoing investment in our business as we continue to grow scale around the world. Taking all of this into account, we reported a pretax margin of 28% for the quarter, equal to the sequential period. Our effective tax rate was 27.9%, reflecting the large pretax contribution from outside the U.S. Our return on equity for the quarter was 16.6%, and our return on tangible equity is 20.6%. Again, we considered these to be respectable results given the stressed market environment and a demonstration of the benefits we are deriving from our larger scale and our diversification.

Now let me make a few comments about our balance sheet. We ended the quarter with total stockholders equity of approximately $22.5 billion, and our long-term capital rose to $146 billion. Over the course of the quarter, we repurchased 5.3 million shares, at an average price of $62.43 per share, bringing our full year buybacks to a total of 43 million shares. Book value per share increased to $39.45, up 3% during the period, and a 16% increase for the full year. So right in line with our historical book value compound annual growth rate over time. We ended the quarter with a net leverage ratio of approximately 16.1 times, in line with last quarter. And our average historical simulation value at risk increased to $124 million in the current period, reflecting higher volatility in interest rates and equities and greater correlations over the period.

Next, I would like to review our liquidity position, which continues to be very strong. As we discussed with you in the past, we have structured our liquidity framework to cover our funding commitment and cash outflows for a 12 month period without raising new cash in the unsecured markets or selling assets outside of our liquidity pool. Our holding company liquidity pool, which is invested in cash and liquid assets, was $35 billion at the end of the quarter. This does not include the significant additional liquidity pool at our regulated banks and broker dealers. This corresponds to a cash capital surplus at the holding company of $8 billion which is the excess of long-term funding sources over our long-term funding requirements. In addition, these measures exclude unencumbered collateral of over $50 billion available to the holding company and an additional over $50 billion in our regulated banks and broker dealers. Furthermore, we have seen no reduction in access to secured funding in the repo markets.

We continue to face little refinancing pressures with limited amounts of debt maturing in the near term. We consider our liquidity framework to be a competitive advantage in today's markets. Which effectively positions us to support our clients and take advantage of various market opportunities. Before we move on to our year end summary and outlook I wanted to bring you up-to-date on some of our larger balance sheet exposures at the end of the period. At quarter end, we had had non investment grade contingent acquisition facilities of approximately $9.8 billion. Down from $27 billion at the end of the third quarter, and from $44 billion at the end of the second quarter. The decline in our commitments is the result of deals being completed and sold in the market and some deals being closed but still in the process of being syndicated. Our $9.8 billion of commitments at the end of the period is spread over 16 transactions so a lot of diversification within this book.

In terms of our mortgage inventory at year end, this totaled $91 billion, reflecting in part the decline in securitization activity over the period. Of this, $12 billion reflects those amounts we have sold to third parties but have to gross up under FAS 140 and we are not at risk for. The remaining $79 billion is roughly evenly split between residential mortgage-related inventory and commercial mortgage-related inventory. Within the residential mortgage piece, our subprime balance sheet exposure amounted to $5.3 billion, compared to $6.3 billion last quarter.

This $5.3 billion subprime breaks down as follows. 3.2 of whole loans, 1.9 of investment grade securities, and about $160 million of non investment grade securities and residuals. In addition, we had approximately $1 billion of ABS-CDOs on the balance sheet at quarter end. And after consideration of hedges, we remain modestly net short in the ABS-CDO asset class. In commercial mortgages and CMBS, the bulk of this product is floating rate with an average term of two to three years. The CMBS component, the vast majority is AAA rated. It is important to note that this is a regionally diversified portfolio with about half of the commercial mortgages in the U.S., and the other half in Europe and Asia. In terms of other exposures, we have largely mitigated our risk. We do not own or sponsor any SIVs, and in the asset backed commercial paper market we generally participate as an agent only.

Our net exposure to mono lines after hedges and credit reserves is minimal. In terms of counter party credit exposure, over 95% of our exposure is to investment grade entities. Although we have not emerged unscathed from the recent market turmoil, we believe we have done a good job in managing our risks which has enabled us to post solid returns. As you would expect in the current environment, our level three assets increased somewhat over the period. At the end of the quarter, we estimate that approximately 13% of our inventory will be classified as level three under the FAS 157 GAAP hierarchy.

The increase from last quarter is primarily in mortgages and private equity related. So a lot of detail on these exposures but we thought it was important to bring you up-to-date on all of this given the recent turmoil in the marketplace. Let me now turn the call over to Erin to provide some color on how we are thinking about what we have accomplished this year, and our outlook for 2008.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Thank you, Chris. I would like to take a step back for a moment and make some comments about our full year results for the firm. Despite all the pressures in the latter half of this year, our 2007 net revenues were a record $19.3 billion, representing a 10% increase over our prior record last year. This is the fifth consecutive year that we have posted record revenues. Net income and EPS for '07 were at all times high of $4.2 billion and $7.26 per share, up 5 and 7% respectively from the prior year on the basis of as Chris discussed, a record first half and a successful navigation of the difficult market conditions we saw in the second half.

Our pretax margin for the year held in at 31.2% while we posted a full year return on equity of 20.8% and return on tangible equity of 25.7%. All things considered, we're pleased with this performance, especially since these results were a clear demonstration of the diversification we have achieved and worked so hard for over the past several years. In point of fact, each of our three business segments and both Europe and Asia generated record revenues for the full year 2007.

Also our non U.S. operations accounted for 50% of net revenues, an all time high. This momentum extends to each of our business segment and regions as we continue to focus on expanding our footprint. Our business is ultimately driven by our people and we ended the year with a headcount of approximately 28,600, which is up over 10% year-over-year. This gives us significantly more capacity to sustain our growth by expanding our global client base, while also increasing wallet share with existing clients. Particularly given our balance sheet -- given other balance sheet constraints and risk management issues at a number of our peers.

In investment banking we made substantial strides as evidenced by our higher quarterly revenue run rate. Our volume of M&A completions increased 64% year-over-year. An announcements for the '07 calendar year were up approximately 41%. Of our announced M&A, over 40% of the volume for the year represented cross border transactions, which is a trend we'll talk about that we continue to expect in full force for '08. We have increased our share in IPOs and year-to-date we're the top underwriter of U.S. IPOs by market share. The breadth of our investment banking franchise has increased dramatically as evidenced by our completion of approximately 100 transactions with revenues in excess of $10 million this year. This is almost double last year's tally of large size transactions. So great progress.

Geographically we have added significant scale in Asia. We made key appointments in Europe and most recently we extended our presence into India, Canada, Australia, Brazil, Russia, and the Middle East. All markets that we consider to be critically important. We have received important mandates in virtually all of these markets already in the 2007 fiscal year. Despite the more difficult market environment, we have continued to make progress in capital markets. As demonstrated by our increased market share in many products, our top rankings in surveys that evaluate overall quality and trading, sales and research capabilities around the globe. Importantly, in 2007, it was also about thoughtful risk management and capital and resource allocation. We are positioned for growth in capital markets which is truly a global story, with 69% of our equity revenues and 56% of our Fixed Income revenues in 2007 sourced outside the United States, in Europe and Asia.

We have attempted to solidify these gains in our international capital markets franchise, both through organic growth that we have discussed, and also through acquisitions. In 2007, we made purchases of grain securities in Australia, MNG in Turkey, bricks in India, and we continued to build our capabilities in a number of products including derivatives, prime services, commodities and foreign exchange as these businesses have become and continue to be ever-more important components of our revenue growth. Investment management, we continue to focus on building out the platform globally and our growth and assets under management has been largely from net in-flows on the basis and on the back of strong performance. We have continued to expand our product offerings. For example, our private equity assets under management increased by 60% this year as a result of new private equity funds launched in 2007.

Alternative investments, the focus of the firm, is currently representing 12% of your year end assets under management and we're looking to grow this further over time. In 2007, we also grew this segment through acquisition of [HA Scheff], LifePoint and Dartmouth Capital and the acquisition of minority stakes in a number of hedge fund managers including DE Shaw and Spinnaker. Even with the challenges of the last six months we continue to identify numerous opportunities to drive future growth in the franchise. Despite all of these positive developments in our franchise over the past year and our relative resilience in navigating these markets, we do expect the near term market environment to continue to be choppy and we remain cautious but constructive and feel very good about Lehman's competitive position going into 2008.

There's still numerous headwinds that post challenges to both the economy and the capital markets that most of us are quite familiar with. Ongoing problems in U.S. housing and mortgage market, high oil and commodity prices, constrained bank balance sheets, dislocations in the interbank lending market and the need for further resolution around the SIVs and monoline capital. Our Lehman strategists result the outcomes as almost binomial in nature, ranging from most likely, slower economic growth to the possibility of a recession. The global economy continues to reverberate from two shocks, problems in the U.S. housing market and a capital markets liquidity squeeze. As a result, we have made some downward revisions to our projections on global economic growth. Our outlook is for global GDP growth to be 2.7% in 2008, and we have lowered our U.S. forecast to 0.4% in Q4 and 1.8 for full year 2008.

However, I know we've seen this as recently as the past 24 hours, we expect central banks to be proactive in promoting positive economic growth, whether it's rate cuts or providing additional liquidity to the system during the period of financial market stress. We've seen these recent actions by the Fed, the Bank of Canada, the Bank of England, the ECB and we've seen collaboration amongst this parties. Our global growth assumptions also underpin our view on investment banking activity going forward, we do expect announced M&A volumes to decline approximately 20% in 2008 which is in line with 2006 levels. Strategic buyers, who currently comprise about three-quarters of M&A activity, will account for a larger proportion of overall deal volume and we expect stock to become a more prominent form of consideration versus cash in these transactions.

Given the changes we've seen across currency rates and current trade imbalances, we also expect cross border M&A and international activity to increase. As we noted before, it was 40% of our announced volume for 2007 and we expect that to go up in '08. Higher equity market volatility will most likely cause equity issuance to be down in the near term as we have seen a number of IPOs pulled from the market over the last several weeks, however, we're expecting a significant amount of hybrid capital to come to market in the coming months as financials increasingly address quickly their balance sheet issues and raise capital and this is a trend we continue to expect to see for the foreseeable future.

Lehman is the market leader in this product. We are incredibly well positioned for this opportunity. For example, the last month we lead managed transactions for Freddie Mac, Fannie Mae, Washington Mutual and are advising Warburg Pincus on their investment in MBIA. We still expect Fixed Income origination to grow to approximately $10 trillion for the full year '07 although we are forecasting an 8% decline to $9.2 trillion for 2008, due to a lower component of securitizations and M&A financing. Despite credit spread widening, absolute rates for high grade borrowers who borrow on a fixed rate basis have changed little due to rallies in treasuries, and we're starting to see issuance pick up heading into the new year. We are also seeing large numbers of borrowers churn out commercial paper, given the shape of the credit curve and the attractiveness of doing so. Fortunately, the new business we are seeing in M&A and in debt underwriting is generally high margin business which should help offset lower volumes.

The other phenomenon which is helping bolster investment banking is non traditional business, primarily through derivative risk solutions for our corporate clients which has become an even more meaningful contributor to investment banking revenues. In the equity Capital Market we expect a 2008 return of 13% in local currency terms, while projecting corporate earnings globally to increase 2% but declining 5% in the U.S. Equity valuations remain attractive even after adjusting for higher risk premiums, which should bolster market activity, and given what the markets have been through recently, we expect active risk mitigation strategies to continue to be important tools for institutional investors globally. Fixed Income capital markets will continue to face uncertainties over the near term, as some products remain impaired, while others will need to trade at distressed prices to clear bank balance sheets. Fortunately, we are starting to see distressed investment pools established.

Initially in a leveraged loan space, $30 billion in the past few days alone and increasingly in the asset backed space. Although risk aversion has prevailed in recent weeks, I would note that Fixed Income investors cannot stay on the sidelines for extended periods of time due to the inherent cash accumulation in portfolios from regular interest payments and maturities. In the U.S. alone, we estimate approximately $3.1 trillion of cash is coming due to investors in 2008 from interest payments and redemptions. A further recalibration of risk and reward has brought corporate securitized and mortgage credit back to their cheapest levels in the current decade, a fact alone that will attract investors over time.

In general, we expect customer activity to be strong with significant portfolio reallocations and rebalances occurring to take advantage of the opportunities that exist. We also expect volatility to remain at these higher levels and this is beneficial for a number of our businesses, particularly in derivatives, in addition, higher volatility as well as higher bid out spreads and a more normalized yield curve provide more profitable trading opportunities in the secondary markets for the firm. And given the strength of our customer franchise, we expect our capital markets revenue base to benefit from this trading opportunity going forward. In general, as we have indicated, we've come through the current downturn very well positioned on a competitive basis. We believe we can capitalize on this opportunity for 2008. The consistency of Lehman's senior management team, the strength of our brand and reputation are reassuring to our clients and have already led to recent significant mandates for the firm.

Conservatively, our view right now is that the asset prices in the Fixed Income market will begin to stabilize over the next six months, which will serve as an inflection point for improvement in Fixed Income later in the 2008 calendar year. By growing the franchise in 2007, we realized some positive offsets that have helped to mitigate the effects of the Fixed Income downturn. We made great strides in the commodity space, global rates business, emerging markets. Our investment in banking, equities, investment management and outside the U.S. have been paying back such that we've been able to mitigate the severe impact of a significantly lower mortgage business run rate all year.

Let me conclude by noting that this was an extremely challenging period in the global markets and although we were clearly impacted, we were able to navigate these markets relatively successfully and post a reasonable financial performance. We would attribute this success to our better business mix and geographic mix today as well as our strong risk and liquidity management. We believe the current markets will present us with a significant number of client and trading opportunities as a result of the market dislocations. And we currently have ample liquidity and capital in place to enable us to successfully meet these challenges, capture these opportunities and continue to grow our business over the long-term.

Before I turn it over to Q&A I just want to make one point. I want to say thank you to Shaun Butler, Our Director of Investor Relations. This is Shaun's 56th earning call for Lehman Brothers and she is retiring in the early part of next year. On behalf of the firm and I'm sure many people on this phone call I just want to say thanks for all her great work. Now, Chris and I will be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). One moment. Guy Moszkowski. You may ask your question. Please state your company name.

Guy Moszkowski - *Merrill Lynch - Analyst*

Good morning. Thank you. I'm with Merrill Lynch. Before I get started, let me second the motion on Shaun and tell you how much I think we'll all miss you. Now to business. I was wondering if you could give us a little bit more color around the basis risk issues that you talked about which reduced hedge effectiveness in the quarter. Which areas were most affected? Just an idea of what it was that happened that caused that kind of breakage.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

As we saw in this quarter, the credit spread widening extended out. It really affected more products this time and went up the capital structure. So we saw big credit spread widening in Alt A products, in prime products and CMBS type products, which is really more of a supply demand imbalance we think than anything else. But some of the -- when we talk about having a hedging program, we have a hedging program that might not be at the same parts of the capital structure. There might be some geared hedging. And it's across various different types of hedging products.

So we talk about ABX as a product we use as hedging. We use total return swaps on home equity loans, Lehman Bond Index. The Lehman Bond Index overall. Some single name CDS on individual tranches of securitized product. It just didn't all work in the same direction. There's two things going on. One is that the notionals may not be fully hedged and the second thing is, and I think you heard a little bit of this around certain other hedging strategies around the street, is the correlations didn't necessarily work between the cash products and the index products in a precise way. So that led to the breakage that we talked about.

Guy Moszkowski - *Merrill Lynch - Analyst*

Great. Thanks. Let me follow up with a question on the margin impact of moving to sort of a more plain vanilla environment which you alluded to. As we think about next year, and the fact that that type of environment could persist for a while, how should we think about the margin in your Fixed Income trading areas evolving relative to what we saw the last couple of years when more exotic products were more in favor? What kind of margin step down makes sense to think about in the more plain vanilla environment.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Certainly, we would expect a pullback in the amount of securitized product volume that's going to run through, particularly on the origination side. So new issue, we would expect to come down pretty significantly for some period of time. The good news, though, is that this shifts from being an origination opportunity to a secondary trading opportunity. So our thought is that when the market reaches equilibrium the activity will pick up and there will be lots of secondary trading activities for us to help transition our clients who want to move in and out of these products and also for us as a risk taker on this. So when you think about what the margin decrease would be, certainly it would be significant on a primary side but we think at least part of that would be made up on the secondary side and as we look out, we talk about this $830 million of write-down that we experienced in this period from the significant credit spread widening. Certainly we wouldn't expect that to recur and we're sort of trying to give information around where we think the revenue generation rate is of that Fixed Income business as we look forward. If you exclude that $830 million of write-downs.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Just to elaborate on that, I don't think we see there do be real margin compression as we look out in '08 around the Fixed Income business. To Chris' point, secondary volumes should go up. As we talked about in the past, the formation of capital to take advantage of distressed opportunities in the securitized product space is taking longer than in the leveraged loan space which is exactly what we anticipated, given the need to migrate the intellectual capital around that business away from the Street to the buy side. We're starting to see that happen. Funds are popping up here and there. As we get more capital formation, these secondary trading opportunities will really come through for us and we are well positioned with the in house expertise and with the reputation in the asset class to do well there. I don't think we're looking at that as something that's going to bring us into some margin compression in Fixed Income.

Guy Moszkowski - *Merrill Lynch - Analyst*

Does it make sense to think about those pools of capital forming around the asset-backed areas as essentially stalled until it becomes clearer what the interruption to the underlying cash flows of the instruments like subprime mortgages looks like?

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I think that is a fair comment. We sort of need more information, fundamentally, on the underlyings to have the confidence for people to really step in there and I think that's a lot easier to do in the leveraged loan asset class than it is around these products. Those relationships certainly between, say, the ABX and the fundamentals of those underlying assets need to stabilize a bit.

Guy Moszkowski - *Merrill Lynch - Analyst*

Then I have a final question on VAR calculation. I think in general, VAR is defined as applying to liquid assets. As assets migrate to level 3, which we've seen a lot of the last couple of quarters and you alluded to again today, is there some potential that some of those assets fall out of the historical VAR calculation because they're no longer liquid? In other words, is there the potential for VAR to be understated now because of some kind of survivorship bias issue.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

We don't treat it that way. We put them in the VAR calculation whether they're in level three or level two. Anything that was in there that's a traded product we do put in there, even if the trading markets have become opaque.

Guy Moszkowski - *Merrill Lynch - Analyst*

Thank you very much.

Operator

Mike Mayo, you may ask your question, and please state your company name.

Mike Mayo - *Deutsche Bank - Analyst*

Mike Mayo with Deutsche Bank. Can you elaborate more on the $3.5 billion in gross charges. You said $2.2 billion in residential mortgages. How much of that was for subprime and what was the rest for?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

It was across the different categories, Mike so subprime was certainly a component of it but it was -- just looking at the component pieces, it was from prime, from other asset categories including student loans, there was credit spread widening that we saw in Europe as well. So it's spread out so the $2.2 billion is across the entirety of it. The other categories, the biggest other categories, and this is really limited to the securitized products business and the real estate business and the CDO that we mentioned. The biggest piece would be real estate. So the commercial mortgage, we call it real estate, but the commercial mortgage business also saw credit spread widening, both in the U.S. and in Europe. So it's in those categories and then of course CDOs experienced a significant decline as well. We're not big in it. But that's, again, to the extent that we're in it, it was a significant adjustment that was taken as well.

Mike Mayo - *Deutsche Bank - Analyst*

You don't expect the $830 million of net charges to reoccur but you had $700 million last quarter, net and probably didn't think that would recur either. Conditions can get worse. The question really is how much have you written down your exposures in leveraged loans of that 10 billion, how much of that has been written down. In terms of the subprime, the $5.3 billion, how much has that been written down, in terms of the CDOs, the $1 billion, how much has that been written down?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Okay. Let's just go with the -- in order that you just said. The leveraged loans, we talked about last time we had 27 billion of contingent facilities that was marked at the end of August. It represented in that period, the third quarter, a significant markdown. So we exited the period, the third quarter, exited August with those positions marked down. We then had a bump back up. We sold a lot of those positions, realized gains. The ones that weren't sold are as part of the general credit spread widening that took place in November. Those have been marked appropriately. And you can see in the index based information that high yield credit spreads are wider now than they were in August and so -- wider at the end of November than they were in August and so you would see those credit spread widening or the market valuation of that applied to whatever positions we have remaining.

Mike Mayo - *Deutsche Bank - Analyst*

On average, have those been written down by 4 or 5%?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Not from August 31st, but yeah, from -- I don't want to get into it, Mike, because as you look at the individual items, every situation is different. These are each one has multiple parts of the capital structure that are in the capital raise and so each one is different. So I would rather not give specifics on what it is. But the math can be done by looking at the high yield market indices, both the LCDX and other high-yield indices.

Mike Mayo - *Deutsche Bank - Analyst*

The 5.3 billion subprime?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

The 5.3 billion subprime is not -- we started out the period with 6.3 as we mentioned. That 5.3 that's here now is not the same as the 6.3 that was here at the beginning of the period. Much of it is the same because there has been a slowdown in activity but we have had sales of whole loans. We have done a couple of securitizations and sold out senior pieces, not junior pieces and then we've written down some things. We've taken on some positions. But we've had significant writedowns percentage wise but that is a manageable number for us. The 5.3. And much of that as we mentioned, the non investment grade portion, albeit less meaningful than it was, that terminology, less meaningful than it was at times in the past, the non investment grade piece and residuals is $160 million.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I want to make one broader comment to make sure that we're clear on this. We are not suggesting, this is a one-off and we're not going to see any further valuation reductions in these assets in the market. I think our full expectation is, as I discussed earlier, that asset repricing to the down side could continue for the better part of the first two quarters of next year. So we're trying not to be too optimistic, let's say, that this is the bottom and we're not calling the bottom. What our job is to do is to make sure we're not too concentrated in our risk around any one asset class and make sure we have affected as best a risk mitigation strategy as we can. We're not calling the bottom here, we're not suggesting that they're aren't going to be further reductions. I think what we're suggesting is, we continue to hopefully do a good job in diversifying our risk, staying with the highest quality parts of these asset classes and also to focus fully on how we can enhance our risk mitigation to deem with that type of an environment.

Mike Mayo - *Deutsche Bank - Analyst*

And then just lastly, then, your CMBS exposure, how much is that and what was the change during the quarter?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Well, it's about -- when you say CMBS exposure, the CMBS balance sheet is about as we said about half of the $79 billion of risk assets on the balance sheet that's in the mortgage and related category. So call it about $40 billion, spread out all over the world, that was written down with the -- we did have some gains from some realized gains in Asia, not in the other categories. But that has been written down in a significant way. That's included in the 3.5.

Mike Mayo - *Deutsche Bank - Analyst*

I'm sorry. How much of those charges were for CMBS?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

CMBS versus whole loans? Much of what we have in there is whole loans. The reason a lot of out goes into level 3 GAAP hierarchy category under the fair value is because these are unique assets. These big commercial properties. And you don't have good price discovery for those same type of assets and so we put them in level 3. Much of them are whole loans. On average, they're maybe 70% LTV, loan to value ratio. But with the credit spread widening, those have had a reduction in value.

Mike Mayo - *Deutsche Bank - Analyst*

I'm sorry, just one last. How much of the charges were for CMBS specifically? How much were CMBS written down?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

We're not giving that. It's a significant difference of the portion between the 2.2 and the 3.5.

Mike Mayo - *Deutsche Bank - Analyst*

Okay, thank you.

Operator

Our next question comes from Meredith Whitney. You may ask your question and please state your company name.

Meredith Whitney - *CIBC World Markets - Analyst*

Meredith Whitney, CIBC. I've got a few unrelated questions. On the GLG gain, can you walk us through how you get from the let's call it $480 million down to a net number and then in terms of similar type of transactions that at this point in time you can see throughout 2008, can you quantify, are there a number of transactions or value of transactions in terms of DE Shaw, what's not officially in the pipeline but looks likely to be in the pipeline? And then lastly, where did the Freddie revenues flow through, the Freddie deal revenues flow through, please.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Well, the Freddie deal revenues flowed through the investment banking segment. Can you repeat the GLG question?

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

That first question, that wasn't clear to us.

Meredith Whitney - *CIBC World Markets - Analyst*

We have the revenues. Can we get to a net number? Flow through down to net.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Well, we think about it as being part of the overall revenue generation of the firm. We don't really think about it as being a net item. It's one of the items that's in the equities Capital Markets segment. It's a lumpy item. We do have other private equity investments that will be generating revenue. We've seen pretty consistent, when I say consistent, meaning if you look at a four quarter rolling average for example, you would see something like 75 to $100 million of revenues that's coming through from our private equity investments generally. So this aggregate of 500 million does represent a lumpy item that's in there that's because of the GLG transaction that was executed.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

One point of clarity, just to be clear about our stakes in hedge fund managers, on the whole, that portfolio, which is now a nice diversified portfolio of managers, is really intended to be an earnings tool. We do not enter into those transactions with the goal of an exit at the back end. Certainly GLG turned out very nicely in that sense. But these produced great returns on our equity investment when we're dealing with really strong managers as we've invested in, so we're not looking at a pipeline of those managers to suggest realization events over time. We're investing in those managers because a lot of synergy was our business, they produce great returns on equity for the firm and that's how we're thinking about those going forward.

Meredith Whitney - *CIBC World Markets - Analyst*

I totally understand. And I appreciate that you guys have articulated that strategy. But given the fact that you're an expert in that field, there are a lot of deals in the works for 2008, many of them that we know, many of them that we don't know. Of your exposure to those, how many are in discussions for an '08 filing?

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Obviously, that would be information, especially in my current role in my prior role that we couldn't possibly divulge, consistent with securities law violation.

Meredith Whitney - *CIBC World Markets - Analyst*

I'm not asking for names, just generally.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

We only have about six or seven names, so it would sort of identify, based on the size of those clients. Anything can happen. Obviously the environment has been good for managers to come to market. So is that a possibility for any good, strong, well diversified, long-standing hedge fund manager? Yes. Are there many, many, who are not going down that path for lots of cultural reasons? Yes. Really can't comment on that.

Meredith Whitney - *CIBC World Markets - Analyst*

Thank you.

Operator

Glenn Schorr you may ask your question and please state your company name.

Glenn Schorr - *UBS - Analyst*

UBS. Thanks. How about just a simple one. How come the balance sheet or your net assets keep going up? I know there's not a heck of a lot of liquidity out there. If origination is slow wouldn't the goal be to kind of digest and shrink, if you could, or at least bring in leverage a little bit?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Well, we're certainly mindful of what's happening there, Glen, as we build our equity base, we're growing our firm, so as we build our equity base, even through periods of stress, you look at how much equity we've actually generated and held in the organization, as capital, continue to grow our business. So we're growing our business and we continue to develop it outside the U.S., particularly as we've talked about in Asia and the different countries around Asia. We've continued to pour fuel in there, both in terms of headcount resources and also in financial resources to run the businesses. So we're continuing in growth mode.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Also, I guess I would say, Glen, that as we identified, we're flat on our net leverage ratio, quarter-over-quarter. This environment is the perfect opportunity for us to take ground from our competitors with our clients. So the fact that we continue to make our balance sheet accessible for client business is crucial to how we're thinking about moving forward into 2008. And so I think pulling back when we're comfortable with the leverage ratios we have, the growth of our book value per share, the growth of our long-term capital base, would actually be a pretty considerate strategic mistake for us since we have this moment of opportunity to really make ourselves available to our clients.

Glenn Schorr - *UBS - Analyst*

I guess fair enough point, given the job you've done on the hedging side. Maybe that leads to the next question. Is there any concern about -- you alluded to there's basis risk and the effectiveness of certain hedges breaking down in a weird month like November. Is there any point where we have to start getting worried about the effectiveness of hedges and how do you ever unwind. If there's ever that equilibrium point that we all pray for that you mentioned earlier that secondary trading gets better because better spreads on the less liquid stuff gets more liquid, how do you get out of those hedges?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

That's a good concern. I do think that's something that is important to keep focused on. We do have the hedges, when you talk about the hedges, the hedges are with individual counter parties as a CDS is with a particular counter party and so it's a bilateral agreement that you're going to negotiate to work out of. A lot of these hedges are life of trade hedges, but to your point, if you do get into a place where the market stabilizes and there's movement in these assets, you're going to try to dynamically reposition your hedges and work with your counter parties to move out and I don't think it's going to be -- I do think in terms of the ABX is one that has been very, very active and so that's one that seems to get oversold, just because there is more hedging, people who want hedges, use the ABX. But on these other ones, there's lots of different -- as I mentioned, lots of different indexes that you can point to to set hedges. But they're bilateral hedges and you're going to work with those counterparties to move out of them.

Glenn Schorr - *UBS - Analyst*

Level 3 comments, 13%, that's up from around 12%. If your fair value positions went up in line with your net assets, that means just a couple -- level 3 assets went up a couple of billion from last quarter. Is that about right?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

I think it was about 11, Glen. So 11 to 13 is -- yeah, it's a few billion, maybe 6 billion.

Glenn Schorr - *UBS - Analyst*

Yes. Is that stuff moving in from level 2? Similar last quarter, less liquidity.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Some of that is purchased.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

There's lots of things going on. Some of that is transferring in from level 2.

Glenn Schorr - *UBS - Analyst*

I think we all assume that things related to CDO and subprime and you made your comment about commercial real estate, consume up most of the write downs. I don't know if you want to talk about what [cume] losses you're using in your models or if you want to tell us what piece of the writedowns were things other than subprime and CDOs, meaning, really want to get to Alt-A, Prime, anything else.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

They're certainly in there and significant. Alt-A across the capital structure. Each of these in terms of how these market values are established, there are at the top of the capital structure, particularly in AAA in both prime and subprime, there is market discovery. So there are transactions being executed in the AAA space. As you move down the capital structure, there aren't transactions being executed, maybe there are some, but it's not as visible and not as much information on it and so the way to model them out is you have to default to the information that is visible which is the index trading around ABX in the different parts of the capital structure for ABX and so those inputs or that information around the ABX is used to price out the cash products in the bottom parts of the capital structure. But there are some trades being done. We've got good visibility into them. There are many of them that are being done because we're around them. We're either participating in them or we're having a look at them. For the most part. And so we do have intelligence around the pricing information for these instruments.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I think, Glenn, just thinking about that, then, below the AAA part of the cap structure, I mean obviously the ABX is transparent in terms of its inputs and HPA assumptions. Take a look at that, give you some good guidance as to what the cumulative loss assumptions are.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

When I'm talking about the intelligent, I'm talking about first derivatives, meaning securitized products, not the second and third derivative CDOs and CDO-squareds, which are more opaque, obviously.

Glenn Schorr - *UBS - Analyst*

I'm with you. I'm with you. How about last quickie, is the 3.5 and 2.2, any chance you share the year-to-date numbers with us?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Well, I think last time we talked about the leveraged loans being down well over a billion dollars. I don't think we talked about our mortgage assets last time but that was also well over a billion dollars in the third quarter. So think about that as a couple billion more than what we have here in the back half of the year. In the first half of the year it's not something that we tracked and it was -- even though there was some writedowns in the subprime product in the second quarter, maybe at the end of the first quarter, it's less significant.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

So kind of the 5 to 6 range gross is a reasonable approach.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Got it. Okay. Thank you all.

Operator

William Tanona, you may ask your question and please state your company name.

William Tanona - *Goldman Sachs - Analyst*

Goldman Sachs. Hi, Chris. Could we focus a little bit on the mono lines. You had mentioned in your kind of commentary there that you guys do have some exposure to the mono lines and you have that fully hedged. Could you let us know how much exposure you have to all the mono lines outstanding. And I guess the second part of the question would relate to how do you guys hedge that type of exposure specifically?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Okay. Two pieces on it. When we said, my comments were we're either hedged or have credit reserves to make the exposure minimal. So we do have exposure to mono lines. There are a number of different players in the industry where we have bought protection and in some cases that protection will be reliable and in some cases it won't be. We've evaluated that and we've set up hedges on the credit worthiness of those enterprises in the CDS market. So they're credit defaults trade in the CDS market and many of them do and have and we bought CDS protection on many of them and in some cases we just made conclusions that we won't necessarily be able to count on certain counter parties and so we've set up reserves appropriately.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I think William, there's a reasonable amount that is actually -- we would look at it as sort of money in our favor, actually, in terms of the mono line exposures that we have. As Chris pointed out, we've been aggressive about taking reserves on that and basically assuming that there would be little performance there. So it's pretty positive story for us.

William Tanona - *Goldman Sachs - Analyst*

So just so I understand it, I guess I was wondering whether there would be timing differentials, given what's happened to a lot of these publicly traded mono lines and their spreads, that if you were using those types of products to hedge yourself that you would be booking these type of gains today and if they were to ever run into issues or be downgraded or that exposure were to come back to you that you would have to take those losses at a later date. It sounds like what you are doing is taking those gains but also reserving for those incidences.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

Exactly. Just to be clear. It's actually a pretty small handful of transactions in terms of this exposure for us as a firm, which is obviously not going to be across the board in the industry but we're talking about a pretty small number of trades.

William Tanona - *Goldman Sachs - Analyst*

Okay. Great. And then second question in terms of listening to your outlook and listening to other people in the marketplace, obviously I think there's a little bit more of a cautionary tone around the capital markets here. Just wanted to get a sense as to how you're thinking about the non comp expenses. Obviously I know you guys are still growing and looking to grow the business and stuff. But when I look at the kind of the year-over-year growth it still seems pretty high. Wanted to get your thoughts as to how you're thinking about controlling the non comp expenses as we enter into what may be a little bit of a softer patch here.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I think you should look at the 996 Q4 MPE number as really a good run rate to annualize for 2008, something about a billion a quarter on MPE. A lot of the changes in MPE reflect growing our geographic footprint over the year. A lot related to occupancy as you would expect, and a lot related to opening offices in new regions, including Turkey, Brazil, expanding India, et cetera. Roughly up 5% or so from the '07 number, probably an '08 projection. But we try to be counter cyclical investors here. We're not talking about a big jump. We're talking about roughly 5% or so. The run rate in the fourth quarter, yeah.

William Tanona - *Goldman Sachs - Analyst*

Very helpful.

Operator

Our last question comes from Douglas Sipkin. You may ask your question. Please state your company name.

Douglas Sipkin - *Wachovia - Analyst*

Thank you good morning. Wachovia. Just three questions. Couple of things have been answered. First off, I believe you provided your prime brokerage accounts at year end. I think you say 630. I was hoping maybe to get that this time last year, November, 2006.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

525.

Douglas Sipkin - *Wachovia - Analyst*

525. Thank you. I believe there was some -- also there was some incremental mortgage charges this quarter for some of the reductions in your origination capacity. I think you had put that out. Can you give us that number as well?

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Yes, the non-comp piece of that was just north of 50. It was 18. And then the comp piece was absorbed in our 49.3% comp ratio versus revenues. So as we look forward, that will be -- those personnel adjustments have been taken.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

The 18 compares to 44 for Q3.

Douglas Sipkin - *Wachovia - Analyst*

Okay. That's helpful. And then just finally, I think it was touched on in the previous question about the CDS market. Obviously you guys have made an effort to build some reserves, not having as much visibility about the counter parties. How big of an issue do you think this potentially could be given that we're probably entering a rising loss period where other potential firms, buyers or sellers are maybe relying on counter parties that might not be able to come through in a loss scenario. Are you concerned at all? Obviously you guys are thinking about this. Are you concerned that other place in this rapidly growing market are now thinking about it?

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

I guess the good news for us, Doug is that away from the mono lines, every other counter party we do business with posts collateral to us and I think you heard us in in the presentation talk about almost 98% of our counter parties are investment grade. The combination of those two factors I think makes us feel comfortable about what it means directly to our exposures to those institutions. It's very hard to judge. I guess we'll see it now over the course of the next few weeks, the next month, how each of the firms is handling this particular issue. Maybe people are doing it like us. Maybe not. It's hard for us to tell. I think we feel well protected in terms of our interaction and credit exposure to those organizations on posting of collateral and ratings but it's really hard to judge if there's consistency to how this is being handled across the street.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

In terms of the broader market and what it would mean, it certainly would be -- I think a lot of it is priced in so folks are -- the capital market's participants are pricing that in. But I do think it would be another bout of bad news that could be sensationalized and could lead to more difficulty in the capital markets. I think we'll get through it. I do thing a lot of it is priced in.

Douglas Sipkin - *Wachovia - Analyst*

Thanks for taking my questions.

Erin Callan - *Lehman Brothers Holdings Inc. - CFO*

So just want to thank everybody again for joining us today. Want to thank Chris as he now migrates into his new role as my partner as the Head of Risk Management for the firm and we look forward to speaking with you next quarter.

Chris O'Meara - *Lehman Brothers Holdings Inc. - Global Head of Risk Management*

Thanks everybody.

Operator

This does conclude today's conference today.
