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To Carmine  
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cc

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Subject

Gentlemen,

Hope all is well. Thought I would give you a quick update of Lehman's status.

As you have read they are looking for a capital infusion. The strategic international partner they were trying to get to invest has fallen through and they have moved to plan B which is an investment by a sovereign wealth fund and or investment by a US private equity fund. They are trying to get this done over the next couple of days and are very actively pursuing many different parties. They are looking to raise \$5 billion, which will offset the \$3 billion net loss expected in the second quarter and give them some cushion for the future. Since they are actively discussing an investment in the US and therefore discussing their results with a number of parties they have to provide some level of information to the public via an 8-K representing a "pre-press release", which they expect to do on Monday morning. This is almost 2 weeks earlier than they usually release anything to the public and as you can imagine has put great stress on the team to get as much done as possible.

The second quarter will represent the first time in the history of Lehman Brothers that they have a quarterly loss. The net loss is expected to be \$3 billion, which I think will be a big shock to the markets. The game plan was to be able to appropriately discuss the loss, but be able to also discuss a successful capital investment and a significant de-levering of the balance sheet. While they have decreased leverage significantly to about 24X from 31X, and obviously has taken down the BS by over a \$100 billion, they really need to have the capital infusion in place to help offset the shock/dismay over the loss.

Carmine as you know we are also dealing with a whistleblower letter, that is on its face pretty ugly and will take us a significant amount of time to get through. I am confident from what I have seen it shouldn't result in any significant issues around financial reporting, but again there is a lot of work to do yet. This combined with some very difficult accounting issues around off balance sheet items is adding stress to everyone.

On the positive side the liquidity position is very good with \$44 billion of very liquid assets that could be financed at the Fed window if they had to. None of this represents prime brokerage accounts and is more than double what Bear had (\$18 Billion). The average tenor of the repo book is 31 days, which is very good and they have not had anyone pull away from them as it relates to financing commitments.

The real concern is how does the market react next week to the bigger than expected loss and what does the market think of Lehman's longer term business model, and opportunities.

that is it for now.

Bill



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