

William  
Schlich/NewYork/AUDIT/EYL  
LP/US

07/02/2008 02:48 PM

To Hillary D. Hansen/NewYork/AUDIT/EYLLP/US

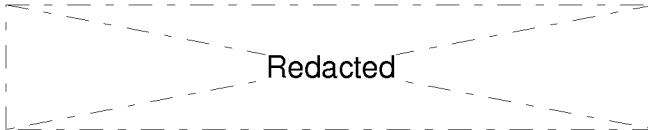
cc

Subject Fw: Second request: balance sheet substantiation

**Ernst & Young®**

Ernst & Young LLP

William J. Schlich | Partner- Americas Banking & Capital Markets Leader | Financial Services



Thank you for considering the environmental impact of printing emails.

----- Forwarded by William Schlich/NewYork/AUDIT/EYLLP/US on 07/02/2008 02:48 PM -----



"Rudofker, Beth"  
<brudofke@lehman.com>  
06/05/2008 11:47 AM

To <william.schlich@ey.com>  
cc

Subject FW: Second request: balance sheet substantiation

>  
> From: Lee, Matthew  
> Sent: Wednesday, May 21, 2008 8:51 PM  
> To: Polizzotto, Joe; Rudofker, Beth  
> Cc: Kelly, Martin  
> Subject: Second request: balance sheet substantiation  
>  
> Joe/Beth  
>

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EY-SEC-LBHI-ML 000001

> Attached are two zipped files, whose contents describe the status of  
> the Firm's balance sheet substantiation over the past three quarters  
> (with details of the most recent quarter) of the 1000+ legal entities  
> the Firm consolidates globally. Please note that the results are  
> directional, i.e. they are not misleading but they are not completely  
> perfect either for reasons that I can explain in person (because it  
> will require too long and convoluted an e-mail to explain). I suggest  
> you take a look at the attachments and if you are interested enough,  
> please convene another meeting and I will walk you through the  
> schedules.

>  
> Our Mumbai India team are responsible for approximately 320 of these  
> entities and, in addition, also substantiate many accounts of the  
> Firm's larger legal entities such as LBI, LBIE and LBSF.

>  
> Again, I remind you that the main reason for the backlog is lack of  
> global resources, especially Product Control. In addition, the  
> results say nothing of the qualitative aspects of what is deemed  
> substantiated.

>  
> "Substantiation" is a subjective term used to describe an analysis of  
> a balance sheet account such that the analyzer appears to understand  
> the assets or liabilities represented within a USD equivalent account  
> balance.

>  
> "Exception" means that the person substantiating an account admits  
> there is a quantifiable problem of some kind (not necessarily a  
> concern, but could be) and has an action plan to resolve it.

>  
> "Unsubstantiated" means that the balance sheet account has just not  
> been analyzed for whatever reason. It does not mean the account is  
> bad but it could be bad or partially bad, we just do not know.

>  
> In contrast to the previous e-mail I sent you, rather than  
> insufficient system resources, it is insufficient people resources  
> that are the primary cause of accounts not being fully substantiated  
> without exception. That does not mean systems are not relevant here.  
> The fact that the Firm does not fully know which Businesses own each  
> and every asset and liability recorded in the balance sheet (including  
> truly Corporate type assets and liabilities), is a huge cause of  
> inefficiency and related costs. Until the Firm can fully manage its  
> balance sheet as well as it does manage actual net revenues, i.e. by  
> Business, there will always be potential opportunity cost lost. We  
> need a concerted global effort to make sure that all assets and  
> liabilities of the Firm are tagged to a Business ON THE same GENERAL  
> LEDGER that is used for Public Financial Statements. Currently, the  
> Business management of the Firm think they are managing all their  
> assets, but that is a slightly, and arguably materially, different  
> deck of cards from what the Public know, which links back to my  
> previous e-mail. The reason it is a different deck of cards is that  
> the Businesses daily balance sheet is prepared not from the General  
> Ledger but from a disparate system (GFS plus material manual  
> adjustments) and that brings us to the needed implementation of the  
> Finance global systems architecture that we discussed this morning.

>  
>  
> <<Q1-2008.zip>>

>  
> Best regards  
> Matthew



"Bopp Flynn, Kathy"  
<kfflynn@lehman.com>  
06/12/2008 08:55 AM

To "Kelly, Martin" <martin.kelly@lehman.com>, "Chlu, Lilliana"  
<lilliana.chlu@lehman.com>, <hillary.hansen@ey.com>,  
<william.schlich@ey.com>  
cc "Rudofker, Beth" <brudofke@lehman.com>, "Tran, Michael"  
<michael.tran@lehman.com>, "Tringali, James"  
<jtringal@lehman.com>  
Subject Progress of Balance Sheet Review

Wanted to give you an update on the progress that has been made in reviewing items marked as "unsubstantiated" as of February 2008 Balance Sheet. As of yesterday, documentation has been obtained or is in the process of being obtained for approximately 4.5 billion net or 16.3 billion absolute value of items. We are currently mapping the remaining balance of 250 million net or 5.2 billion absolute value to the balance sheet accounts. Once we are complete, we will coordinate with financial control for next steps. (Lilliana-- Mike and I will set up a meeting with you)

The attached spreadsheet contains more detail, look at the tabs marked, Status Summary and Status Details.

<<audit status 6-12 Top 20 Lists - SUPPORT DETAIL.xls>>

To date we have not focused our efforts on the items marked as "exceptions", there is probably some work that needs to be done for this category as well.

Kathy

-----  
-----  
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sudk status 6-12 Top 20 Lists - SUPPORT DETAIL.xls

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Q1-2008.zip

# Finance Organization Charts

## Charts

Below is the basic structure of the Office of the Chief Financial Officer. To view the corresponding organizational chart, click on the related links.

### Chief Financial Officer – Christopher O’Meara

#### Global Infrastructure Controller - John Ambrose

- Corporate - Mona Adler
- Accounting Services - John Tuosto
- Support & Control/Real Estate Controller - Robert Wharam
- IT Controller - Mike McBride
- CIO/Special Projects - TBD

#### Global Investor Relations - Shaun Butler

- Investor Relations - Elizabeth Besen
- Investor Relations - Mirey Nadler

#### Mortgage Capital CFO - Dan Colao

- MCD Controller - Lonnie Rothbort
- CFO US Residential - John Skoba
- CFO - SBF - Ronald Warwick
- CFO - Capital Crossing - Nancy Coyle
- CFO - Campus Door - Andy Folmer

#### Global Director of Tax - John DeRosa

- Americas Tax - Anthony Taranto
- Europe Tax - Antony Rush
- Asia Tax - Malcolm Lawes

#### Financial Controller – Edward Grieb

- Financial Management – Robert Azera
- IMD Controller - Stephanie Dolan
- Comp/GTS/GPS Controller – James Emmert
- Legal Entity Controller – Matthew Lee
- Assistant Controller – Stephen Rosa
- Accounting Policy – Marie Stewart

#### Capital Markets Controller – Gerry Reilly

- IBD Controller - Gary Fox
- FID Controller - TBD
- Equities Controller – Jon Neave
- Organizational Strategy & Projects - TBD
- MCD Controller - Lonnie Rothbort
- Capital Markets/MIS – Len Scicutella

#### Global Treasurer – Paolo Tonucci

- Financial Planning & Analysis - Ari Axelrod
- Global Network Management - Janet Birney
- Lehman Brothers Commercial Bank - Julie Boyle
- Global Creditor Relations- Jennifer Fitzgibbon
- Global Cash & Collateral Management – Daniel Fleming
- Global Treasury Controller - Kristine Smith
- Global Head of ALM – Nahil Younis

#### Chief Administrative Officer - Erik Umlauf

- Global Systems & Projects - Renaud Fournier
- Product Control Systems - Mark Lee
- India Migration - Charles Sims
- Lehman India - Iain McCoo

#### Asia CFO – Enrico Corsalini

- Asia Capital Markets Controller – Erik Addington
- Asia Deputy CFO – Tomoya Katoh

## Related Links

- CFO High Level
- Financial Controller
- International CFO - Europe
- International CFO - Asia
- Global Treasury
- Capital Markets Controller
- Global Infrastructure Finance
- Corporate Tax

## Contacts

Jacqueline S. Roncagliolo | Profile  
+1 212 526 0804  
jroncag@lehman.com

Call  
7/21/07

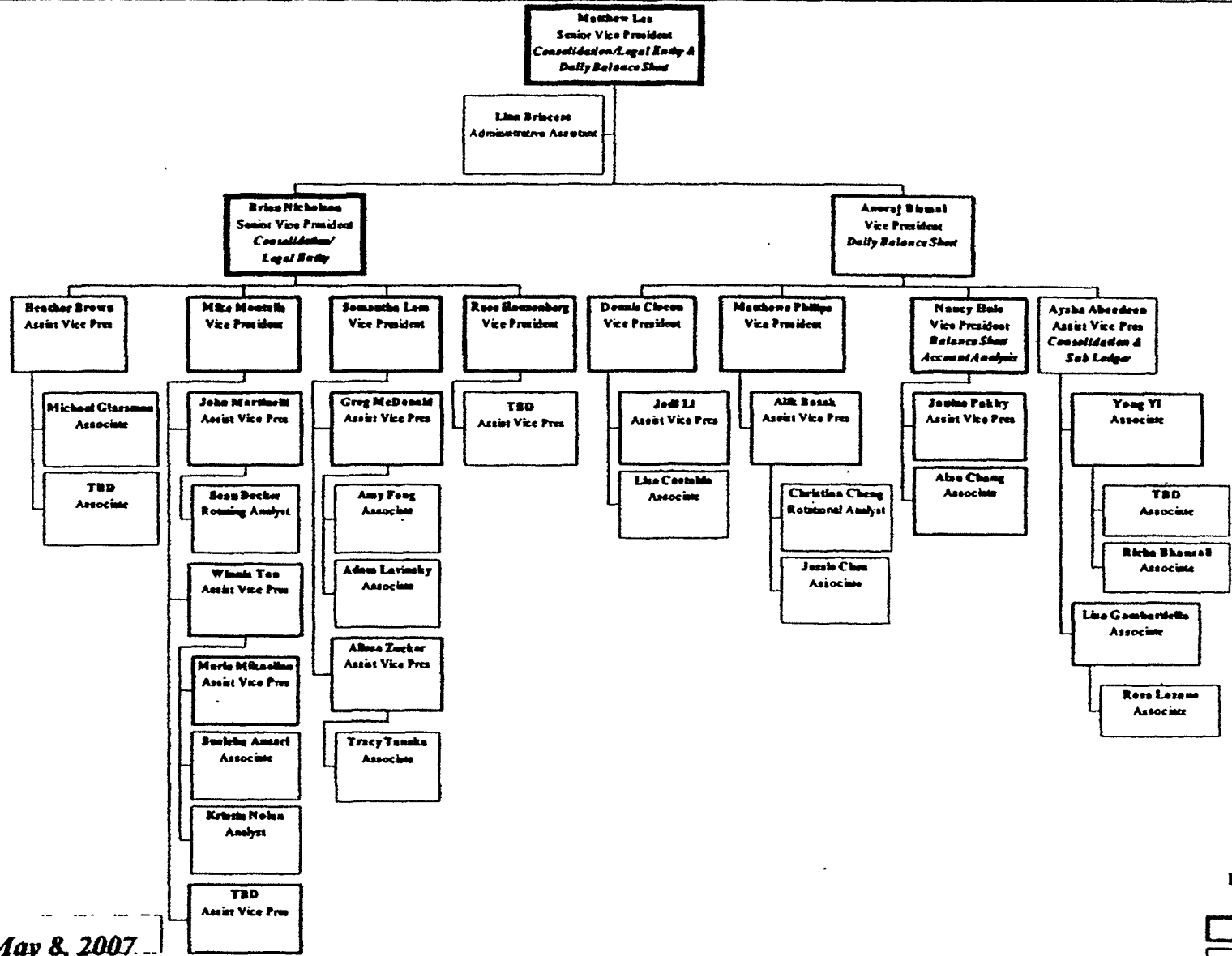
[http://my.lehman.com/LL/composite?templateCode=MYC\\_A0JB](http://my.lehman.com/LL/composite?templateCode=MYC_A0JB)

8/29/2007

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# Finance Division Financial Controller- Legal Entity Control



*Last updated May 8, 2007.*

LEHMAN BROTHERS

Legend

- MD & SV
- VP
- Senior VP
- Non-Flame
- Finance-Not C

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Matthew Lee Letter - Key Client Contact List and EY Team List

Name	Job Title	EY
Martin Kelly	Finance	Finance
Gerry Reilly	Finance	Finance
Chris O'Meara	Risk Management	Hillary Hansen
Beth Rudolph	Internal Audit	Finance
Kathy Bopp Flynn	Internal Audit	
Thomas Russo	Legal	
Ian Lowitt	Finance	
Thomas Cwikshank	Audit Committee	
Michael Ainable	Audit Committee	
Roger Barford	Audit Committee	
Sir Christopher Gant	Audit Committee	

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EY-SEC-LBHI-ML 000008



**MATTHEW LEE**

May 16, 2008

**PERSONAL AND CONFIDENTIAL**

**BY HAND**

Mr. Martin Kelly, Controller  
Mr. Gerard Reilly, Head of Capital Markets Product Control  
Ms. Erin Callan, Chief Financial Officer  
Mr. Christopher O'Meara, Chief Risk Officer  
Lehman Brothers Holdings, Inc. and subsidiaries  
745 7<sup>th</sup> Avenue  
New York, N.Y. 10019

Gentlemen and Madam:

I have been employed by Lehman Brothers Holdings, Inc. and subsidiaries (the "Firm") since May 1994, currently in the position of Senior Vice President in charge of the Firm's consolidated and unconsolidated balance sheets of over one thousand legal entities worldwide. During my tenure with the Firm I have been a loyal and dedicated employee and always have acted in the Firm's best interests.

I have become aware of certain conduct and practices, however, that I feel compelled to bring to your attention, as required by the Firm's Code of Ethics, as Amended February 17, 2004 (the "Code") and which requires me, as a Firm employee, to bring to the attention of management conduct and actions on the part of the Firm that I consider to possibly constitute unethical or unlawful conduct. I therefore bring the following to your attention, as required by the Code, "to help maintain a culture of honesty and accountability". (Code, first paragraph).

The second to last section of the Code is captioned "FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE". That section provides, in relevant part, as follows:

"It is crucial that all books of account, financial statements and records of the Firm reflect the underlying transactions and any disposition of assets in a full, fair, accurate and timely manner. All employees...must endeavor to ensure that information in documents that Lehman Brothers files with or submits to the SEC, or otherwise disclosed to the public, is presented in a full, fair, accurate, timely and understandable manner. Additionally, each individual involved in the preparation of the Firm's financial statements must prepare

those statements in accordance with Generally Accepted Accounting Principles, consistently applied, and any other applicable accounting standards and rules so that the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Firm.

Furthermore, it is critically important that financial statements and related disclosures be free of material errors. Employees and directors are prohibited from knowingly making or causing others to make a materially misleading, incomplete or false statement to an accountant or an attorney in connection with an audit or any filing with any governmental or regulatory entity. In that connection, no individual, or any person acting under his or her direction, shall directly or indirectly take any action to coerce, manipulate, mislead or fraudulently influence any of the Firm's internal auditors or independent auditors if he or she knows (or should know) that his or her actions, if successful, could result in rendering the Firm's financial statements materially misleading"

In the course of performing my duties for the Firm, I have reason to believe that certain conduct on the part of senior management of the Firm may be in violation of the Code. The following is a summary of the conduct I believe may violate the Code and which I feel compelled, by the terms of the Code, to bring to your attention.

1. Senior Firm management manages its balance sheet assets on a daily basis. On the last day of each month, the books and records of the Firm contain approximately five (5) billion dollars of net assets in excess of what is managed on the last day of the month. I believe this pattern indicates that the Firm's senior management is not in sufficient control of its assets to be able to establish that its financial statements are presented to the public and governmental agencies in a "full, fair accurate and timely manner". In my opinion, respectfully submitted, I believe the result is that at the end of each month, there could be approximately five (5) billion dollars of assets subject to a potential write-off. I believe it will take a significant investment of personnel and better control systems to adequately identify and quantify these discrepancies but, at the minimum, I believe the manner in which the Firm is reporting these assets is potentially misleading to the public and various governmental agencies. If so, I believe the Firm may be in violation of the Code.

2. The Firm has an established practice of substantiating each balance sheet account for each of its worldwide legal entities on a quarterly basis. While substantiation is somewhat subjective, it appears to me that the Code as well as Generally Accepted Accounting Principles require the Firm to support the net dollar amount in an account balance in a meaningful way supporting the Firm's stated policy of "full, fair, accurate and timely manner" valuation. The Firm has tens of billions of dollars of unsubstantiated balances, which may or may not be "bad" or non-performing assets or real liabilities. In any event, the Firm's senior management may not be in a position to know whether all of these accounts are, in fact, described in a "full, fair, accurate and timely" manner, as required by

the Code. I believe the Firm needs to make an additional investment in personnel and systems to adequately address this fundamental flaw.

3. The Firm has tens of billions of dollar of inventory that it probably cannot buy or sell in any recognized market, at the currently recorded current market values, particularly when dealing in assets of this nature in the volume and size as the positions the Firm holds. I do not believe the manner in which the Firm values that inventory is fully realistic or reasonable, and ignores the concentration in these assets and their volume size given the current state of the market's overall liquidity.

4. I do not believe the Firm has invested sufficiently in the required and reasonably necessary financial systems and personnel to cope with this increased balance sheet, specifically in light of the increased number of accounts, dollar equivalent balances and global entities, which have been created by or absorbed within the Firm as a result of the Firm's rapid growth since the Firm became a publicly traded company in 1994.

5. Based upon my experience and the years I have worked for the Firm, I do not believe there is sufficient knowledgeable management in place in the Mumbai, India Finance functions and department. There is a very real possibility of a potential misstatement of material facts being efficiently distributed by that office.

6. Finally, based upon my personal observations over the past years, certain senior level internal audit personnel do not have the professional expertise to properly exercise the audit functions they are entrusted to manage, all of which have become increasingly complex as the Firm has undergone rapid growth in the international marketplace.

I provide these observations to you with the knowledge that all of us at the Firm are entrusted to observe and respect the Code. I would be happy to discuss any details regarding the foregoing with senior management but I felt compelled, both morally and legally, to bring these issues to your attention. These are, indeed, turbulent times in the economic world and demand, more than ever, our adherence and respect of the Code so that the Firm may continue to enjoy the investing public's trust and confidence in us.

Very truly yours,



MATTHEW LEE

cc: Erwin J. Shustak, Esq.

- P.M. - not spreadsheets  
 - (L.A.) - not the documents in the books  
 Q1 - Daily B/S

1. Do you see the reconciliation of management's daily balance sheet to the books and records (ultimately the public financial statements) as a primary control within the organization?
2. Do you believe this break to be a true write off?
3. Can you clarify what you mean by the difference between what the daily amounts are and the last day of the month's balances? Does this mean that you see a \$5B change or it is the difference between the daily BS and the financial statements?

Q2 - Substantiation Process

4. Clarify the meaning of "not substantiated".
5. Do you believe that the firm's assets are truly understated by those balances/accounts that are labeled "not substantiated" or "exception"?

Q3 - Val. Assets

REO Rates & liquid markets London  
 Rep 105/Rep 107 - reduced assets by 50B - moving off 4B

6. Are you aware of any specific product/trading books that are priced inappropriately in Europe & back in 5 days later?
7. Where do you believe management is lacking in valuing its assets? off some set -
8. Do you believe Lehman is different from others in the market? back in
9. Do you believe this is because of the current market conditions or a longer history? slipping it from met to you
10. What assets or products do you believe do not take concentration or volume into within their market values?
11. From what standpoint do you derive your amount of tens of billions?

FAS 140 spin up - primary markets / secondary markets

Q4 - Infrastructure Investment

12. Is there a specific area or areas that you believe need more attention than others?

\* don't have the personnel to take @ balances under \$10MM - unaccepted

Q5 - India Operations

\* system bigger issue } India now do it  
 + don't get people in the regions

13. Are you aware of specific misstatements that have come out of India?
14. What area or areas within India are not being managed well?
15. From the migration program it appears to be well controlled, what changed or might be misrepresented?

can't have managers < bottom heavy, quarterly issues, continuity issues  
 - the same real people, primary reg, but accounts

Q6 - Internal Audit

16. Can you be more specific as to what you believe is lacking in expertise from the department. not very effective, not ripping things apart in terms of real value
17. Do you believe Internal Audit can be objective in conducting a review of this issue?

- hold what to with it  
 - don't do where they aren't wanted  
 - not independent enough  
 - both situation it has been appointed

① Mgt B/S is less \$B to DBS - mgt doesn't know what \$B of their assets are

Integrity of mgt to reconcile <sup>mgt</sup> B/S to G/L is 'bad' & this is a key control to Monitor

B/S doesn't have BPM attribution, but IIS does

GFS is raw books + records

②

- 11000 accounts
- 1000+ legal entities -
  - all entities have to be substantiated every quarter since May 2007
  - means analyzed the account & submitted it to the group
  - roll forwards are kicked back
  - no g/L dumps - kicked back
  - intra-company swaps took 2 years to fix - was ultimately a credit
  - timing deferrals - not ideal
  - if something is known, it will be booked
  - why not turned in - just not getting in attention  
- Atm was in name because of PC
  - no specific adjustments known - "to not know"
  - getting better every quarter

③

Mgt B/S - there are some balances that (inventory) are so impaired that they are not included

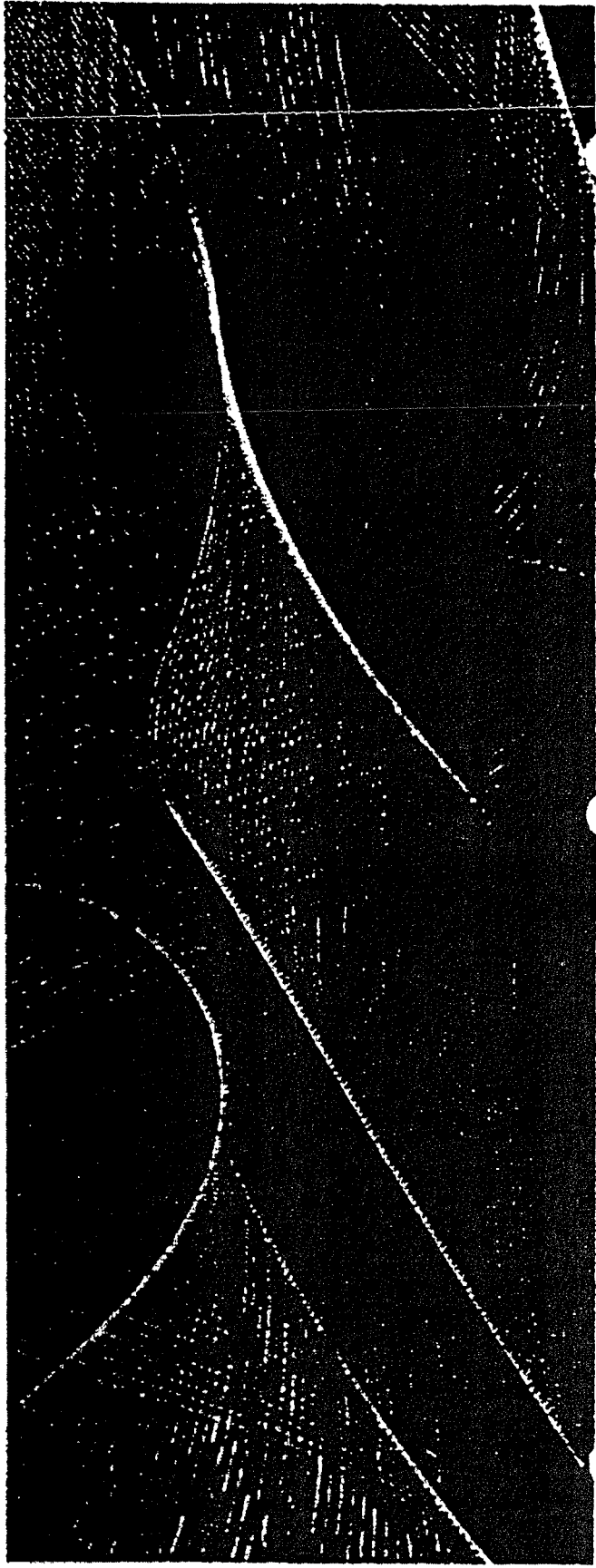
Securitized mispriced - SEC products, RE, Bank loans  
the bank has lists of assets that they won't touch because they can't sell them - valuation issues  
SEC in puts deal with together

- spend \$1M on IBC study - need to change all systems
- to be done by whole subcontractor products, not just one

LEHMAN BROTHERS

# Presentation to the Audit Committee Employee Letter Review

July 22, 2008



Confidential presentation

## Summary

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- ◆ Senior Finance and Risk Management of the Firm received a letter dated May 16, 2008 from Matthew Lee, an SVP in the Finance Division responsible for Global Balance Sheet and Legal Entity Accounting.
  - Matthew was an employee of the Firm since 1994 and held several Financial and Product Control positions.
  - His letter indicates that he had “become aware of certain conduct and practices that [he felt] compelled to bring to [management’s] attention, as required by the Firm’s Code of Ethics”.
  - “In the course of performing [his] duties for the Firm, [he has] reason to believe that certain conduct on the part of senior management of the Firm may be in violation of the Code”.
  
- ◆ In summary, Matthew concerns largely relate to balance sheet and legal entity controls for which he was responsible and he believes that “it will take a significant investment of personnel and better control systems” in order to address them.
  - Further discussions with Matthew revealed that the letter was the result of his frustration with the level of resources, technology and dependency on other groups needed to fulfill the responsibilities of his group.
  - It should also be noted that he sent the letter just a few days prior to the Firm’s May reduction-in-force. At the time the letter was sent, a decision had already been made to eliminate his position as part of the reduction-in-force and restructure his role to address enhancements that had been identified.
  - Per standard severance practices, Matthew and the Firm have entered into an agreement concerning his separation. The agreement was reached mutually during the following weeks while a thorough review of his concerns was being conducted.
  
- ◆ Upon receipt of the letter, senior management of the Firm met with Matthew numerous times to discuss the six specific points he raised and conducted an evaluation of them.

# Summary

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- ◆ The Firm's Head of Corporate Audit, General Counsel and External Auditors met with Matthew various times to discuss the details of his concerns, including separate time spent with Ernst and Young without management of the Firm.
  - Corporate Audit has largely completed an evaluation of Matthew's observations in partnership with Financial Control and Ernst and Young.
    - Information received directly from Matthew has been reviewed along with additional data and support obtained directly from control sources.
    - While the daily management balance sheet and quarter-end substantiation processes mentioned in Matthew's letter are important secondary controls, they are not relied upon as part of annual Sarbanes-Oxley audit testing due to previously identified gaps.
    - As a result, internal and external auditors test and rely directly upon the sources of upstream primary control processes and reconciliations when evaluating the Firm's financial statement controls.
    - Knowledge of these primary controls from prior audit testing was leveraged as part of this review.
  - Financial Control and Corporate Audit management evaluated the specific processes and controls mentioned in Matthew's letter and agreed to a set of enhancements that are currently being implemented. This includes:
    - Elimination and restructure of certain processes that were not adding value
    - Policy refinements, clarification and organizational reinforcement
    - Continued technology enhancements
  
- ◆ No material issues have been identified during the review and this report to the Audit Committee summarizes the findings and recommendations.

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## Point #1 – Daily Management Balance Sheet

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- ◆ Matthew points out that “the Firm manages its balance sheet assets on a daily basis”. This daily management balance sheet is, in fact, an estimate that the business, Product Control and senior management use to monitor and guide daily decisions around the Firm’s inventory assets.
- ◆ The daily management balance sheet is not the Firm’s books and records but is reconciled to the general ledger at month end by the group for which Matthew was responsible.
- ◆ According to Matthew’s letter, “on the last day of each month, the books and records of the Firm contain approximately five billion dollars of net assets in excess of what is managed on the last day of the month” and states that he believes:
  - “this pattern indicates that the Firm’s senior management is not in sufficient control of its assets to be able to establish that its financial statements are presented to the public and governmental agencies in a “full, fair, accurate and timely manner.”
  - “the result is that at the end of each month, there could be approximately five (5) billion dollars of assets subject to potential write-off.”
- ◆ Since the daily management balance sheet is an estimate that management uses in the absence of a daily general ledger, it is important that the reconciliation to the month end books and records does not result in material differences in balance sheet terms.
  - The differences are not material according to the data provided by Matthew shown on the following page and ranges from +0.2% to -1.5% over nine quarters .
  - Differences between the daily estimate and month-end general ledger do not categorically imply or lead to P&L adjustments or write-offs.
  - Management of the Firm, Corporate Audit and Ernst and Young rely upon the Firm’s extensive set of month end books and records controls and testing of those processes, not the daily estimate.

# Point #1 – Daily Management Balance Sheet

## DMBS v. DBS Analysis TOTAL ASSETS

<u>\$mm Period</u>	<u>Daily</u>	<u>DBS G/L</u>	<u>Variance</u>	
			<u>\$</u>	<u>%</u>
Q1 2008	782,872	786,035	(3,163)	-0.4%
Q4 2007	685,717	691,063	(5,346)	-0.8%
Q3 2007	653,307	659,217	(5,910)	-0.9%
Q2 2007	597,412	605,861	(8,449)	-1.4%
Q1 2007	553,814	562,283	(8,469)	-1.5%
Q4 2006	504,598	503,545	1,053	0.2%
Q3 2006	472,373	473,737	(1,364)	-0.3%
Q2 2006	451,112	456,202	(5,090)	-1.1%
Q1 2006	436,760	439,796	(3,036)	-0.7%

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EY-SEC-LBHI-ML 000018

# Point #1 – Daily Management Balance Sheet

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## ◆ Daily Balance Sheet Management Reporting Process

- The Finance Division Daily Management Balance Sheet group produces an estimated daily balance sheet. As mentioned, it is not considered books and records, nor has it been represented as anything more than an estimate.
- On a daily basis data is pulled from the balance sheet system (GFS) that takes feeds from some of the Firm's inventory and settlement systems. A high level of analysis is performed and manual adjustments are considered. It is used by management as a proxy for actual gross and net assets.
- At month-end, Daily Management Balance Sheet group also produces a month-end version of daily balance sheet, using the same high level approach as described above. This too is an estimate.
- The month-end daily balance sheet is reconciled at a high level to the month-end consolidated balance sheet produced by the Finance Division Consolidations group. This reconciliation occurs after the Consolidations group has finalized all entries and validated postings to source data.

## ◆ Conclusion

- There are sufficient controls in place and they are operating effectively to support the completeness and accuracy of the Firm's month-end balance sheet.
- In conjunction with Sarbanes-Oxley 2007 Audit Coverage and the 2007 Annual Audit Plan, significant audit work has been performed over Balance Sheet controls, including at the Consolidated Financial Statement Level, the Product Level and the Firm Level.
- No material weaknesses were noted that would have an impact on the Firm's financial statements.
- It is important that reconciliation differences between the daily estimate and month-end balance sheet remain immaterial. Corporate Audit supports Finance's continued efforts to implement technology enhancements in order to streamline and reduce reliance on manual processes and mitigate the systemic causes of these differences.

## Points #2, 4 &5 – Balance Sheet Substantiation and Resources

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◆ **Point 2**

- According to Matthew, the Firm has an established practice of substantiating each balance sheet account on a quarterly basis.
- He observed that “the Firm has tens of billions of dollars of unsubstantiated balances, which may or may not be “bad” or non-performing assets or real liabilities.”
- And states that “The Firm’s senior management may not be in a position to know whether all of these accounts are, in fact, described in a “full, fair, accurate and timely” manner, as required by the Code.”

◆ **Point 4**

- In addition, Matthew “does not believe that the Firm has invested sufficiently in the required and reasonably necessary financial systems and personnel to cope with this increased balance sheet...as a result of the Firm’s rapid growth since...1994.”

◆ **Point 5**

- Matthew also indicated that he does “not believe that there is sufficient knowledgeable management in place in the Mumbai, India Finance functions and department. There is a very real possibility of a potential misstatement of material facts being efficiently distributed by that office.”

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LEHMAN BROTHERS

## Points #2, 4 &5 – Balance Sheet Substantiation and Resources

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- ◆ Corporate Audit performed a review of the balance sheet substantiation process for first quarter of 2008.
- ◆ In addition, controls resource levels and responsibilities supporting the substantiation of balances were reviewed.
  - For February 2008 quarter end, the Legal Entity Control Group reported the following levels of balances on an absolute value basis:
    - Unsubstantiated – \$34.6 billion
    - Substantiated with exceptions – \$17.7 billion
    - Rejected – \$31.4 billion
  - Corporate Audit performed a review of the accuracy and completeness of balances reported in these unsubstantiated, exception and rejected categories.
    - The review focused on what was “unsubstantiated” to Matthew’s group, meaning that support for the account was not provided to his group within the timeframe set by the group for the rest of the Firm.
    - Additional supporting documentation was obtained and balances were mapped to control processes performed by various Finance and Operations groups and tested by Audit to further support the balances reported in these categories.
  - As a result of this review, the unsubstantiated, exception and rejected balances were reduced to as follows:
    - Unsubstantiated – \$1.5 billion or 0.2% of total assets (after eliminations and net-downs)  
*See summary on the following page*
    - Substantiated with exceptions - \$3.1 billion or 0.4% of total assets (after eliminations and net-downs).
    - Rejected – \$3.3 billion or 0.4% of total assets (after eliminations and net-downs).
- ◆ Draft control recommendations have been discussed with Finance management.

## Points #2, 4 &5 – Balance Sheet Substantiation and Resources

- Below is a summary of the review results of the “unsubstantiated” balance.
- Of the \$34.6 billion absolute value balance provided by Matthew, \$20.2 billion was for intercompany accounts that are eliminated at the Firms consolidated level, support was obtained for \$15.5 billion and accounts were mapped to control testing processes for \$3.3 billion.
- The remaining \$1.5 billion is 0.19% of total assets (after eliminations and net-downs).

	<u>Net Balance</u>	<u>Absolute Value Balance</u>
<b>Original Balance</b>	2,537	34,641
Intercompany Eliminations	468	13,018
RSU Accounts - Offset	(1,385)	1,386
<b>Original Less Intercompany/RSU</b>	<u>3,454</u>	<u>20,237</u>
 Additional Support Obtained	 2,879	 15,470
Covered by Process Controls Tested by Audit	233	3,290
<b>Total Additional Support or Covered</b>	<u>3,113</u>	<u>18,760</u>
 Remaining Balance to be mapped	 342	 1,477
 Total Assets (after eliminations and net-downs)	 786,085	 786,085
<b>% to be mapped</b>	<b>0.04%</b>	<b>0.19%</b>

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## Points #2, 4 &5 – Balance Sheet Substantiation and Resources

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### ◆ Balance Sheet Substantiation Process

- At month end, the Finance Division Consolidations group, for which Matthew was responsible, produces the consolidated balance sheet from the Hyperion system, which is sourced from DBS, the Firm's general ledger. There is a robust process in place to produce the month end balance sheet. The entire cycle of producing the final month end balance sheet occurs over a 13 day period, with Consolidations having primary responsibility for final review.
- The process includes the following steps:
  - A nightly batch cycle is run to process journals, balances and transactions from the general ledger to Hyperion for consolidation purposes. There are system controls in place to ensure that data is fed completely and accurately to Hyperion.
  - Hyperion eliminates intercompany accounts that have been designated for auto-elimination. The Consolidations group runs and reviews various reports to ensure intercompany breaks for these accounts are minimized (by contacting the appropriate LEC to clear any breaks), prior to finalizing the balance sheet.
  - Certain intercompany balances, such as cusip netdowns, trade date accrual netdowns, and various other receivables/payables are manually eliminated by the Consolidations group based on submissions from Legal Entity Controllers ("LECs"). Differences are followed-up with LECs and summarized on a ScoreCard Report presented to senior management for review.
  - All manual journals that are submitted for posting to the balance sheet after the 8th business day of the month must be approved by authorized members of the Consolidations group via the Journal Validation Engine tool. This tool routes entries for approval prior to posting.

# Points #2, 4 &5 – Balance Sheet Substantiation and Resources

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## ◆ Balance Sheet Substantiation Process (continued)

- The Finance Division Legal Entity Control group, for which Matthew was responsible, has primary responsibility for maintaining oversight of the Balance Sheet substantiation process. Accountability for substantiation is assigned to Legal Entity Controllers (“LECs”).
  - LECs are required to substantiate all balance sheet accounts in all legal entities, at least quarterly, with support from Product Control, Treasury and other departments. To substantiate balance sheet accounts, LECs analyze the composition of the balance and obtain reconciliations or other supporting documentation to verify the accuracy and completeness of the balance. This includes supporting all system feeds, journal entries, etc. booked to the general ledger balance sheet account.
  - To assist LECs in their substantiation process, a Substantiation Control Group (SCG) was established in Mumbai, India to review substantiation documentation for accuracy, completeness and consistency across entities and regions.
  - In addition, an application was developed, the Legal Entity Period End Assertion Application (LEMAP) to assist LECs in completing their period-end substantiation process. The substantiation functionality within LEMAP allows LECs to attach documentation supporting the balance in each account, which is reviewed by SCG. The LEMAP substantiation page remains open for approximately 45 days after the quarter end balance sheet closes.
- Within the substantiation process, an account can be assigned with the following status:
  - Substantiated – LEC obtains the appropriate reconciliation/supporting documentation and the amount in the supporting documentation agrees to the GL balance; LEC uploads the document and a review is performed by SCG, who concur based on review guidelines established by the LE Control Committee and denotes account status in LEMAP as “Substantiated.”



## Points #2, 4 &5 – Balance Sheet Substantiation and Resources

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- Substantiated with Exceptions – LEC tries to substantiate the account balance, however, there is a problem of some kind (i.e. partially supported) and an action plan is created to resolve it.
- Rejection – SCG has received supporting documentation from LEC, however, the documentation is not sufficient (i.e. does not meet supporting documentation guidelines, does not agree to the balance in the account)
- Unsubstantiated – SCG has not received anything from LEC to support the balance.
- The processes to follow up on the various status levels has proven challenging due to the volume of entities, accounts and balances.
- In addition, reporting is not robust to track the status of substantiation at a point in time, dollar thresholds have not been established to focus on significant accounts and balances, a formal global substantiation policy has not been issued and guidelines for substantiation have not been consistently rolled out.

### ◆ Conclusion

- The substantiation process is in need of improvement. The process is manual and time consuming, and the standards for substantiation have not been effectively determined and communicated.
- As mentioned, this process is not relied upon by Corporate Audit or Ernst & Young as a primary control. Corporate Audit conducts extensive testing of the controls over financial reporting with a focus on primary controls. The testing approach and coverage is described in the next section of the report
- Ernst & Young performs substantive testing of the Firm's financial statements. In the 2007 "Report of Independent Registered Public Accounting Firm", Ernst and Young LLP issued an opinion that the financial statements of Lehman Brothers Holdings Inc. (the "Firm") present fairly, in all material respects the consolidated financial positions of the Firm at November 30, 2007. In their report dated January 28, 2008 they expressed an unqualified opinion thereon.

## Remaining Points #3 and 6

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### ◆ Point #3

- Matthew stated that “the Firm has tens of billions of dollar[s] of inventory that it probably cannot buy or sell in any recognized market, at the currently recorded and current market values, particularly when dealing in assets of this nature in the volume and size as the positions the Firm holds.”
- Valuation controls were not a part of Matthew’s area of responsibility in the Firm. When questioned on this opinion, he stated that only we needed to talk to Gerry Reilly, the Firm’s Capital Markets Product Controller.
- There are extensive valuation controls in the Firm along with internal and external audit testing of those controls and valuations. Corporate Audit, Ernst & Young and senior management of the Firm are comfortable with the adequacy of those controls and the financial statement disclosures around the less liquid assets.
- Gerry Reilly is presenting a review of valuation controls to the Audit Committee during this meeting.

### ◆ Point #6

- Matthew stated that “based on [his] personal observations over the past years, certain senior level internal audit personnel do not have the professional expertise to properly exercise the internal audit functions...”
- When questioned on this point by Chris O’Meara, Joe Polizzotto and Ernst & Young, he noted the following opinions:
  - In 1998, when she was the Equity Product Controller, Beth Rudofker did not adequately follow up on a specific legal entity balance that Matthew brought to her attention.
  - Senior Corporate Management may not be independent enough.
  - Corporate Audit does evaluate controls effectively, find appropriate issues and report them to management
- Corporate Audit management recognizes that Matthew is very limited in his exposure and experience with the Corporate Audit senior management team and processes. He is not familiar with the extent of control reviews and testing the group conducts, the extent of reliance placed on the group by regulators and external auditors and the independent review of the groups processes that regulators have conducted over the years. Matthew’s opinions have never been expressed by any of these or other groups that have interacted with Corporate Audit.

# Appendices

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- ◆ Balance Sheet and Other Financial Statement Controls Testing
- ◆ Audit Recommendations
- ◆ Balance Sheet Substantiation Details

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# Balance Sheet Controls Testing

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- ◆ Corporate Audit reviews balance sheet controls at three levels as part of annual Sarbanes-Oxley and risk based cycle audits: the consolidated financial statement level, the product level and the Firm level.
  
- ◆ **Consolidated Financial Statement Level**
  - Materiality approach, in consideration of PCAOB guidance, leads to the identification of significant accounts at the financial statement level with a further drill down to the account or disclosure component level.
  - This approach leads to the identification of financial statement lines subject to audit review and will result in the coverage of at least 70% of the financial statement line balance, on a sample basis.
  
- ◆ **Product Level**
  - An annual assessment is performed to determine which businesses have a material impact on the Firm's financial condition. This assessment includes both quantitative and qualitative criteria.
  - For material products, a "front-to-back" audit of the controls is conducted including trade capture, middle office reconciliations, P&L, price verification, and model validation.
  
- ◆ **Firm Level**
  - Processes performed by a utility function to support all business activity across a function, for example, settlements and margin.

# Balance Sheet Controls Testing

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- ◆ In an effort to establish a priority of business areas and processes to be covered annually, Audit evaluates each business area and process using both quantitative and qualitative factors.
  
- ◆ Quantitative criteria
  - Businesses/processes/applications that contribute more than 2% of income before taxes for the full prior year or the period to date are considered material.
  - Businesses or activities that contribute more than 2% of total assets as of the prior fiscal year-end or the period to date are considered material.
  
- ◆ Qualitative criteria
  - For each business process or activity various factors are considered including the degree of automation or manual controls, complexity of business, track record, prior audit results, regulatory oversight, staffing changes and fraud susceptibility.
  
- ◆ Control Related Documentation
  - Audit Documentation
    - Sarbanes Oxley Mapping Memo
    - Internal Control Evaluation Template
    - Walkthrough Narratives and Flowcharts
    - Audit Reports and Testing Recommendations
    - Action Plan Follow up
  - Business Documentation
    - Policies and Procedures
    - Supporting Evidence of Controls

# Balance Sheet Controls Testing

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- ◆ For the consolidated financial statement level testing approach and coverage, the following balance sheet financial statement lines are considered:

## Assets

- Cash and Cash Equivalents
- Cash and Securities Segregated
- Inventory and Financing
- Receivables
  - Broker Dealer
  - Customer
  - Other
- Property, Equipment and L/H
- Deferred Expense & Other Assets
- Goodwill

## Liabilities

- Commercial Paper and Short Term Debt
- Payables
  - Broker Dealer
  - Customer
- Other Liabilities
- Senior Debt
- Sub Debt

# Balance Sheet Controls - Cash

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## Cash and Cash Equivalents

- ◆ Comprised mainly of interest bearing and non-interest bearing cash.
- ◆ Audit work across areas such as Operations Control – Balancing, Global Cash and Collateral Management, Regulatory Reporting and Commodity Accounting.
- ◆ Primary Controls
  - Completeness of account population
  - Reconciliation of “real world” bank accounts to sub-ledgers
  - Reporting, resolution and documentation of exceptions and clearing of breaks
  - Technology controls over the completeness of feeds into GSSR (reconciliation tool)

## Cash and Securities Segregated

- ◆ Comprised mainly of cash and securities segregated for the benefit of customers.
- ◆ Audit work across areas such as Operations Control – Balancing, Operations – Futures Operations, FSCP Regulated Entities, Regulatory Reporting and Commodity Accounting.
- ◆ Primary Controls
  - Accuracy and completeness of segregation calculations
  - Reconciliation of “real world” bank accounts to sub-ledgers
  - Reporting, resolution and documentation of exceptions and clearing of breaks
  - Technology controls over the completeness of feeds into GSSR (reconciliation tool)

## Balance Sheet Controls - Long/Short Inventory and Financing

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- ◆ Includes both cash and derivatives positions, as well as financing activities.
- ◆ Audit work across multiple areas including Global Balance Sheet and Legal Entity Accounting – Inventory, Commodity Accounting, Operations - P&L Close, Operations Control – Balancing, Financial Statement Close Process across numerous European entities including regulated entities, Real Estate, Mortgage Origination and Bankhaus.
- ◆ Primary Controls include procedures to validate the accuracy and completeness of the balances in the general ledger.
  - Reviewed month-end close processes for inventory, derivatives, and financing positions from the sub-ledger (i.e. MTS, ITS TMS, Loan IQ, GEDS, and PALS) to the general ledger for various legal entities,
  - Validated manual adjustments booked by LECs/PCs
  - Sampled gross-up and net-down adjustments posted by GFS to the GL
  - Reviewed GFS logic for financing and cusip netdowns
  - Validated Intercompany derivative reconciliation process and elimination process
  - Reviewed P&L month-end close processes for MTS, ITS and TMS to the general ledger and reviewed physical stock reconciliation.



## Balance Sheet Controls - Long-term and Short-term Debt

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- ◆ Treasury manages the activity that rolls into both short-term and long-term debt lines on the financial statements.
- ◆ Audit work across Global Treasury including Global Interest Control.
- ◆ Primary Controls
  - Procedures over short-term and long-term debt issuance processes, including trade authorization, trade capture and reconciliation, and key controls over core processing functions
  - Month-end reconciliations and processes, including FAS 133/159 calculation and debt extinguishment processes
  - Information provided to External Reporting as part of the Firm's quarterly and annual financial statement reporting process

# Balance Sheet Controls – Product Level

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◆ Product Level Controls are tested across 7 categories:

Trade Authorizations

- are trades properly authorized and recorded on an accurate and timely basis

– Position Reconciliations (FO to BO) and /or estimate to actual P&L

- is trading activity accurately and completely fed to downstream systems for clearance, settlement, confirmation and P&L reporting

– Daily P/L preparation and explanatory process

- accuracy of the daily and monthly P&L reports

– Substantiation of footnotes/reserves/significant adjustments

- documentation and propriety of adjustments to the firm's P&L

– Quest to DBS reconciliation

- validate inventory balances captured in the Firm's G/L at month end are complete and accurate by reconciling P&L balances in DBS back to the daily P&L reporting systems

– Deferral/timing accounts

- researching, documentation and clearance of differences between P&L and DBS

– Independent Price Verification

- validation of the valuation of the items in the Inventory Long / Short account, including cash and derivatives.

# Audit Coverage of Other Financial Statement Controls

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## ◆ Consolidated Income Statement

- Controls over the production of the consolidated income statement and the condensed consolidating statement of income, segment reporting, G-Quest to DBS reconciliation controls, as well as controls over late P&L entries. Covered in the **Revenues and P&L Reporting** review.

## ◆ Consolidated Statement of Changes in Stockholder's Equity

- Controls over the production and roll-forward of stockholder's equity, grants and issuances, stock dividends, options exercised and treasury stock. Covered in the **Global Balance Sheet and Legal Entity Accounting – Stockholder's Equity** review.

## ◆ Consolidated Statement of Cash Flows

- Controls over the production of the consolidated statements of cash flows are documented and tested in the **External Reporting – Financial Statements and Footnotes** review.

## ◆ Footnotes

- Controls over the compilation of footnote disclosures are documented and tested in the **External Reporting – Financial Statements and Footnotes** review.

# Audit Recommendations – Infrastructure Previously Reported

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## Front Office

- ◆ P&L deferrals and adjustments – Address accountability and resolve infrastructure causes
- ◆ Inventory pricing – Use approved models, consistent market data, focus on level III
- ◆ *Collateral pricing – Ensure ownership, consistency and accuracy*
- ◆ *Client valuations – Ensure consistency in adhering to Firm's policy*

## Product Control

- ◆ Deferrals - Resolve unexplained deferrals on a timely basis and adjust the daily flash for differences
- ◆ P&L Adjustments - Document and management review of adjustments per policy
- ◆ Valuation – Ensure completeness and accuracy of price testing coverage, less liquid assets
- ◆ *Daily P&L estimate – Eliminate reliance on trader spreadsheets and manual controls*
- ◆ *CSE/Basel II – Consistently complete daily risk reconciliation and clean P&L requirements*
- ◆ *Daily Balance Sheet – Shift Product Control ownership and improve accuracy and automation*

## Financial Control

- ◆ Legal Entity Controls – Improve balance sheet validation secondary controls
- ◆ Regulatory Reporting – Automate CSE capital reporting process

# Audit Recommendations - Balance Sheet Substantiation

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## ◆ **Mandate**

- Senior management reinforcement of requirements to balance sheet account owners
- Clarify responsibilities and accountability of central review group (e.g., not acceptable to reject supporting documentation if they don't understand it, need to follow up and get resolution)

## ◆ **Definitions and Standards**

- What is required for substantiation
- Agree thresholds
- What is included or removed (e.g., intercompany accounts)

## ◆ **Resources**

- Where are resources needed in upstream groups to produce appropriate support
- What expertise is required in central review group and where should they be located

## ◆ **Technology**

- Enhancements to LEMAP tool

# Balance Sheet Substantiation Details – “Unsubstantiated”

- ◆ The original “Unsubstantiated summary provided by Matthew is shown below
- ◆ During review conversations with Matthew, he indicated:
  - Taxes were “probably o.k.”. The tax department did not turn in their back-up
  - Intercompany (I/C) balances were lower risk since they eliminate at the consolidation level. They are included in the substantiation process as that was part of the original process agreement.
- ◆ Corporate Audit testing shows:
  - That RSUs also eliminate at the consolidation level
  - Deferrals and timing adjustment findings that have been reported to management and the Audit Committee
- ◆ Details of the back-up obtained during the audit review and mapped to controls are shown on the next 2 pages

	Americas			Europe			Asia			Total		
	Debit	Credit	ASB	Debit	Credit	ASB	Debit	Credit	ASB	Debit	Credit	ASB
RODM	704,431	(263,788,527)	264,302,848	183	(820,311,278)	820,311,431	2,878,800	(188,828,024)	188,807,801	707,182	(1,293,714,828)	1,394,421,990
TAXES	34,781,736	(10,250,388)	45,031,628	468,288,917	(208,884,161)	684,954,078	17,258,188	(18,184,837)	34,023,324	519,829,338	(233,078,487)	744,008,827
DEFERRALS	7,289,887	(7,888,878)	14,828,688	3,812,978	(1,888,987)	5,888,482	-	(5,834,883)	5,834,883	11,183,242	(14,850,604)	28,143,946
TRAINING	10,029,219	(10,027,788)	20,888,897	108,484,838	(48,470,248)	184,805,080	5,488,585	(18,388,388,025)	20,878,863	122,002,854	(14,488,429)	196,488,040
IC RECEIVABLE	3,243,434	(808,431)	4,049,888	8,282,783,012	(115,783,127)	8,288,828,129	-	-	-	8,288,008,446	(118,593,556)	8,312,608,025
IC PAYABLE	-	(8,827,888)	8,827,888	118,783,127	(8,847,740,782)	8,883,823,819	-	(73,788,887)	73,788,887	118,783,127	(8,829,564,284)	8,045,357,371
OTHER	1,483,210,461	(508,771,773)	1,981,882,221	8,574,878,388	(7,844,443,874)	17,218,614,388	1,180,345,854	(186,744,878)	1,348,080,828	12,217,828,801	(8,211,880,723)	20,329,587,017
TOTAL	1,888,348,228	(557,888,878)	2,447,188,287	18,881,214,221	(14,888,888,188)	21,388,384,477	1,212,888,281	(881,234,738)	1,688,828,816	19,374,258,888	(18,874,288,878)	35,648,814,700
										Less double counted in "Taxes"		(807,878,404)
												34,840,736,296

<sup>1</sup> LE 0C18 Townsend Analytics \$203m were not substantiated for Q1, primarily due to Technology related issues.

<sup>2</sup> LE 0056 LBL has had a number of Statutory Reporting priorities (per Raymond OGrady email on 5/1), which contributed to \$3.5bn unsubstantiated for Q1.

<sup>3</sup> LE 0013 LBIE Madrid with \$32m unsubstantiated for Q1, are currently formalizing efficient reconciliations for accounts requiring substantiation and estimate to be more effective by Q3

# Balance Sheet Substantiation Details – “Unsubstantiated”

Audit Review Detail  
 “Unsubstantiated Balance”  
 As of February Month-End 2008

	Balance	ABS
Original Balance	2,537,124,518	34,440,734,296
<b>Auto Intercompany Eliminations</b>		
Financing	395,950,864	395,950,864
Inv	(134,752,064)	1,727,827,096
LTD	(5,028,054,682)	5,028,054,682
Other Assets	5,318,504,752	5,320,117,615
Other Liab	(86,013,089)	86,013,089
Subtotal IC	465,635,772	12,557,963,377
<b>Manual IC Eliminations</b>		
FOREIGN GOVTS	2,963,625.39	2,963,625.39
Mn Interest	(668,844.24)	456,806,961.32
	2,014,781.15	459,790,486.71

RSU Accounts - Offset (1,384,835,486) 1,386,249,812

The 23010 account is used similar to a “bridge” account to allocate stock-based compensation expenses to each legal entity. The offsetting balance is on LBHI. When consolidated, these balances net to zero

Original Balance Less IC eliminations & RSU Accounts 3,484,309,481 20,228,732,619

**Additional Support Obtained by Corporate Audit**

Cash & Cash Eq - WOOD STREET INVESTMENTS LTD	293,006,283	293,006,283	Received deposit summary from Front Office, which is reconciled to DBS by FC
CW Lease Payable	(1,399,298,359)	1,399,298,359	Obtained Rec from FC for Feb
LTD ADJ FAS133 HEDGING CO 59	(22,918,785)	22,918,785	Tested in Feb as part of Treasury SOX testing
PENSION CLEARING PREPAYMENT	113,689,424	113,689,424	Received pension actuary report from FC
Other Assets - Fixed Assets	308,585,342	648,257,032	Received FA rollover schedule; PS FA to GL Rec. Tested purchases and retirements
Other Liab - Bonus Accrual Process	(129,923,141)	129,923,141	Received reconciliation from LEC
Other Rec - Other (Co DB42 - Advisory Fees)	74,907,649	74,907,649	Received PS GL to GL Rec from IMD; IMD Audit tested the process from Advantage Billing to PS GL
FAS 140 Gross Up for ELO (Co 00S1)	-	1,045,406,422.38	Received reconciliation from LEC
Inv - Cash Long			
Asst. HERCULES KK - FOREIGN CORPORATE LOANS	891,722,444	891,722,444	LEC Inventory Reconciliation received
Asst. HERCULES KK - OTHER BONDS & OBLIG FOREIGN	(89,272,583)	89,272,583	LEC Inventory Reconciliation received
Foreign Corporate Loans - Yellow	129,885,872	129,885,872	Loan IO and Quest Adj Journals received
Loan Portfolio - Turbulent AMC	93,977,345	93,977,345	Loan summary received from servicer.
Capitals Entities			
Inv - Cash Long	4,697,551,958	4,697,551,958	Received reconciliation from LEC
Financing - Secured Financing Short	(2,848,483,363)	2,848,483,363	Received reconciliation from LEC
Cash & Cash Eq	105,663,287.48	105,663,287.48	Europe provided rec for Cash GIC-Other & Collected Bank Acct
Other Assets - Tax	180,985,650	181,390,829	Tax reconciles these balances - received 1st Qtr binder
Other Liab - Tax	77,151,810	515,320,319	Tax reconciles these balances - received 1st Qtr binder
Other Assets - Goodwill & Intangibles (OC18)	15,880,395	15,880,395	Agreed balance to Purchase Price Allocation Memo for TAL
Other Assets - Goodwill (Co OC18)	48,458,085	48,458,085	Rec from LEC
Other Assets - Goodwill (Co DA97)	137,632,159	137,632,159	Received reconciliation from LEC
Other Liab - Accrued Liabilities & Other (O0E2 & O0F7)	(1)	28,192,770	Unsubstantiated balances in account net across entities
Suspense Liabilities - Gainsborough & Kerithworth	288,356,757	288,356,757	DBS drilldown shows offset of 011M4 and 011M5 on 011M6
Cash & Cash Equivalents - Canada	12,366,586	12,366,586	Subledger to GL rec provided by LEC; subledger to bank account rec requested from Ops Control
Bonus Accrual & Payment	(8,648,985.93)	1,372,148,689.17	Reconciliation between DBS and supporting schedule obtained from Payroll Tested for 2007 by LDN audit
	3,817,278,668	18,331,798,827	
<b>Support Obtained by Finance Control</b>			
Treyer Mn Int	(137,996,833)	137,996,833	

# Balance Sheet Substantiation Details – “Unsubstantiated”

Audit Review Detail  
 “Unsubstantiated Balance” (continued)  
 As of February Month-End 2008

	Balance	ABS	
<b>Covered by Process Controls Tested by Audit</b>			
<b>NY</b>			
Deferred Compensation	(6,566,024.91)	10,823,700.75	Compensation Control
GL Suspense Account	3,352,236.09	3,352,236.09	GL Admin
Software Accruals	(3,943,855.70)	3,943,855.70	ITD Expense Control
Cash & Cash Equivalents	5,139,789.04	17,340,488.74	Operations Control, on a sample basis controls were tested
Inv - Derivatives Timing and deferrals	47,516,189	196,489,041	SOX 2007, on a sample basis controls were tested
Inv - P&L Deferrals	(3,757,267)	26,143,952	SOX 2007, on a sample basis controls were tested
Inv - Derivatives MTM Adjustments	7,349,403	35,008,143	SOX 2007, on a sample basis controls were tested
<b>London</b>			
Cash & Cash Equivalents	(75,651,308)	134,117,146	
Inventory - Financing	(84,497,762)	64,497,762	
Inventory - Cash	17,222,542	119,594,663	
Inventory - Derivatives	(4,253,758)	4,253,758	
Mortgage Related - Europe	442,479,588	1,621,751,058	SOX 2007, on a sample basis controls were tested
Mortgage Related - Europe (ELO)	(741,667)	48,909,959	2008 extended scope for ELO entity, on a sample basis controls were tested
Other Assets	30,000,628	33,147,293	
Other Liab	(420,306,668)	531,606,160	
Other Rec	61,857,012.57	67,215,002.93	
<b>Tokyo</b>			
Cash & Cash Equivalents	52,448,008	52,448,008	Cash Management
Inventory - Financing	41,790,545	41,818,004	Financial Statement Close & LEC
Inventory - Cash	80,728,001	99,290,218	Financial Statement Close & LEC
Inventory - Derivatives	51,835,145	58,420,748	Financial Statement Close & LEC
Other Assets	(331,542)	4,846,871	Financial Statement Close & LEC
Other Liab	(39,868,412)	45,855,813	Expense Close & Accounts Payable
Other Liab - Pay to B/D	(8,782,134)	7,821,736	Financial Statement Close & LEC
Other Rec	38,264,817	43,491,565	Financial Statement Close & LEC
	<b>233,378,794</b>	<b>1,290,186,861</b>	
<b>Total Additional Support &amp; Mapped</b>	<b>3,112,889,929</b>	<b>18,769,692,162</b>	
<b>Remaining Balance to be mapped</b>	<b>341,649,522</b>	<b>1,476,840,457</b>	
<b>Total Assets (after eliminations and net-downs)</b>	<b>786,866,808,000</b>	<b>786,866,808,000</b>	
<b>% to be mapped</b>	<b>0.04%</b>	<b>0.19%</b>	

LE MAN BROTHERS



# Balance Sheet Substantiation Details – “Exceptions”

- ◆ The original summary of balances that were substantiated with exceptions that were being followed up on by management is shown below
- ◆ Corporate Audit conducted a sample review of these items as shown on the next page

FOIA Treatment Requested  
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	Americas			Europe			Asia			Total		
	Debit	Credit	ABSI	Debit	Credit	ABSI	Debit	Credit	ABSI	Debit	Credit	ABSI
RSUs	1,709,656,065	(35,047,127)	1,743,703,193	96,269	(4,746,031)	4,763,191	-	(26,845,289)	26,845,299	1,709,672,324	(66,736,357)	1,775,411,663
TAXES	2,637,706	(82,369,114)	89,725,620	11,198,016	(7,849,894)	14,048,031	6,731,626	(4,346,862)	11,078,709	20,767,548	(99,504,940)	120,352,536
DEFERRALS	211,864,899	(83,326,370)	296,191,239	615,399,348	(216,581,829)	730,981,178	60,976,852	(84,511,479)	145,488,332	788,241,069	(383,419,615)	1,171,660,749
TRAMP	186,329,640	(125,416,802)	309,746,442	1,954,272	(18,781,881)	20,740,156	882,416	-	882,416	187,168,328	(144,208,683)	331,379,013
UC RECEIVABLE	2,031,321,055	(826,589,439)	5,514,992,312	48,721,079	(9,363,385)	56,108,997	81,448,533	18,539,618	99,988,153	2,159,492,667	(817,440,405)	5,676,787,132
UC PAYABLE	447,080	(902,441,648)	602,889,628	18,416,400	(56,625,240)	74,840,641	-	(127,306,326)	127,306,326	18,862,480	(878,273,116)	895,135,297
OTHER	1,088,903,585	(1,833,204,715)	2,429,908,289	631,087,511	(602,173,727)	1,133,261,227	3,880,641,825	(394,180,036)	4,227,622,620	5,596,532,821	(2,219,536,473)	7,780,992,145
<b>TOTAL</b>	<b>6,228,368,989</b>	<b>(3,188,421,119)</b>	<b>11,871,664,832</b>	<b>1,224,783,886</b>	<b>(916,863,176)</b>	<b>2,834,847,968</b>	<b>4,639,681,642</b>	<b>(888,734,488)</b>	<b>4,638,311,847</b>	<b>18,461,736,337</b>	<b>(4,687,384,698)</b>	<b>17,748,714,848</b>
<sup>1</sup> \$1.2bn relates to LBH items which were subsequently resolved. <sup>2</sup> \$75.7m relates to exceptions categorized as "misclassifications". <sup>3</sup> \$1.2bn relates Mauritius legal entities which were subsequently resolved. <sup>4</sup> \$1.6bn in exceptions reflected was an error and actual amount should have been \$1.6m, and this occurred in LE 067C- Milford YK.												

# Balance Sheet Substantiation Details – “Exceptions”

Audit Review Detail  
 “Exceptions” Review  
 As of February Month-End 2008

	Exception Amount (USD)	ABS Except Amount (USD)	
Original Balance	8,631,306,468	17,746,388,870	
<b>Intercompany Eliminations</b>			
Financing	(462,787,055)	537,245,005	
Inv	2,420,668,441	3,347,698,139	
LTD	(582,033,467)	595,220,951	
Other Assets	1,839,836,415	1,853,267,953	
Other Liab	(184,759,813)	185,678,520	
Subtotal VC	3,040,712,521	6,499,110,568	
RSU Accounts - Offset	1,850,163,171	1,767,181,478	
<b>Original Balance Less VC eliminations &amp; RSU Accounts</b>	<b>3,840,423,768</b>	<b>9,480,106,023</b>	
<b>Additional Support Obtained</b>			
Other Assets - Fixed Assets	61,148,541	73,391,854	Received FA rolforward schedule; PS FA to GL Rec; Tested purchases and retireme
Other Assets - Tax	(527,132)	644,185	Tax reconciles these balances - received 1st Qtr binder
Other Liab - Tax	(85,204,538)	108,834,860	Tax reconciles these balances - received 1st Qtr binder
	(24,583,129)	180,870,899	
<b>Pending Additional Support</b>			
ASIA	3,013,021,139	3,353,954,364	
Americas	(41,960,868)	1,262,053,497	
	2,971,060,263	4,616,007,861	
<b>Covered by Process Controls Tested by Audit</b>			
Inv - Derivatives Timing and deferrals	49,058,515	325,003,561	
Inv - P&L Deferrals	404,821,390	1,171,860,749	
Inv - Derivatives MTM Adjustments	(5,871,292)	84,670,808	
	448,209,613	1,681,335,118	
<b>Total Additional Support</b>	<b>3,394,566,738</b>	<b>6,358,213,878</b>	
<b>Remaining Balance to be mapped</b>	<b>445,863,030</b>	<b>3,121,892,145</b>	
<b>Total Assets (after eliminations and net-downs)</b>	<b>786,083,000,000</b>	<b>786,083,000,000</b>	
<b>% to be mapped</b>	<b>0.1%</b>	<b>0.4%</b>	

LEHMAN BROTHERS

# Balance Sheet Substantiation Details – “Rejected”

◆ Corporate Audit also conducted a sample review of the rejected balances as shown below

Audit Review Detail  
 “Rejected” Balance  
 As of February Month-End 2008

	Balance	ABS	
Original Balance	2,136,620,347	31,363,481,163	
Intercompany Eliminations			
Inv	(575,799,018)	725,334,897	
LTD	(447,070,764)	447,070,769	
Other Assets	635,348,444	535,348,444	
Other Liab	(57,933,253)	90,642,286	
Subtotal IC	(545,454,598)	1,798,396,395	
Original Balance Less IC eliminations	<u>2,682,074,943</u>	<u>29,555,084,768</u>	
Additional Support Obtained			
CASH & SECURITIES SEGR	759,362,807	759,362,807	Obtained Commodity Accounting/Opa Rec for Feb
01P9 - Financing - Secured Financing Short	(2,253,022,070)	2,253,022,070	Manually eliminated in cons - support was attached to LEMAP
00N3 FAS 140 Gross Up	881,934,830	3,279,299,355	FAS140 Gross Up file received
01G2 Inventory Cash - Long	178,208,465	178,208,465	LoanIO and GFS downloads provided
00S1 Inventory Cash - Long	885,711,418.95	885,711,418.95	Entity's trial balance received from Coda (00S1's GL) denoting loan amounts. Loan # total agrees to DBS
Other Assets - Fixed Assets	368,848,371	768,330,738	Received FA rollover schedule; PS FA to GL Rec; Tested purchases and retirements
Other Assets - Tax	34,990,514	34,990,514	Tax reconciles these balances - received 1st Qtr binder
Other Liab - Tax	(250,250,429)	444,413,041	Tax reconciles these balances - received 1st Qtr binder
Inventory Cash - Asia	(3,411,501,883)	5,351,629,148	Support obtained by Tokyo audit
Financing - Asia	941,777,874	941,777,874	Support obtained by Tokyo audit
	<u>(1,865,948,301)</u>	<u>14,894,748,432</u>	
Covered by Process Controls Tested by Audit			
NY - Inv - Derivatives Timing and deferrals	43,265,778	247,957,781	
NY - Inv - P&L Deferrals	(28,018,059)	38,740,166	
NY - Inv - Derivatives MTM Adjustments	27,430,910	28,332,532	
Asia - Cash Management	353,265,130	353,265,130	
Asia - Financial Statement Close & LEC	4,381,872,864	7,812,450,947	
Asia - Expense Close & Accounts Payable	(577,423,393)	610,401,408	
LDN Tested	(54,731,318)	2,191,587,845	
	<u>4,148,698,933</u>	<u>11,382,736,689</u>	
Total Additional Support	<u>2,379,740,832</u>	<u>28,277,481,820</u>	
Remaining Balance to be mapped	<u>402,364,311</u>	<u>3,277,603,747</u>	
Total Assets (after eliminations and net-downs)	<u>798,688,000,000</u>	<u>798,688,000,000</u>	
% to be mapped	<u>0.1%</u>	<u>0.4%</u>	

# LEHMAN BROTHERS

DATE: October 3, 2008

TO: Members of the Audit Committees of Lehman Brothers Holdings Inc. and  
Lehman Brothers Inc.

FROM: Madeline L. Shapiro - Assistant Secretary *M L S*

RE: **OCTOBER 7, 2008 MEETING OF THE AUDIT COMMITTEES OF  
LEHMAN BROTHERS HOLDINGS INC. ("HOLDINGS") AND  
LEHMAN BROTHERS INC. ("LBI")**

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Enclosed please find an Agenda for the October 7, 2008 meeting of the Audit Committees of Holdings and LBI and accompanying materials.

The meeting is scheduled to be held telephonically from 11:00 a.m. - 12:00 p.m. Eastern Time. Please note that Management will meet in Conference Room D located in the southeast corner on the 45th Floor, 1271 Avenue of the Americas.

The call in number is Domestic 866-339-6643, International 334-323-1811 - ID # is \*4772405\*. Please make certain to dial the \* before and after the ID number.

Distribution:

Mr. Michael L. Ainslie  
Mr. Roger S. Berlind  
Mr. Thomas H. Cruikshank  
Sir Christopher Gent

Copy to:

Mr. David Coles (Alvarez & Marsal)  
Mr. William Fox (Alvarez & Marsal)  
Mr. Richard S. Fuld, Jr.  
Mr. Martin Kelly  
Mr. Andrew Levander (Dechert LLP)  
Mr. Bryan Marsal (Alvarez & Marsal)  
Mr. Rod Miller (Weil, Gotshal & Manges LLP)  
Mr. Thomas A. Russo  
Mr. Jeffrey A. Welikson

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EY-SEC-LBHI-ML 000044

**AGENDA**

**LEHMAN BROTHERS HOLDINGS INC.  
LEHMAN BROTHERS INC.**

**AUDIT COMMITTEE MEETING**

**October 7, 2008  
1271 Avenue of the Americas – 45<sup>th</sup> Floor –Room 45D  
11:00 a.m. – 12:00 noon**

<b><u>AGENDA ITEM</u></b>	<b><u>DESCRIPTION</u></b>	<b><u>RESPONSIBILITY</u></b>	<b><u>TAB #</u></b>
1.	Approval of Minutes of the July 22, 2008 Meeting	Audit Committee	A
2.	Discussion regarding SEC Reporting	Weil Gotshal	
3.	Status of Ernst & Young	David Coles	

HOLDINGS

10/07/2008 AUDIT COMMITTEE MEETING

TAB A

Holdings  
Audit Committee  
10/07/08

RESOLVED, that the Minutes of the meeting of the Audit Committee held on July 22, 2008 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

**LEHMAN BROTHERS HOLDINGS INC.**

Minutes of the Audit Committee

July 22, 2008

A meeting of the Audit Committee of Lehman Brothers Holdings Inc. (the "Corporation", "Holdings" or, collectively with its subsidiaries, the "Firm") was held jointly with a meeting of the Audit Committee of Lehman Brothers Inc. ("LBI") in the Executive Conference Room, 31st Floor, 745 Seventh Avenue, New York, New York, on July 22, 2008, at 11:00 a.m., pursuant to written notice.

**PRESENT - COMMITTEE MEMBERS**

Messrs. Michael L. Ainslie  
Roger S. Berlind  
Thomas H. Cruikshank (Chairman)  
Sir Christopher Gent

**ALSO PRESENT BY INVITATION**

Messrs. John Akers  
Clement Bernard  
Neeraj Chopra  
Martin Kelly  
Ian Lowitt  
Gerard Reilly  
Ms. Beth Rudolker  
Messrs. Thomas A. Russo  
William Schlich (Ernst & Young)  
Jeffrey A. Welikson

**APPROVAL OF MINUTES**

The first order of business was the approval of the Minutes of the meeting held on July 8, 2008. Upon motion duly made and seconded, it was unanimously

**RESOLVED**, that the Minutes of the meeting of the Audit Committee held on July 8, 2008 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.



## VALUATION REVIEW

Mr. Reilly introduced the Valuation Review, stating that it would consist of an overview of the Product Control function, including valuation control; a review of the key functions performed by the Valuation and Control group within Product Control, including price testing and the determination of fair value level hierarchy; a review of mark to mark adjustments during the second fiscal quarter and the market events or transactions which drove those adjustments; and a review of the results of the valuation testing for residential and commercial mortgages and leveraged loans at the end of the second fiscal quarter.

Mr. Reilly then presented an overview of the Product Control function, describing its responsibilities for business analysis, business control, valuation control, and revenue transaction control. The Committee directed questions to management regarding the Product Control function, including its responsibilities, structure, reporting lines and independence from business units.

Mr. Chopra then described the Valuation and Control group. He described the group as consisting of technical staff who are very familiar with the products they cover and who are responsible for verifying prices for assets and liabilities, both on and off balance sheet. Mr. Chopra stated that prices are verified through data providers, consensus pricing services, extrapolation from similar instruments, and recent trading activity. He also noted that significant variances are then escalated to senior management for further consideration. Mr. Chopra described the model control process and the review of complex derivatives transactions. The Committee directed questions to management regarding the use of consensus pricing services and the role of Ernst & Young in auditing the valuations.

Mr. Chopra then discussed the responsibilities of the Valuation and Control group for assigning fair value hierarchy levels to the assets and liabilities and for completing the related disclosure requirements. Mr. Chopra provided a description of how the fair value hierarchy level for a particular asset is determined and outlined the relevant guidelines. The Committee directed questions to management about the fair value hierarchy, including the determination of the appropriate level for assets and the movement of assets between levels.

Mr. Reilly continued the presentation by discussing write downs and market events related to residential mortgages. He noted that gross write downs for residential mortgages in the second quarter were \$2.4 billion compared to \$3 billion in the first quarter. He described the Peloton default, a large non performing loan sale by the Firm, the loss related to swapping subprime securities out of a Firm-sponsored investment fund, and losses from poor credit performance and spread widening in the quarter. Mr. Reilly and Mr. Chopra then presented an analysis of the balance sheet position at the end of the second fiscal quarter, transactions which occurred during the quarter, and the results of the price testing by Product Control, for the Firm's U.S. and European residential mortgages. The Committee directed questions to management regarding the Firm's valuation of residential mortgages and pricing developments in the third fiscal quarter to date.

Mr. Reilly then discussed the write downs and market events that have taken place with respect to leveraged loans. He noted that the Firm took gross write downs of \$300 million on leveraged loans during the second quarter compared to \$700 million in the first quarter. Mr. Reilly described the Firm's bulk sale of Home Depot Supply and losses based on price transparency from the syndication process on several other issues. He also provided a roll forward analysis of the Firm's leveraged acquisition financing for the first two fiscal quarters of 2008.

Mr. Chopra then detailed price verification methods for acquisition facilities and described how the Firm utilizes four basic price verification methods: (1) external quotes; (2) trading activity; (3) CDS matrix; and (4) CR matrix. He provided details on the aforementioned methods and other price verification methods, including the price flex method applied to Archstone. Mr. Chopra then presented the results of the valuation testing for acquisition loan facilities at the end of the second quarter. The Committee directed questions to management regarding the results of the valuation testing for the second quarter.

Mr. Reilly continued the presentation by discussing the write downs and market events during the second quarter with respect to commercial real estate. He noted that the Firm took gross write downs of \$900 million in the second quarter compared to \$1.4 billion in the first quarter. He noted that floating rate commercial assets continued to weaken with spread widening leading to a loss of \$400 million in the quarter. Mr. Reilly stated that the Firm took write downs of \$500 million on Archstone and the SunCal portfolio. The Archstone write down was largely on the bridge equity, which has not been syndicated. The SunCal portfolio consists of 24 residential land development projects, primarily located in Southern California, and the write down was due to the weakness in the residential market in that area. The Committee directed questions to management regarding a recent press article on the Firm's investment in SunCal.

Mr. Chopra then detailed price verification methodology with respect to commercial real estate, noting that price verification is performed on a monthly basis and that, generally, third party pricing inputs are used where available. He stated that the Firm's principal book is price verified using a NPV approach with a significant emphasis on the credit qualities of each collateral. Mr. Chopra detailed how the Firm's models use:

- Property level information provided by third party servicers (Frimont and PCCP)
- Discount rates that are derived from third party publications (Institutional Investors' Real Estate Finance & Investments)
- Product Control, which reviews IRR models developed for each position for reasonableness

Mr. Chopra noted that bridge equity is generally marked to target investor yields for the specific investment and that Product Control reviews the reasonableness of the valuation assumptions. Mr. Chopra also detailed how the commercial real estate book is price verified using internal models based on spreads obtained from third party publications, giving special emphasis to recent sales, circles and bids on notes of similar attributes. He also described how

Product Control discusses with business senior management pricing variances that exceed the Firm's established thresholds. Mr. Chopra then presented an analysis of the balance sheet position at the end of the second quarter and sales which occurred during the quarter, for the Firm's U.S., European and Asian commercial real estate positions. The Committee directed questions to management regarding this analysis, third quarter developments, and conditions in the European and Asian commercial real estate markets.

Messrs. Bernard and Chopra were excused from the meeting.

#### EUROPEAN EQUITY VOLATILITY REVIEW

Ms. Rudolfer reported on the results of the investigation and control review related to the valuation discrepancy in the European Equities Volatility business identified during the first quarter. As background, she noted that the control infrastructure for the Equity Volatility business was assessed as a Sarbanes-Oxley significant deficiency in 2006 and 2007. She noted that while progress was made in 2007, improvements were still required in 2008 to avoid a material weakness assessment. Ms. Rudolfer described the Firm's response to the valuation discrepancy in the European Equities Volatility business identified during the first fiscal quarter of 2008. She reported that the Firm immediately suspended the senior trader and his supervisor, focused on determining the correct pricing methodology and valuation, informed Ernst & Young and the Firm's regulators of the incident, and commenced an independent internal review. Ms. Rudolfer reported that Corporate Audit has completed this review, reviewed the findings with management and agreed to a set of control improvements that must be made during 2008 in order to avoid a material weakness under Sarbanes-Oxley, satisfy regulatory expectations, and assist in dealing with regulatory inquiries. Ms. Rudolfer then reported that these control improvements, together with individual responsibility, completion dates and standards have been committed to by management of the Front Office, Finance, Risk Management and Operations (Middle Office). She stated that the findings and action plans have also been reviewed with Ernst & Young and all open audit findings and action plans are part of the business infrastructure improvement project. The Committee directed questions to management regarding the consequences to the employees directly involved in the issue, their reporting line, and other matters.

#### EMPLOYEE LETTER REVIEW

Ms. Rudolfer summarized the review conducted in response to a letter that was received by senior Finance and Risk Management personnel of the Firm from an employee in the Finance department responsible for Global Balance Sheet and Legal Entity Accounting. The employee's letter indicated that he had concerns related to balance sheet and legal entity controls for which he was responsible. Ms. Rudolfer noted that this letter was sent only a few days prior to the Firm's May reduction-in-force and at the time the letter was sent, a decision had already been made to eliminate this employee's position as part of the reduction-in-force and restructure his role to address enhancements that had been identified. Ms. Rudolfer stated that she and the Firm's General Counsel and Ernst & Young had met with the employee numerous times to discuss the points the employee raised, including meetings between Ernst & Young and the employee at which management was not present. She reported that Corporate Audit has largely completed, in partnership with Financial Control and Ernst & Young, an evaluation of the

concerns raised by the employee. Ms. Rudolfer stated that no material issues have been identified during the review and she summarized certain of the findings and recommendations and distributed a detailed report. She noted that the controls for which this employee was responsible are important secondary controls, but are not relied upon as part of Sarbanes-Oxley audit testing due to previously identified gaps. Mr. Cruikshank emphasized the importance of thoroughly investigating every concern raised by the employee.

**PRIVATE SESSION**

The Committee met privately with Ernst & Young. The Committee then met privately with Ms. Rudolfer.

There being no further business, upon motion duly made and seconded, the meeting was adjourned.

Respectfully submitted,

Jeffrey A. Welikson  
Secretary

LBH  
Audit Committee  
10/07/08

RESOLVED, that the Minutes of the meeting of the Audit Committee held on July 22, 2008 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

FOIA Treatment Requested  
Private & Confidential

EY-SEC-LBHI-ML 000053

**LEHMAN BROTHERS INC.**  
Minutes of the Audit Committee  
July 22, 2008

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**ALSO PRESENT BY INVITATION**

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Clement Bernard  
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- Product Control, which reviews IRR models developed for each position for reasonableness

Mr. Chopra noted that bridge equity is generally marked to target investor yields for the specific investment and that Product Control reviews the reasonableness of the valuation assumptions. Mr. Chopra also detailed how the commercial real estate book is price verified using internal models based on spreads obtained from third party publications, giving special emphasis to recent sales, circles and bids on notes of similar attributes. He also described how



Product Control discusses with business senior management pricing variances that exceed the Firm's established thresholds. Mr. Chopra then presented an analysis of the balance sheet position at the end of the second quarter and sales which occurred during the quarter, for the Firm's U.S., European and Asian commercial real estate positions. The Committee directed questions to management regarding this analysis, third quarter developments, and conditions in the European and Asian commercial real estate markets.

Messrs. Bernard and Chopra were excused from the meeting.

### **EUROPEAN EQUITY VOLATILITY REVIEW**

Ms. Rudolfker reported on the results of the investigation and control review related to the valuation discrepancy in the European Equities Volatility business identified during the first quarter. As background, she noted that the control infrastructure for the Equity Volatility business was assessed as a Sarbanes-Oxley significant deficiency in 2006 and 2007. She noted that while progress was made in 2007, improvements were still required in 2008 to avoid a material weakness assessment. Ms. Rudolfker described the Firm's response to the valuation discrepancy in the European Equities Volatility business identified during the first fiscal quarter of 2008. She reported that the Firm immediately suspended the senior trader and his supervisor, focused on determining the correct pricing methodology and valuation, informed Ernst & Young and the Firm's regulators of the incident, and commenced an independent internal review. Ms. Rudolfker reported that Corporate Audit has completed this review, reviewed the findings with management and agreed to a set of control improvements that must be made during 2008 in order to avoid a material weakness under Sarbanes-Oxley, satisfy regulatory expectations, and assist in dealing with regulatory inquiries. Ms. Rudolfker then reported that these control improvements, together with individual responsibility, completion dates and standards have been committed to by management of the Front Office, Finance, Risk Management and Operations (Middle Office). She stated that the findings and action plans have also been reviewed with Ernst & Young and all open audit findings and action plans are part of the business infrastructure improvement project. The Committee directed questions to management regarding the consequences to the employees directly involved in the issue, their reporting line, and other matters.

### **EMPLOYEE LETTER REVIEW**

Ms. Rudolfker summarized the review conducted in response to a letter that was received by senior Finance and Risk Management personnel of the Firm from an employee in the Finance department responsible for Global Balance Sheet and Legal Entity Accounting. The employee's letter indicated that he had concerns related to balance sheet and legal entity controls for which he was responsible. Ms. Rudolfker noted that this letter was sent only a few days prior to the Firm's May reduction-in-force and at the time the letter was sent, a decision had already been made to eliminate this employee's position as part of the reduction-in-force and restructure his role to address enhancements that had been identified. Ms. Rudolfker stated that she and the Firm's General Counsel and Ernst & Young had met with the employee numerous times to discuss the points the employee raised, including meetings between Ernst & Young and the employee at which management was not present. She reported that Corporate Audit has largely completed, in partnership with Financial Control and Ernst & Young, an evaluation of the

concerns raised by the employee. Ms. Rudolfer stated that no material issues have been identified during the review and she summarized certain of the findings and recommendations and distributed a detailed report. She noted that the controls for which this employee was responsible are important secondary controls, but are not relied upon as part of Sarbanes-Oxley audit testing due to previously identified gaps. Mr. Cruikshank emphasized the importance of thoroughly investigating every concern raised by the employee.

**PRIVATE SESSION**

The Committee met privately with Ernst & Young. The Committee then met privately with Ms. Rudolfer.

There being no further business, upon motion duly made and seconded, the meeting was adjourned.

Respectfully submitted,

Jeffrey A. Welikson  
Secretary



"Rudofker, Beth"  
<brudofke@lehman.com>  
07/18/2008 10:20 AM

To "Russo, Thomas A" <trusso1@lehman.com>, "Lowitt, Ian T"  
<ilowitt@lehman.com>, "Kelly, Martin"  
<martin.kelly@lehman.com>, "Wellkson, Jeffrey"  
cc "Shapiro, Madeline" <madeline.shapiro@lehman.com>,  
"Aponte, Yolanda" <Yolanda.Aponte@lehman.com>  
bcc

Subject: Audit Committee Agenda

Attached is a draft of Tuesday's Audit Committee Agenda. There are 3 topics, the 1st being the major focus of the meeting:

1. Pricing and Valuation Controls for Less Liquid Assets
2. European Equity Volatility Investigation Results
3. Employee Letter Investigation Results

Appreciate any suggestions.  
Thanks,  
Beth

<<AGENDA00-2008-07-22 Audit Agenda.doc>>

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AGENDA00-2008-07-22 Audit Agenda.doc



"Rudofker, Beth"  
<brudofke@lehman.com>  
06/05/2008 11:48 AM

To <william.schlich@ey.com>  
cc  
bcc

Subject FW: Schedules

History:      ↗ This message has been forwarded.

>  
> \_\_\_\_\_  
> From:            Lee, Matthew  
> Sent:            Wednesday, June 04, 2008 6:04 PM  
> To:              Polizzotto, Joe; Rudofker, Beth  
> Subject:         Schedules  
>  
>  
>  
> <<Summary\_Martin Kelly (3).xls>>  
>  
> Joe/Beth  
>  
> These are the schedules that were missing from the initial pack. The  
> first tab shows the high level results for the first three quarters  
> that the Firm has performed this global substantiation process. Two  
> points to note (we discussed these)  
>  
> A) Cell P12 vs. cell P23 of the first Excel tab. The significant drop  
> from 13,205 to 11,523 accounts relates to taking out the accounts less  
> than USD 100 equivalent. I mentioned 3,000 accounts having balances  
> less than \$100, a higher number, because my number included  
> intercompany accounts excluded from the substantiation process.  
>  
> B) Cell M 23 vs. cell 34 (\$325 vs. \$35 billion). This significant  
> decrease in unsubstantiated dollars, may very well be due to the fact  
> that the Mumbai qualitative review team had not had a chance to reject  
> items yet as they had hardly started their qualitative review. The  
> statistics for the first two quarters were prepare after approximately  
> 90 days and after a qualitative review, whereas the statistics for the  
> most recent quarter were after 60 days and no qualitative review.  
>  
> Please note that the back-up you have is of the \$35 billion in  
> February. It takes several days to pull all this information  
> together, so if you wanted updated information, that can be done, but  
> it will take a while (especially now at quarter end time)  
>  
> The following is key: Exceptions are just as important, if not more  
> important, than unsubstantiated. Just because a balance is  
> substantiated does not mean that the qualitative review is of  
> sufficient depth, in fact it is not much more than a "kicking of the  
> tires". The BPM in the Balance sheet project will enhance quality,  
> but the project has been mismanaged and will not be fully usable for  
> several quarters hence.  
>  
> The second tab of the above is an analysis of exceptions, which is  
> based on user description input only. You will see from the  
> descriptions, that many of the exceptions are just the same as  
> unsubstantiated.

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>  
> You are correct to focus on the large items, but one of my significant  
> points is the small items. These total billions, they require  
> headcount to analyze and many of these accounts are just plain old and  
> will take a lot of time and effort to get on track. You consistently  
> point out Internal Audit processes and those of Ernst and Young, but I  
> do not accept that as an answer and will gladly discuss the weaknesses  
> of your argument with anyone. Please confirm that my letter will be  
> brought to the attention of our Audit Committee, with whom I would be  
> pleased to discuss the content of my Code of Ethics Violation letter.

>  
> Best regards  
> Matthew

>  
> PS - we did not discuss Mauritius - Did Jack Johnson brief you on  
> that? Below is a related e-mail which was globally discussed on a  
> 9-10am call on Wednesday February 27.

>  
> <<FW: Mauritius Visit Memo>>  
> <<URGENT>>

-----  
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Summary\_Martin Kelly (3).xls

----- Message from "Lee, Matthew" <matthew.lee@lehman.com> on Wed, 27 Feb 2008 09:31:16 -0400 -----

To: "Shanahan, John J" <jshanaha@lehman.com>

Subject: FW: Mauritius Visit Memo

Did you send documents to participants of 9.30 meeting

>  
> From: Lee, Matthew  
> Sent: Friday, February 15, 2008 4:06 PM  
> To: Shanahan, John J  
> Cc: Kelly, Martin; Nicholson, Brian

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> Subject: Mauritius Visit Memo  
> Importance: High  
>  
> John  
>  
> Below are three documents for distribution. All related initiatives  
> are on hold pending Tax department decisions; these include providing  
> more granular financial information into Mauritius, funding cash  
> accounts there for local payments, etc. Please include Mike Tsoulies  
> (based in London) in the loop; I told Mike I would get back to him  
> and at this point have not. I would also like to forward to Financial  
> Control in Asia, but will hold off until I receive your OK.  
>  
> Below are:  
> Word Document - my memo  
> Excel Document - lists of Mauritius entities  
> PDF - Goodwin Procter memorandum on Mauritian Tax Residency.  
>  
>  
> <<Mauritius Discussion Document.doc>>  
>  
>  
> <<Mauritius entities of LB-1-2008.xls>>  
>  
> <<GP Mauritius Tax Residence Memo Feb 8 2008.pdf>>



Mauritius Discussion Document.doc Mauritius entities of LB-1-2008.xls GP Mauritius Tax Residence Memo Feb 8 2008.pdf

----- Message from "Lee, Matthew" <matthew.lee@lehman.com> on Wed, 28 May 2008 10:15:01 -0400 -----

To: "Steinberg, Darryl" <darryl.steinberg@lehman.com>, "Shanahan, John J" <jshanaha@lehman.com>  
cc: "Nishimura, Kayoko" <knishimu@lehman.com>, "Yeung, Daniel" <daniel.yeung@lehman.com>

Subject: URGENT

I sent you a notice yesterday which shows a change in the Mauritius law of not backdating TRC reinstatements. You can see from the below that we have or will have gaps in the TRC's. I bring this to your urgent attention.

Kayoko and Daniel - Please will you follow up with the below. Thanks

---

From: Reena Chujjoo [mailto:reena@ifismauritius.com]  
Sent: Wednesday, May 28, 2008 9:57 AM  
To: Lee, Matthew  
Cc: Dev Joory; daryl.csizmadia@mu.ey.com; Yeung, Daniel; Nishimura, Kayoko; Veena Kunniyah; Akshar Maherally  
Subject: LB entities

Dear Matthew

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We refer to the appended email.

Kindly note that Dev is travelling and will be back on 9 June 2008.

Please refer to the attached schedule and note the following:

1. The TRC of LB India Holdings Mauritius II Limited has lapsed and will be renewed only when we file the audited accounts as at 30 Nov 2006 and 2007.
2. We are preparing the consolidated accounts of LB India Holdings Cayman I and we would try our best to file the audited accounts before the TRC lapses, subject to receipt of all audit confirmation letters.
3. Kindly check with the LB responsible person and advise us of the status of the accounts for the period ended 31 March 2008 for LB India Holdings Cayman I Ltd, LB India Holdings Mauritius I Ltd and LB India Holdings Mauritius III Ltd. Please note that these audited accounts should be filed with the FSC by 30 September 2008.

Thank you.

Best regards

Reena Chujjoo

---

International Financial Services Limited  
IFS Court, TwentyEight, Cybercity, Ebene, Mauritius  
Telephone: (230) 467 3000 (General) ; Facsimile: (230) 467 4000  
Website: <http://www.ifsmauritius.com>  
Direct Line: (230) 467 5153

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on reena@ifsmauritius.com or telephone (230) 467 3000 and promptly destroy the original communication.

Thank you for your co-operation.

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From: Lee, Matthew [mailto:matthew.lee@lehman.com]  
Sent: Tuesday, May 27, 2008 8:50 PM  
To: daryl.csizmadia@mu.ey.com; Dev Joory  
Cc: Yeung, Daniel; Nishimura, Kayoko  
Subject: Two items

Daryl/ Dev

1 How many of our Lehman Brothers entities will now show this TRC lapse gap in 2008? Clearly, we want to avoid having a gap, so please work proactively with us to avoid any future lapses. Thanks.

2 My employment with Lehman Brothers was terminated last week but my actual last day has yet to be finalized. Going forward please contact Daniel and Kayoko for all Lehman Brothers matters. I have very much enjoyed working with you both and will be sure to look you up should I visit Mauritius in the future.

Best regards

Matthew

---

From: IFS Ltd [mailto:ifs@ifsmauritius.com]  
Sent: Tuesday, May 27, 2008 9:16 AM  
To: undisclosed-recipients  
Subject: IFS Alert on Tax Residence Certificate

Dear Investor

Please see attached IFS Alert.

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Best regards

Veena

For International Financial Services Limited

Secretary

---

International Financial Services Limited  
IFS Court, TwentyEight, Cybercity, Ebene, Mauritius  
Telephone: (230) 467 3000 Facsimile: (230) 467 4000

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status of FS of LB entities\_0528.doc

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Q1 – Daily B/S

1. Do you see the reconciliation of management's daily balance sheet to the books and records (ultimately the public financial statements) as a primary control within the organization?
2. Do you believe this break to be a true write off?
3. Can you clarify what you mean by the difference between what the daily amounts are and the last day of the month's balances? Does this mean that you see a \$5B change or it is the difference between the daily BS and the financial statements?

Q2 – Substantiation Process

4. Can you clarify the meaning of "not substantiated".
5. Do you believe that the firm's assets are truly understated by those balances/accounts that are labeled "not substantiated" or "exception"?

Q3 – Value of Assets

6. Are you aware of any specific product/trading books that are priced inappropriately
7. What do you believe management is lacking in valuing its assets?
8. Do you believe Lehman is different from others in the market?
9. Do you believe this is because of the current market conditions or a longer history?
10. What assets or products do you believe do not take concentration or volume into account within their market values?
11. From what standpoint do you derive your amount of tens of billions?

Q4 – Infrastructure Investment

12. Is there a specific area or areas that you believe need more attention than others?

Q5 – India Operations

13. Are you aware of specific misstatements that have come out of India?
14. What area or areas within India are not being managed well?
15. From the migration program it appears to be well controlled, what changed or might be misrepresented?

Q6 – Internal Audit

16. Can you be more specific as to what you believe is lacking in expertise from the department.
17. Do you believe Internal Audit can be objective in conducting a review of this issue?



"Rudofker, Beth"  
<brudofke@lehman.com>  
06/04/2008 08:03 PM

To <william.schlich@ey.com>, "Kelly, Martin"  
<martin.kelly@lehman.com>  
cc  
bcc

Subject Matthew Lee Letter and Investigation - Conversation with TC

Spoke to Cruikshank about the Matthew Lee letter and investigation. The conversation went well and he agreed with the approach we're taking and encouraged us to go through and make sure we can support each part with the facts.

Happy to discuss in more detail.

B

-----  
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"Rudofker, Beth"  
<brudofke@lehman.com>  
05/29/2008 02:31 PM

To <william.schlich@ey.com>  
cc  
bcc  
Subject RE: Matthew Lee

No problem. 5:30 is good.

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Thursday, May 29, 2008 2:28 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

5:30 would be better. Sorry I thought it was for today.

Bill

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/29/2008 02:27 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

That was yesterday...can you do 5 today?

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Thursday, May 29, 2008 2:25 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

We on for 4 PM?

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/28/2008 01:06 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

How about 4pm?

Thx!

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Wednesday, May 28, 2008 7:12 AM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

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TRC	Position	J.E. Code	J.E. Name	Contractor	Workpack	DR Acct #	DRB Account Description	Category	Unsubstantiated Amount - Feb/08	Unsubstantiated Amount - Nov/07
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Cash	750,302,807.23	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Cash & Disbursements	5078	RECD MCHG - CHARGE THE DRP	Other Amount	112,882,884.67	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	74,997,698.74	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Inventory Long	46,628,278.27	28,243,078.88
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	24,282,228.62	29,288,783.86
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	21,898,488.02	20,779,882.64
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	24,708,234.42	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	18,888,748.94	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Cash	13,288,248.74	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	11,137,164.34	11,237,021.42
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	9,898,883.84	2,888,871.32
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	7,882,882.82	7,881,881.77
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	0,151,771.48	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	0,482,281.84	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	0,649,281.17	0,688,824.84
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	0,453,872.35	0,108,488.88
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Inventory Long	17,837,488.38	
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	14,884,874.34	14,884,874.34
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Long Term Debt	02,818,704.81	10,628,214.26
Th1	Acquisition	6000	US-POWER ELECTRONICS INC	Long Wang	Workpack B - Performance	5078	RECD MCHG - CHARGE THE DRP	Other Amount	02,888,888.52	
<b>TOP ITEMS</b>										
							SNEL Exception		1,021,845,275.51	
							Debit Amount		1,136,281,293.78	
							Credit Amount		(114,436,018.24)	
							\$ABS Amount		1,250,717,229.99	
<b>OTHER ITEMS</b>										
							SNEL Exception		(77,408,567.51)	
							Debit Amount		316,929,196.25	
							Credit Amount		(284,336,785.78)	
							\$ABS Amount		711,264,661.01	
<b>TOTAL</b>										
							SNEL Exception		944,436,678.00	
							Debit Amount		1,453,210,451.00	
							Credit Amount		(608,771,773.00)	
							\$ABS Amount		1,961,963,271.00	

	American		ASB	Dated	Europe		ASB	Dated	Asia		ASB	Dated	Total	
	Debit	Credit			Debit	Credit			Debit	Credit			Debit	Credit
PCSA	704,451	(90,788,827)	364,532,868	150	(650,211,278)	650,211,451	2,379,000	(189,893,059)	999,097,091	707,152	(1,365,714,628)	1,364,721,880		
TAXES	34,781,275	(10,290,389)	46,031,023	638,788,917	(209,084,181)	864,854,078	17,658,168	(18,964,827)	34,023,124	610,629,358	(23,979,487)	744,028,177		
DEFERRALS	7,280,407	(7,638,028)	14,808,460	3,872,478	(1,920,867)	5,699,492	-	(3,854,852)	8,934,893	11,183,247	(15,863,878)	26,143,680		
TRADING	10,028,210	(10,027,789)	20,629,867	(18,494,829)	(48,570,240)	134,844,090	5,488,885	(15,383,388,000)	20,870,883	122,002,614	(74,886,429)	198,486,040		
LC RESERVABLE	3,454,434	(808,451)	4,048,884	6,382,763,071	(118,789,177)	6,508,296,138	-	-	-	6,389,003,446	(119,999,359)	6,512,809,009		
LC PAYABLE	-	6,027,049	9,027,049	115,783,127	(8,847,460,780)	3,983,331,919	-	(73,788,497)	78,799,497	118,783,127	(6,829,894,246)	6,649,387,371		
OTHER	1,453,240,481	(548,721,725)	1,881,862,221	9,074,070,288	(7,644,443,874)	17,218,812,288	1,129,345,064	(188,744,879)	1,249,089,893	12,217,628,861	(8,311,863,729)	20,529,597,517		
TOTAL	1,809,248,228	(627,440,879)	2,467,538,387	10,887,214,521	(15,668,888,189)	37,348,284,077	3,212,889,381	(447,234,709)	1,864,850,818	19,374,328,258	(18,074,384,879)	36,448,913,709		

<sup>1</sup> LE 0818 Townsend Analytics \$200m were not substantiated for Q1, primarily due to Technology related issues.  
<sup>2</sup> LE 0050 LBL has had a number of Statutory Reporting Priorities (per Raymond O'Grady email on 5/1), which contributed to \$3.8bn unsubstantiated for Q1.  
<sup>3</sup> LE 0813 LBIE Machld with \$32m unsubstantiated for Q1, are currently formulating efficient reconciliations for accounts requiring substantiation and estimates to be more effective by Q3.

	Americas		Europe		Asia		Total	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
ROU	1,708,669,006	(35,047,127)	1,743,703,163	(4,768,011)	4,763,191	(28,845,299)	1,708,672,524	(69,730,367)
TAXES	2,837,206	(62,369,114)	11,169,016	(2,849,864)	14,048,001	(4,348,667)	20,767,546	(96,594,960)
DEFERRALS	211,864,969	(69,328,370)	615,389,349	(219,061,629)	736,961,178	(64,511,479)	798,241,069	(363,419,678)
TIMING	184,329,640	(123,418,802)	1,854,272	(18,781,961)	20,746,155	862,419	187,109,329	(144,208,963)
IC RECEIVABLE	2,031,321,055	(629,594,439)	5,314,662,312	(9,383,698)	68,106,867	18,449,633	2,159,682,897	(817,440,409)
IC PAYABLE	447,090	(692,441,648)	18,415,400	(66,525,243)	74,940,841	(127,308,329)	18,862,460	(676,273,116)
OTHER	1,088,803,565	(1,333,204,719)	2,420,108,298	(692,173,723)	1,133,261,227	(384,160,039)	6,968,532,601	(2,219,636,473)
TOTAL	5,224,369,066	(3,189,421,119)	11,671,664,033	(679,663,179)	3,624,647,668	(688,178,669)	19,461,726,237	(4,687,264,865)

1 \$1.2bn relates to LBH-II items which were subsequently resolved.  
2 \$75.7m relates to exceptions categorized as "misclassifications".  
3 \$1.2bn relates Mauritius legal entities which were subsequently resolved.  
4 \$1.6bn in exceptions reflected was an error and actual amount should have been \$1.6m, and this occurred in LE 087C - Milford YK.

Q1 – Daily B/S

1. Do you see the reconciliation of management's daily balance sheet to the books and records (ultimately the public financial statements) as a primary control within the organization?
2. Do you believe this break to be a true write off?
3. Can you clarify what you mean by the difference between what the daily amounts are and the last day of the month's balances? Does this mean that you see a \$5B change or it is the difference between the daily BS and the financial statements?

Q2 – Substantiation Process

4. Can you clarify the meaning of "not substantiated".
5. Do you believe that the firm's assets are truly understated by those balances/accounts that are labeled "not substantiated" or "exception"?

Q3 – Value of Assets

6. Are you aware of any specific product/trading books that are priced inappropriately
7. What do you believe management is lacking in valuing its assets?
8. Do you believe Lehman is different from others in the market?
9. Do you believe this is because of the current market conditions or a longer history?
10. What assets or products do you believe do not take concentration or volume into account within their market values?
11. From what standpoint do you derive your amount of tens of billions?

Q4 – Infrastructure Investment

12. Is there a specific area or areas that you believe need more attention than others?

Q5 – India Operations

13. Are you aware of specific misstatements that have come out of India?
14. What area or areas within India are not being managed well?
15. From the migration program it appears to be well controlled, what changed or might be misrepresented?

Q6 – Internal Audit

16. Can you be more specific as to what you believe is lacking in expertise from the department.
17. Do you believe Internal Audit can be objective in conducting a review of this issue?





"Rudofker, Beth"  
<brudofke@lehman.com>  
06/04/2008 08:03 PM

To <william.schlich@ey.com>, "Kelly, Martin"  
<martin.kelly@lehman.com>  
cc  
bcc

Subject Matthew Lee Letter and Investigation - Conversation with TC

Spoke to Cruikshank about the Matthew Lee letter and investigation. The conversation went well and he agreed with the approach we're taking and encouraged us to go through and make sure we can support each part with the facts.

Happy to discuss in more detail.

B

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This message is intended only for the personal and confidential use of the designated recipient(s) named above. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. This communication is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any financial product, an official confirmation of any transaction, or as an official statement of Lehman Brothers. Email transmission cannot be guaranteed to be secure or error-free. Therefore, we do not represent that this information is complete or accurate and it should not be relied upon as such. All information is subject to change without notice.

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IRS Circular 230 Disclosure:

Please be advised that any discussion of U.S. tax matters contained within this communication (including any attachments) is not intended or written to be used and cannot be used for the purpose of (i) avoiding U.S. tax related penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.



"Rudofker, Beth"  
<brudofke@lehman.com>  
05/29/2008 02:31 PM

To <william.schlich@ey.com>  
cc  
bcc  
Subject RE: Matthew Lee

No problem. 5:30 is good.

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Thursday, May 29, 2008 2:28 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

5:30 would be better. Sorry I thought it was for today.

Bill

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/29/2008 02:27 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

That was yesterday...can you do 5 today?

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Thursday, May 29, 2008 2:25 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

We on for 4 PM?

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/29/2008 01:06 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

How about 4pm?

Thx!

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Wednesday, May 28, 2008 7:12 AM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee



	Americas		Europe		Asia		Africa		Total	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
REVENUE	704,431	(243,708,527)	155	(553,111,278)	(53,311,631)	(795,803,026)	198,807,801	707,162	(1,385,714,829)	1,385,671,960
TAXES	34,784,235	(15,220,389)	45,021,025	(228,084,161)	864,854,079	(78,364,637)	34,020,124	310,829,338	(233,078,497)	744,008,877
DETERMINABLE	7,299,487	(7,458,029)	3,712,873	(3,659,497)	1,398,452	(5,654,893)	5,654,893	11,193,342	(14,850,029)	36,143,650
TIMING	10,028,270	(19,827,769)	128,484,628	(48,470,240)	154,950,090	(8,689,666)	20,878,803	122,022,614	(74,488,424)	150,480,040
AC RECEIVABLE	3,243,434	(828,431)	6,362,783,072	(115,793,127)	6,088,588,138	-	-	6,368,026,448	(116,500,856)	6,512,809,005
AC PAYABLE	-	(6,927,046)	115,725,127	(5,627,745,792)	5,463,525,972	(73,798,427)	75,729,427	115,725,127	(5,629,584,244)	6,045,597,371
OTHER	1,453,216,451	(209,771,772)	6,874,070,289	(7,844,443,874)	17,218,514,288	(158,244,879)	1,349,000,628	12,277,629,801	(8,311,860,722)	20,528,807,517
TOTAL	1,898,246,228	(827,248,878)	18,681,314,321	(14,488,688,188)	31,246,284,672	(1,213,644,281)	1,688,828,818	18,274,888,829	(118,874,388,870)	26,448,814,728

<sup>1</sup> LE 0C18 Townsend Analytics \$203m were not substantiated for Q1, primarily due to Technology related issues.  
<sup>2</sup> LE 0056 LBL has had a number of Statutory Reporting priorities (per Raymond O'Grady email on 5/7), which contributed to \$3.8bn unsubstantiated for Q1.  
<sup>3</sup> LE 0913 LBIE Madrid with \$32m unsubstantiated for Q1, are currently formalizing efficient reconciliations for accounts requiring substantiation and estimates to be more effective by Q3.

	Americas		Europe		Asia		Total		
	Debit	ASB	Debit	ASB	Debit	ASB	Debit	ASB	
RS&P	1,708,856,085	(25,047,177)	18,228	(4,783,181)	(25,945,278)	28,949,288	1,708,672,324	(88,739,857)	1,779,411,863
TAXES	2,637,708	(92,388,114)	11,108,016	(2,849,884)	(4,348,882)	11,078,709	20,797,548	(98,584,882)	170,352,530
DEFERRALS	211,884,888	(83,328,378)	618,388,348	(215,581,828)	(84,811,478)	145,488,332	788,241,088	(383,418,878)	1,771,880,740
TIMING	184,328,840	(175,418,802)	1,854,272	(18,781,881)	-	882,478	187,188,328	(144,208,883)	531,378,013
AC RECEIVABLE	2,031,321,055	(828,588,538)	48,123,078	(8,383,588)	18,038,818	88,888,133	2,108,652,887	(817,440,488)	5,670,787,132
AC PAYABLE	447,000	(892,441,548)	18,418,400	(58,525,242)	(177,308,328)	177,308,328	18,882,480	(878,273,180)	688,135,587
OTHER	1,088,883,685	(1,333,284,715)	831,887,511	(802,173,722)	(284,182,828)	4,227,822,828	8,388,832,821	(2,218,838,473)	7,780,892,145
TOTAL	5,228,288,888	(3,188,821,118)	1,228,783,888	(818,883,173)	(888,738,888)	4,888,511,887	18,881,728,337	(4,887,284,888)	17,245,744,888

1 \$1.2bn relates to LBHI items which were subsequently resolved.  
 2 \$75.7m relates to exceptions categorized as "misclassifications".  
 3 \$1.2bn relates Mauritius legal entities which were subsequently resolved.  
 4 \$1.6bn in exceptions reflected was an error and actual amount should have been \$1.8m, and this occurred in LE 087C - Midford YK.

File #	Case #	Case Name	Case Type	Case Status	Case Date	Case Amount	Case Description	Case Notes
101	101	...	...	...	...	...	...	...
102	102	...	...	...	...	...	...	...
103	103	...	...	...	...	...	...	...
104	104	...	...	...	...	...	...	...
105	105	...	...	...	...	...	...	...
106	106	...	...	...	...	...	...	...
107	107	...	...	...	...	...	...	...
108	108	...	...	...	...	...	...	...
109	109	...	...	...	...	...	...	...
110	110	...	...	...	...	...	...	...
111	111	...	...	...	...	...	...	...
112	112	...	...	...	...	...	...	...
113	113	...	...	...	...	...	...	...
114	114	...	...	...	...	...	...	...
115	115	...	...	...	...	...	...	...
116	116	...	...	...	...	...	...	...
117	117	...	...	...	...	...	...	...
118	118	...	...	...	...	...	...	...
119	119	...	...	...	...	...	...	...
120	120	...	...	...	...	...	...	...
121	121	...	...	...	...	...	...	...
122	122	...	...	...	...	...	...	...
123	123	...	...	...	...	...	...	...
124	124	...	...	...	...	...	...	...
125	125	...	...	...	...	...	...	...
126	126	...	...	...	...	...	...	...
127	127	...	...	...	...	...	...	...
128	128	...	...	...	...	...	...	...
129	129	...	...	...	...	...	...	...
130	130	...	...	...	...	...	...	...
131	131	...	...	...	...	...	...	...
132	132	...	...	...	...	...	...	...
133	133	...	...	...	...	...	...	...
134	134	...	...	...	...	...	...	...
135	135	...	...	...	...	...	...	...
136	136	...	...	...	...	...	...	...
137	137	...	...	...	...	...	...	...
138	138	...	...	...	...	...	...	...
139	139	...	...	...	...	...	...	...
140	140	...	...	...	...	...	...	...
141	141	...	...	...	...	...	...	...
142	142	...	...	...	...	...	...	...
143	143	...	...	...	...	...	...	...
144	144	...	...	...	...	...	...	...
145	145	...	...	...	...	...	...	...
146	146	...	...	...	...	...	...	...
147	147	...	...	...	...	...	...	...
148	148	...	...	...	...	...	...	...
149	149	...	...	...	...	...	...	...
150	150	...	...	...	...	...	...	...

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**Substantiation Analysis**

**AUGUST 2007**

	SUBSTANTIATED			EXCEPTION			NOT SUBSTANTIATED			TOTAL		
	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$
AMERICAS	3,461	\$ 1,193	42%	1,616	\$ 5	0%	766	\$ 68	2%	5,843	\$ 1,266	45%
EUROPE	1,052	\$ 1,243	44%	1,129	\$ 3	0%	1,860	\$ 187	7%	4,041	\$ 1,433	51%
ASIA	1,936	\$ 98	3%	704	\$ 1	0%	681	\$ 28	1%	3,321	\$ 127	4%
<b>TOTAL</b>	<b>6,449</b>	<b>\$ 2,534</b>	<b>98%</b>	<b>3,449</b>	<b>\$ 9</b>	<b>0%</b>	<b>3,307</b>	<b>\$ 283</b>	<b>10%</b>	<b>13,205</b>	<b>\$ 2,826</b>	<b>100%</b>

**NOVEMBER 2007**

	SUBSTANTIATED			EXCEPTION			NOT SUBSTANTIATED			TOTAL		
	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$
AMERICAS	3,305	\$ 1,307	43%	847	\$ 8	0%	792	\$ 15	0%	4,944	\$ 1,330	44%
EUROPE	1,149	\$ 1,256	42%	818	\$ 3	0%	1,573	\$ 305	10%	3,540	\$ 1,563	52%
ASIA	2,052	\$ 126	4%	577	\$ 1	0%	410	\$ 5	0%	3,039	\$ 132	4%
<b>TOTAL</b>	<b>6,506</b>	<b>\$ 2,688</b>	<b>89%</b>	<b>2,242</b>	<b>\$ 12</b>	<b>0%</b>	<b>2,775</b>	<b>\$ 325</b>	<b>11%</b>	<b>11,523</b>	<b>\$ 3,025</b>	<b>100%</b>

**FEBRUARY 2008**

	SUBSTANTIATED			EXCEPTION			NOT SUBSTANTIATED			TOTAL		
	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$	# of Accounts	ABS \$ BN	% ABS \$
AMERICAS	3,129	\$ 1,507	45%	833	\$ 11	0%	1,066	\$ 2	0%	5,028	\$ 1,520	45%
EUROPE	1,676	\$ 1,698	50%	1,065	\$ 2	0%	1,017	\$ 31	1%	3,758	\$ 1,731	51%
ASIA	2,340	\$ 128	4%	445	\$ 5	0%	246	\$ 2	0%	3,031	\$ 135	4%
<b>TOTAL</b>	<b>7,145</b>	<b>\$ 3,333</b>	<b>98%</b>	<b>2,343</b>	<b>\$ 18</b>	<b>1%</b>	<b>2,329</b>	<b>\$ 35</b>	<b>1%</b>	<b>11,817</b>	<b>\$ 3,386</b>	<b>100%</b>

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FY-SEC-LBHI-ML 000081

Substantiation      Exceptions Analysis

	February 2008			November 2007			August 2007		
	# of Accounts	ABS \$ MM	Net \$ MM	# of Accounts	ABS \$ MM	Net \$ MM	# of Accounts	ABS \$ MM	Net \$ MM
Investigation not complete	232	2,748	809	175	724	(24)	382	2,785	(1,199)
Information not received from PC	418	3,061	1,620	315	1,461	(10)	400	2,297	731
Being resolved by ongoing project	240	1,336	18	54	2,009	(698)	113	1,229	250
Information not received from others	153	4,187	2,643	133	172	(26)	298	981	(420)
Unsupported	614	4,810	3,950	740	6,813	1,176	683	678	(104)
Misclassification	185	603	178	135	380	12	135	672	(282)
Immaterial	388	50	7	507	83	15	809	261	39
Insufficient resources to certify	80	922	(694)	101	290	56	23	90	(62)
To be written off	74	30	1	102	104	9	641	54	(5)
<b>Total Exceptions</b>	<b>2,384</b>	<b>17,746</b>	<b>8,531</b>	<b>2,262</b>	<b>12,036</b>	<b>510</b>	<b>3,484</b>	<b>9,047</b>	<b>(1,052)</b>

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**"Unsubstantiated Balance" Review Status**  
**February 2008 Balance Sheet**  
*(\$ in millions)*

	<u>Net Balance</u>	<u>Absolute Value Balance</u>
<b>Original Balance</b>	3,300	35,449
Intercompany Eliminations	466	12,558
RSU Accounts - Offset	(1,385)	1,386
<b>Original Less Intercompany/RSU</b>	<u>4,219</u>	<u>21,505</u>
Additional Support Obtained	25	3,611
Pending Receipt of Additional Support	4,392	12,443
Covered by Process Controls Tested by Audit	51	260
<b>Total Additional Support Obtained or Pending Receipt</b>	<u>4,469</u>	<u>16,314</u>
<b>Remaining Balance to be mapped</b>	<u>(250)</u>	<u>5,191</u>
Total Balance Sheet		786,085
<b>% to be mapped</b>		<b>0.7%</b>

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	<u>Balance</u>	<u>As</u>	
Net "unsubstantiated"	3,299,902,960	35,448,814,701	
<b>Intercompany Eliminations</b>			
Financing	395,950,884	395,950,884	
Inv	(134,752,084)	1,727,827,098	
LTD	(5,028,054,892)	5,028,054,892	
Other Assets	5,318,504,752	5,320,117,815	
Other Liab	(85,968,997)	85,968,997	
<b>Subtotal I/C</b>	<u>465,679,863</u>	<u>12,557,919,286</u>	
RSU Accounts - Offset	(1,384,734,924)	1,386,149,250	The 23010 account is used similar to a "bridge" account to allocate stock-based compensation expenses to each legal entity. The offsetting balance is on LBHI. When consolidated, these balances net to zero. Although, there is currently an immaterial
<b>Original Balance Less I/C eliminations &amp; RSU Accounts</b>	<u><b>4,218,958,021</b></u>	<u><b>21,504,546,164</b></u>	
<b>Additional Support Obtained</b>			
Cash & Cash Eq - WOOD STREET INVESTMENTS LTD	293,008,283	293,008,283	Received deposit summary from Front Office, which is reconciled to DBS by FC
CASH & SECURITIES SEGR	759,362,807	759,362,807	Obtained Commodity Accounting/Ops Rec for Feb
CW Lease Payable	(1,389,298,359)	1,389,298,359	Obtained Rec from FC for Feb
LTD ADJ FAS133 HEDGING CO 59	(22,918,785)	22,918,785	Tested in Feb as part of Treasury SOX testing
PENSION CLEARING PREPAYMENT	113,689,424	113,689,424	Received pension actuary report from FC
Other Assets - Fixed Assets	306,816,898	848,020,538	Received FA rolloff schedule; PS FA to GL Rec; Tested purchases and retirements
Other Liab - Bonus Accrual Process	(129,923,141)	129,923,141	Received reconciliation from LEC
Other Rec - Other (Co 0B42 - Advisory Fees)	74,907,649	74,907,649	Received PS GL to GL Rec from IMD; IMD Audit tested the process from Advantage billing to PS GL
	<u>25,444,796</u>	<u>3,811,124,964</u>	
<b>Pending Additional Support</b>			
Capstone Entities & Adj	2,331,272,298.41	8,897,400,230.67	Waiting for Europe to provide Feb. 08; some balances were substantiated for Nov. 07
FAS 140 Gross Up for ELQ (Co 00S1)	-	1,045,406,422.38	Waiting for Europe to provide support, new gross up 1Q 2008
Inv - Cash Long			
Asia: HERCULES KK - FOREIGN CORPORATE LOANS	891,722,444	891,722,444	Waiting for Asia Audit Cesar Asato to obtain support - TBA Friday
Europe: Real Estate & Foreign Corporate Loans	725,234,196	725,234,196	Lnd Audit to follow-up. Europe has been focused on the statutory filings
Other Assets - Tax	180,985,850	181,390,829	Tax reconciles these balances - will receive 1st Qtr binber
Other Liab - Tax	77,151,810	515,320,319	Tax reconciles these balances - will receive 1st Qtr binber
Other Assets - Goodwill (Co 0A97)	137,632,159	137,632,159	Will receive reconciliation by Friday from LEC
Other Assets - Goodwill (Co 0C18)	48,458,095	48,458,095	Reviewed Purchase Price Allocation Memo supporting the \$43million original amount; waiting for rec from LEC
	<u>4,392,456,852</u>	<u>12,442,564,895</u>	
<b>Covered by Process Controls Tested by Audit</b>			
Inv - Derivatives Timing and deferrals	47,203,163	198,803,539	SOX 2007, on a sample basis controls were tested
Inv - P&L Deferrals	(3,757,267)	26,143,952	SOX 2007, on a sample basis controls were tested
Inv - Derivatives MTM Adjustments	7,349,403	35,008,143	SOX 2007, on a sample basis controls were tested
	<u>50,795,299</u>	<u>259,955,634</u>	
<b>Total Additional Support</b>	<u><b>4,468,696,947</b></u>	<u><b>16,313,645,293</b></u>	
<b>Remaining Balance to be mapped</b>	<u><b>(249,738,927)</b></u>	<u><b>5,190,900,871</b></u>	
<b>Total Balance Sheet</b>		<b>786,085,000,000</b>	
<b>% to be mapped</b>		<b>0.7%</b>	

Will be happy to change my schedule. I can be there tomorrow and spend whatever time you want.

Let me know.

Bill

-----  
Ernst & Young

----- Original Message -----  
From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/27/2008 07:23 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

Just tried you back. I'd like to call Tom C. (agreed to do this with Tom R.) by the end of the week to give him the letter and our perspective, but if you need to travel, perhaps we can set up an hour by phone.

-----Original Message-----  
From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Tuesday, May 27, 2008 2:44 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

Just read it. let me know when we can get together. Supposed to be out of town tomorrow and thurs but can change that if we need to.

Bill

-----  
Ernst & Young

----- Original Message -----  
From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/27/2008 11:35 AM  
To: <william.schlich@ey.com>  
Subject: FW: Matthew Lee

-----Original Message-----  
From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.  
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-----

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"Rudofker, Beth"  
<brudofke@lehman.com>  
05/27/2008 11:37 AM

To <william.schlich@ey.com>  
cc  
bcc  
Subject FW: Matthew Lee

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

From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.

-----  
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"Rudofker, Beth"  
<brudofke@lehman.com>  
07/22/2008 09:11 AM

To <hillary.hansen@ey.com>  
cc "Polizzotto, Joe" <jpolizz@lehman.com>, "Bopp Flynn, Kathy" <kflynn@lehman.com>, "Kelly, Martin" <martin.kelly@lehman.com>, <william.schlich@ey.com>  
bcc  
Subject RE: Employee Letter Presentation to the Audit Committee

Thanks!!

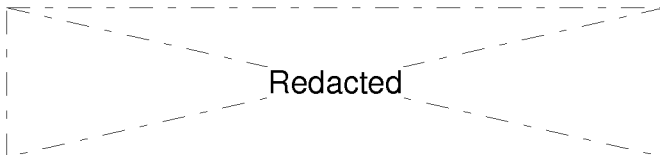
From: hillary.hansen@ey.com [mailto:hillary.hansen@ey.com]  
Sent: Tuesday, July 22, 2008 8:56 AM  
To: Rudofker, Beth  
Cc: Polizzotto, Joe; Bopp Flynn, Kathy; Kelly, Martin; william.schlich@ey.com  
Subject: Re: Employee Letter Presentation to the Audit Committee

Beth-  
I have reviewed the document. Based on my knowledge of the situation, I believe this is a very well laid out presentation that captures all points necessary for the audit committee to gain a full understanding and appreciation of the issue. Good luck today in the meeting.  
Kind regards,  
Hillary

**Ernst & Young ®**

Financial Services

Hillary D. Hansen | Partner | Banking and Capital Markets



Thank you for considering the environmental impact of printing emails.

"Rudofker, Beth"  
<brudofke@lehman.com>

07/22/2008 08:08 AM

To "Polizzotto, Joe" <jpolizz@lehman.com>, "Kelly, Martin" <martin.kelly@lehman.com>, <william.schlich@ey.com>  
cc "Bopp Flynn, Kathy" <kflynn@lehman.com>, <hillary.hansen@ey.com>  
Subject Employee Letter Presentation to the Audit Committee

i would appreciate your review of this presentation before this morning's if possible. Any suggestions are welcome.  
Thanks,  
B

<<Audit Committee- balance sheet - 7-22-08 b.ppt>>  
-----  
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{attachment "Audit Committee- balance sheet - 7-22-08 b.ppt" deleted by  
Hillary D. Hansen/NewYork/AUDIT/EYLLP/US}

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"Rudofker, Beth"  
<brudofke@lehman.com>  
07/22/2008 10:19 AM

To "Polizzotto, Joe" <jpolizz@lehman.com>, "Kelly, Martin"  
<martin.kelly@lehman.com>, "Bopp Flynn, Kathy"  
<kflynn@lehman.com>, <william.schlich@ey.com>,  
cc "Aponte, Yolanda" <Yolanda.Aponte@lehman.com>

bcc

Subject Updated Employee Letter Audit Committee Presentation

History:      ↵ This message has been forwarded.

Attached is the latest updated for comments received and balance sheet substantiation details in the appendix.

Thanks!

B

<<Audit Committee- balance sheet - 7-22-08c.ppt>>

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Audit Committee- balance sheet - 7-22-08c.ppt

	Americas			Europe			Asia			Total		
	Debits	Credits	ABS\$	Debits	Credits	ABS\$	Debits	Credits	ABS\$	Debits	Credits	ABS\$
RSUS	1,708,656,065	(35,047,127)	1,743,703,193	16,259	(4,746,931)	4,763,191		(26,945,289)	26,945,296	1,708,672,324	(66,736,357)	1,775,411,632
TAXES	2,837,706	(62,388,114)	85,225,820	11,198,016	(2,846,694)	14,048,001	8,731,826	(4,346,882)	11,078,709	20,767,548	(96,564,580)	120,352,530
DEFERRALS	211,864,869	(83,326,370)	295,191,239	515,309,348	(215,581,829)	730,981,178	60,976,852	(84,511,479)	145,468,332	788,241,069	(303,419,678)	1,171,660,749
TIMING	184,329,640	(125,416,802)	309,746,442	1,854,272	(18,791,881)	20,746,155	882,416		882,416	187,166,328	(144,208,663)	351,375,613
WC RECEIVABLE	2,031,321,055	(826,596,439)	5,614,692,312	46,723,079	(9,383,588)	58,106,667	81,448,533	18,539,619	59,988,153	2,158,482,667	(817,440,408)	5,670,787,152
WC PAYABLE	447,080	(692,441,546)	692,888,628	18,415,400	(56,525,240)	74,940,641		(127,308,328)	127,308,328	18,862,480	(876,273,116)	856,135,567
OTHER	1,060,903,585	(1,333,204,715)	2,420,108,298 <sup>1</sup>	631,087,511	(502,173,722)	1,133,261,227 <sup>2</sup>	3,680,541,825	(384,100,036)	4,227,622,620 <sup>3,4</sup>	5,568,532,921	(2,219,538,473)	7,780,962,145
<b>TOTAL</b>	<b>6,228,340,000</b>	<b>(3,188,421,116)</b>	<b>11,071,666,812</b>	<b>1,224,783,886</b>	<b>(816,043,176)</b>	<b>2,034,847,060</b>	<b>4,030,681,482</b>	<b>(608,738,496)</b>	<b>4,638,311,857</b>	<b>10,481,738,337</b>	<b>(4,807,204,896)</b>	<b>17,745,714,849</b>

<sup>1</sup> \$1.2bn relates to LBHI items which were subsequently resolved.

<sup>2</sup> \$75.7m relates to exceptions categorized as "misclassifications".

<sup>3</sup> \$1.2bn relates Maunbus legal entities which were subsequently resolved.

<sup>4</sup> \$1.6bn in exceptions reflected was an error and actual amount should have been \$1.6m, and this occurred in LE 067C - Milford YK.

FOIA Treatment Requested  
Private & Confidential









Item	Entity	Account	Category	Balance	Change	Balance
101	ALCOHOL HOLDINGS LTD	1001	ALCOHOL HOLDINGS LTD	1,279,149,756.78		1,279,149,756.78
102	ALCOHOL HOLDINGS LTD	1002	ALCOHOL HOLDINGS LTD	6,373,361,464.44		6,373,361,464.44
103	ALCOHOL HOLDINGS LTD	1003	ALCOHOL HOLDINGS LTD	(4,794,241,748.66)		(4,794,241,748.66)
104	ALCOHOL HOLDINGS LTD	1004	ALCOHOL HOLDINGS LTD	11,167,633,233.10		11,167,633,233.10
105	ALCOHOL HOLDINGS LTD	1005	ALCOHOL HOLDINGS LTD	350,476,696.22		350,476,696.22
106	ALCOHOL HOLDINGS LTD	1006	ALCOHOL HOLDINGS LTD	3,200,878,911.56		3,200,878,911.56
107	ALCOHOL HOLDINGS LTD	1007	ALCOHOL HOLDINGS LTD	(2,850,702,225.34)		(2,850,702,225.34)
108	ALCOHOL HOLDINGS LTD	1008	ALCOHOL HOLDINGS LTD	8,050,808,134.86		8,050,808,134.86
109	ALCOHOL HOLDINGS LTD	1009	ALCOHOL HOLDINGS LTD	1,929,636,422.00		1,929,636,422.00
110	ALCOHOL HOLDINGS LTD	1010	ALCOHOL HOLDINGS LTD	9,574,070,398.00		9,574,070,398.00
111	ALCOHOL HOLDINGS LTD	1011	ALCOHOL HOLDINGS LTD	(7,644,443,974.00)		(7,644,443,974.00)
112	ALCOHOL HOLDINGS LTD	1012	ALCOHOL HOLDINGS LTD	17,218,541,368.00		17,218,541,368.00

FOIA Treatment Requested  
Private & Confidential



	Americas			Europe			Asia			Total		
	Debit	Credit	ASS	Debit	Credit	ASS	Debit	Credit	ASS	Debit	Credit	ASS
RSUs	704,431	(393,796,527)	394,502,956	155	(830,311,215)	830,311,431	2,576,000	(109,505,024)	105,607,601	707,162	(1,533,714,826)	1,534,421,542
TAXES	34,781,235	(10,250,388)	45,031,625	458,289,917	(206,664,161)	664,954,078	17,658,188	(16,164,937)	34,023,124	510,929,338	(233,075,487)	744,004,825
DEFERRALS	7,280,467	(7,659,028)	14,939,495	3,812,875	(1,656,587)	5,569,462		(5,634,993)	5,634,993	11,163,342	(14,650,606)	26,143,952
TRAINING	10,029,210	(10,627,788)	20,656,997	108,484,839	(48,470,240)	154,655,080	5,489,565	(15,386,398,000)	20,876,963	122,002,614	(24,456,424)	196,459,034
VC RECEIVABLE	3,243,434	(806,431)	4,049,865	6,382,783,012	(115,793,127)	6,508,586,139				6,396,006,446	(116,596,556)	6,512,606,000
VC PAYABLE		(6,027,045)	6,027,045	115,793,127	(5,847,740,762)	5,963,533,919		(75,786,407)	75,786,407	115,793,127	(5,529,564,244)	6,045,357,371
OTHER	1,453,210,451	(506,771,773)	1,959,982,224	9,574,870,396	(7,644,443,874)	17,218,514,368	1,190,345,854	(158,744,876)	1,349,090,928	12,217,626,801	(8,311,660,723)	20,526,567,517
<b>TOTAL</b>	<b>1,809,248,228</b>	<b>(837,840,879)</b>	<b>2,447,189,207</b>	<b>16,681,314,321</b>	<b>(14,896,890,158)</b>	<b>31,346,394,477</b>	<b>1,213,686,281</b>	<b>(441,534,715)</b>	<b>1,645,030,016</b>	<b>18,374,258,830</b>	<b>(16,074,364,876)</b>	<b>35,448,614,700</b>

<sup>1</sup> LE 0018 Townsend Analytics \$203m were not substantiated for Q1, primarily due to Technology related issues.  
<sup>2</sup> LE 0056 LBL has had a number of Statutory Reporting priorities (per Raymond O'Grady email on 5/1), which contributed to \$3.5bn unsubstantiated for Q1.  
<sup>3</sup> LE 0913 LBIE Madrid with \$32m unsubstantiated for Q1, are currently formalizing efficient reconciliations for accounts requiring substantiation and estimate to be more effective by Q3

FOIA Treatment Requested  
Private & Confidential

William  
Schlich/NewYork/AUDIT/EYL  
LP/US

05/23/2008 05:25 PM

To Hillary D. Hansen/NewYork/AUDIT/EYLLP/US  
cc  
bcc  
Subject Martin

I found out why the other day at Lehman was so tough. Martin alluded to the fact they were having an issue - a major whistleblower letter. Very bad been on the phone with Beth all day.

-----  
Ernst & Young



"Rudofker, Beth"  
<brudofke@lehman.com>  
05/27/2008 11:35 AM

To <william.schlich@ey.com>  
cc  
bcc  
Subject FW: Matthew Lee

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

From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.

-----  
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Document.pdf



**MATTHEW LEE**

May 16, 2008

**PERSONAL AND CONFIDENTIAL**

**BY HAND**

Mr. Martin Kelly, Controller  
Mr. Gerard Reilly, Head of Capital Markets Product Control  
Ms. Erin Callan, Chief Financial Officer  
Mr. Christopher O'Meara, Chief Risk Officer  
Lehman Brothers Holdings, Inc. and subsidiaries  
745 7<sup>th</sup> Avenue  
New York, N.Y. 10019

Gentlemen and Madam:

I have been employed by Lehman Brothers Holdings, Inc. and subsidiaries (the "Firm") since May 1994, currently in the position of Senior Vice President in charge of the Firm's consolidated and unconsolidated balance sheets of over one thousand legal entities worldwide. During my tenure with the Firm I have been a loyal and dedicated employee and always have acted in the Firm's best interests.

I have become aware of certain conduct and practices, however, that I feel compelled to bring to your attention, as required by the Firm's Code of Ethics, as Amended February 17, 2004 (the "Code") and which requires me, as a Firm employee, to bring to the attention of management conduct and actions on the part of the Firm that I consider to possibly constitute unethical or unlawful conduct. I therefore bring the following to your attention, as required by the Code, "to help maintain a culture of honesty and accountability". (Code, first paragraph).

The second to last section of the Code is captioned "FULL, FAIR, ACCURATE, TIMELY AND UNDERSTANDABLE DISCLOSURE". That section provides, in relevant part, as follows:

"It is crucial that all books of account, financial statements and records of the Firm reflect the underlying transactions and any disposition of assets in a full, fair, accurate and timely manner. All employees...must endeavor to ensure that information in documents that Lehman Brothers files with or submits to the SEC, or otherwise disclosed to the public, is presented in a full, fair, accurate, timely and understandable manner. Additionally, each individual involved in the preparation of the Firm's financial statements must prepare

those statements in accordance with Generally Accepted Accounting Principles, consistently applied, and any other applicable accounting standards and rules so that the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the Firm.

Furthermore, it is critically important that financial statements and related disclosures be free of material errors. Employees and directors are prohibited from knowingly making or causing others to make a materially misleading, incomplete or false statement to an accountant or an attorney in connection with an audit or any filing with any governmental or regulatory entity. In that connection, no individual, or any person acting under his or her direction, shall directly or indirectly take any action to coerce, manipulate, mislead or fraudulently influence any of the Firm's internal auditors or independent auditors if he or she knows (or should know) that his or her actions, if successful, could result in rendering the Firm's financial statements materially misleading"

In the course of performing my duties for the Firm, I have reason to believe that certain conduct on the part of senior management of the Firm may be in violation of the Code. The following is a summary of the conduct I believe may violate the Code and which I feel compelled, by the terms of the Code, to bring to your attention.

1. Senior Firm management manages its balance sheet assets on a daily basis. On the last day of each month, the books and records of the Firm contain approximately five (5) billion dollars of net assets in excess of what is managed on the last day of the month. I believe this pattern indicates that the Firm's senior management is not in sufficient control of its assets to be able to establish that its financial statements are presented to the public and governmental agencies in a "full, fair accurate and timely manner". In my opinion, respectfully submitted, I believe the result is that at the end of each month, there could be approximately five (5) billion dollars of assets subject to a potential write-off. I believe it will take a significant investment of personnel and better control systems to adequately identify and quantify these discrepancies but, at the minimum, I believe the manner in which the Firm is reporting these assets is potentially misleading to the public and various governmental agencies. If so, I believe the Firm may be in violation of the Code.

2. The Firm has an established practice of substantiating each balance sheet account for each of its worldwide legal entities on a quarterly basis. While substantiation is somewhat subjective, it appears to me that the Code as well as Generally Accepted Accounting Principles require the Firm to support the net dollar amount in an account balance in a meaningful way supporting the Firm's stated policy of "full, fair, accurate and timely manner" valuation. The Firm has tens of billions of dollars of unsubstantiated balances, which may or may not be "bad" or non-performing assets or real liabilities. In any event, the Firm's senior management may not be in a position to know whether all of these accounts are, in fact, described in a "full, fair, accurate and timely" manner, as required by

the Code. I believe the Firm needs to make an additional investment in personnel and systems to adequately address this fundamental flaw.

3. The Firm has tens of billions of dollar of inventory that it probably cannot buy or sell in any recognized market, at the currently recorded current market values, particularly when dealing in assets of this nature in the volume and size as the positions the Firm holds. I do not believe the manner in which the Firm values that inventory is fully realistic or reasonable, and ignores the concentration in these assets and their volume size given the current state of the market's overall liquidity.

4. I do not believe the Firm has invested sufficiently in the required and reasonably necessary financial systems and personnel to cope with this increased balance sheet, specifically in light of the increased number of accounts, dollar equivalent balances and global entities, which have been created by or absorbed within the Firm as a result of the Firm's rapid growth since the Firm became a publicly traded company in 1994.

5. Based upon my experience and the years I have worked for the Firm, I do not believe there is sufficient knowledgeable management in place in the Mumbai, India Finance functions and department. There is a very real possibility of a potential misstatement of material facts being efficiently distributed by that office.

6. Finally, based upon my personal observations over the past years, certain senior level internal audit personnel do not have the professional expertise to properly exercise the audit functions they are entrusted to manage, all of which have become increasingly complex as the Firm has undergone rapid growth in the international marketplace.

I provide these observations to you with the knowledge that all of us at the Firm are entrusted to observe and respect the Code. I would be happy to discuss any details regarding the foregoing with senior management but I felt compelled, both morally and legally, to bring these issues to your attention. These are, indeed, turbulent times in the economic world and demand, more than ever, our adherence and respect of the Code so that the Firm may continue to enjoy the investing public's trust and confidence in us.

Very truly yours,



MATTHEW LEE

cc: Erwin J. Shustak, Esq.

William  
Schlich/NewYork/AUDIT/EYL  
LP/US

05/27/2008 02:44 PM

To "Beth Rudofker" <brudofke@lehman.com>  
cc  
bcc  
Subject Re: Matthew Lee

Just read it. let me know when we can get together. Supposed to be out of town tomorrow and thurs but can change that if we need to.

Bill

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/27/2008 11:35 AM  
To: <william.schlich@ey.com>  
Subject: FW: Matthew Lee

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

From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.

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"Rudofker, Beth"  
<brudofke@lehman.com>  
05/27/2008 07:23 PM

To <william.schlich@ey.com>  
cc  
bcc  
Subject RE: Matthew Lee

Just tried you back. I'd like to call Tom C. (agreed to do this with Tom R.) by the end of the week to give him the letter and our perspective, but if you need to travel, perhaps we can set up an hour by phone.

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Tuesday, May 27, 2008 2:44 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

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Bill

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Ernst & Young

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William  
Schlich/NewYork/AUDIT/EYL  
LP/US

05/28/2008 07:08 AM

To Robert Schirling/NewYork/AUDIT/EYLLP/US@EY-NAmerica  
cc Hillary D. Hansen/NewYork/AUDIT/EYLLP/US  
bcc  
Subject Fw: Matthew Lee

Bob

Here is the letter we discussed yesterday. If we need to discuss with GC I would like to do it today. Who should I contact. I can talk to them and then catch you up tomorrow. Have a great time at the graduation - where does the time go? And say hello to the wife for me.

-----  
Ernst & Young

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

From: "Rudofker, Beth" (brudofke@lehman.com)  
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To: <william.schlich@ey.com>  
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Document.pdf

FOIA Treatment Requested  
Private & Confidential

EY-SEC-LBHI-ML 000112

**MATTHEW LEE**

May 16, 2008

**PERSONAL AND CONFIDENTIAL**

**BY HAND**

Mr. Martin Kelly, Controller  
Mr. Gerard Reilly, Head of Capital Markets Product Control  
Ms. Erin Callan, Chief Financial Officer  
Mr. Christopher O'Meara, Chief Risk Officer  
Lehman Brothers Holdings, Inc. and subsidiaries  
745 7<sup>th</sup> Avenue  
New York, N.Y. 10019

Gentlemen and Madam:

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Very truly yours,



MATTHEW LEE

cc: Erwin J. Shustak, Esq.

William  
Schlich/NewYork/AUDIT/EYL  
LP/US  
05/28/2008 07:11 AM

To "Beth Rudofker" <brudofke@lehman.com>  
cc  
bcc  
Subject Re: Matthew Lee

Will be happy to change my schedule. I can be there tomorrow and spend whatever time you want.

Let me know.

Bill

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/27/2008 07:23 PM  
To: <william.schlich@ey.com>  
Subject: RE: Matthew Lee

Just tried you back. I'd like to call Tom C. (agreed to do this with Tom R.) by the end of the week to give him the letter and our perspective, but if you need to travel, perhaps we can set up an hour by phone.

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Tuesday, May 27, 2008 2:44 PM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

Just read it. let me know when we can get together. Supposed to be out of town tomorrow and thurs but can change that if we need to.

Bill

-----  
Ernst & Young

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

From: "Rudofker, Beth" [brudofke@lehman.com]  
Sent: 05/27/2008 11:35 AM  
To: <william.schlich@ey.com>  
Subject: FW: Matthew Lee

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

From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.

FOIA Treatment Requested  
Private & Confidential

EY-SEC-LBHI-ML 000116

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Robert Schirling/NewYork/AUDIT/EYLLP/US

05/28/2008 07:46 AM

To William Schlich/NewYork/AUDIT/EYLLP/US@EY-NAmerica  
cc  
bcc

Subject Re: Matthew Lee

History: This message has been replied to.

The person to contact in GC in Ron Hauben. I am trying to read from my Blackberry and cannot FYI.

Robert Schirling  
Partner, Financial Services Professional Practice

Redacted

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

From: William Schlich  
Sent: 05/28/2008 07:08 AM  
To: CN=Robert Schirling/OU=NewYork/OU=AUDIT/O=EYLLP/C=US@EY-NAmerica  
Cc: CN=Hillary D. Hansen/OU=NewYork/OU=AUDIT/O=EYLLP/C=US  
Subject: Fw: Matthew Lee

Bob

Here is the letter we discussed yesterday. If we need to discuss with GC I would like to do it today. Who should I contact. I can talk to them and then catch you up tomorrow. Have a great time at the graduation - where does the time go? And say hello to the wife for me.

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Ernst & Young

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

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From: Sabia, Cindy  
Sent: Friday, May 16, 2008 4:13 PM  
To: Johnson, Jack; Polizzotto, Joe; Binkley, Tracy A; Rudofker, Beth  
Subject: Matthew Lee

Sent on behalf of Steven Berkenfeld.

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"Rudofker, Beth"  
<brudofke@lehman.com>  
05/28/2008 01:06 PM

To <william.schlich@ey.com>  
cc  
bcc  
Subject RE: Matthew Lee

How about 4pm?  
Thx!

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

From: william.schlich@ey.com [mailto:william.schlich@ey.com]  
Sent: Wednesday, May 28, 2008 7:12 AM  
To: Rudofker, Beth  
Subject: Re: Matthew Lee

Will be happy to change my schedule. I can be there tomorrow and spend whatever time you want.

Let me know.

Bill

-----  
Ernst & Young

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Bill

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Ernst & Young

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Sent on behalf of Steven Berkenfeld.

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William  
Schlich/NewYork/AUDIT/EYL  
LP/US

05/29/2008 02:25 PM

To "Beth Rudofker" <brudofke@lehman.com>  
cc  
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Subject: Re: Matthew Lee

We on for 4 PM?

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Ernst & Young

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Sent on behalf of Steven Berkenfeld.

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"Rudofker, Beth"  
<brudofke@lehman.com>  
06/04/2008 08:02 PM

To <william.schlich@ey.com>, "Kelly, Martin"  
<martin.kelly@lehman.com>  
cc  
bcc

Subject Matthew Lee Letter and Investigation - Conversation with TC

Spoke to Cruikshank about the Matthew Lee letter and investigation. The conversation went well and he agreed with the approach we're taking and encouraged us to go through and make sure we can support each part with the facts.

Happy to discuss in more detail.

B

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William  
Schlich/NewYork/AUDIT/EYL  
LP/US

06/05/2008 06:34 PM

To Carmine  
DiSibio/NewYork/AUDIT/EYLLP/US@EY-NAmerica,  
Stephen Howe Jr/AEB/EYLLP/US@EY-NAmerica

cc

bcc William Schlich/NewYork/AUDIT/EYLLP/US@EY-NAmerica

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.

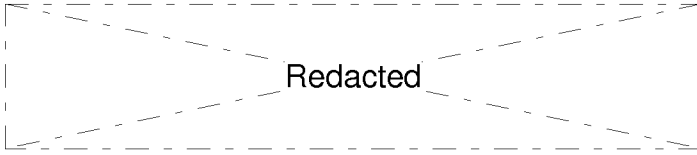
that is it for now.

Bill

**Ernst & Young**®

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William J. Schlich | Partner- Americas Banking & Capital Markets Leader | Financial Services



Thank you for considering the environmental impact of printing emails.

William  
Schlich/NewYork/AUDIT/EYL  
LP/US

06/10/2008 02:24 PM

To Hillary D. Hansen/NewYork/AUDIT/EYLLP/US

cc

bcc

Subject Fw: Invitation: Meeting - Matthew Lee/Joe Polizzotto/Bill  
Schlich (E&Y) (Jun 12 03:00 PM EDT in 1271- 44th Floor  
Conference Room TBD)

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Ernst & Young  
"Polizzotto, Joe"

**From:** "Polizzotto, Joe" [jpolizz@lehman.com]  
**Sent:** 06/10/2008 02:24 PM AST  
**To:** Lee, Matthew" <matthew.lee@lehman.com>; William Schlich  
**Subject:** Invitation: Meeting - Matthew Lee/Joe Polizzotto/Bill Schlich  
(E&Y) (Jun 12 03:00 PM EDT in 1271- 44th Floor Conference Room TBD)