Cc: Kerstein, Daniel [daniel.kerstein@lehman.com]; Kelly, Martin [martin.kelly@lehman.com]
To: Wiegenfeld, Yoav [yoav.wiegenfeld@lehman.com]; Wieseneck, Larry [lwiesene@lehman.com]
From: Lowitt, Ian T [ilowitt@lehman.com]
Sent: Sat 8/30/2008 3:09:46 PM
Subject: RE: Earnings Speech - RSF portion

At the risk of stating the extremely obvious, another key issue is not upsetting our sec agreement. Martin, would the SEC care? Ian

-----Original Message-----
From: Wiegenfeld, Yoav
Sent: Saturday, August 30, 2008 11:00 AM
To: Wieseneck, Larry
Cc: Lowitt, Ian T; Kerstein, Daniel
Subject: Re: Earnings Speech - RSF portion

Agree that unless we have a final decision on c-corp vs. partnership we shouldn't refer to partnership but rather to entity (or other vague terminology).

There are 2 reasons we haven't yet determined c-corp vs. partnership:

1). If we want to do a tax free spin for shareholders the entity will have to be a c-corp. We need to determine whether we can do a tax free spin, which depends on (I) identifying a qualifying active trade or business (we discussed Aurora) and (ii) having a sign off from the SEC that having this business doesn't change the financial reporting agreement we reached with them. We expect the SEC will approve in view of the relatively small size of that business (say in the $400mm range) but of course need to have the conversation with them. We are in the process of vetting Aurora as a qualifying business and once we are comfortable it meets the tax requirements we expect to immediately go to the SEC. I am not sure if we can conclude this process by the time of the announcement but will probably have a better sense end of next week.

2) We need to model the after tax free cash flow of the entity if it is a c-corp and determine what it does to the debt coverage and expected distributions on equity. (The draft below speaks about $4-5bn per year over the next 5 years and we need to confirm that would still hold true on an after tax basis if the entity is a c-corp). Derosa and his team are supposed to perform the tax analysis to determine what the taxable income of spinco would look like. This means examining the numerous assets and their tax treatment (the income side) and also the debt profile of spinco (which creates the tax deduction). Note that if the entity is a partnership there is no corporate level tax (so potentially more free cash flow) but rather the public shareholders will be liable directly for the tax which potentially will result in phantom income (tax without cash) for the shareholders in the early years.

An unrelated comment:

There is one reference below to our experience around "bad bank jv". I think we want to be careful not to imply that we think spinco is akin to a bad bank (we think assets are good, upside, etc.)

Let me know if I can assist (during or after Shabbat).

Yoav Wiegenfeld
Global Finance Solutions
Lehman Brothers
Tel: (212) 526-0026
Fax: (646) 834-4493
yoav.wiegenfeld@lehman.com

----- Original Message -----
From: Wieseneck, Larry
To: Wiegenfeld, Yoav
Cc: Lowitt, Ian T
Sent: Sat Aug 30 09:54:17 2008
Subject: Fw: Earnings Speech - RSF portion

Yoav,

Rather than wait until Daniel is available, could you provide the summary reasoning?

----- Original Message -----
From: Wieseneck, Larry
To: Lowitt, Ian T
Cc: Kerstein, Daniel
Sent: Sat Aug 30 09:46:58 2008
Subject: Re: Earnings Speech - RSF portion

Step one is finding a good business for purposes of "active trade or business"

Seems like Aurora is the only viable business for that purpose

Then it gets to a second order tax analysis which is over my head

Dan will respond when Shabbat ends
Daniel will answer

----- Original Message -----
From: Lowitt, Ian T
To: Wieseneck, Larry
Sent: Sat Aug 30 09:35:17 2008
Subject: Re: Earnings Speech - RSF portion

What drives the decision? Ian

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

From: Wieseneck, Larry
To: Lowitt, Ian T
Sent: Sat Aug 30 09:33:12 2008
Subject: Re: Earnings Speech - RSF portion

I will ask Kerstein

Requires some analysis by the tax guys (DeRosa, etc)

Will need a decision by end of week

----- Original Message -----
From: Lowitt, Ian T
To: Wieseneck, Larry
Sent: Sat Aug 30 09:25:18 2008
Subject: Re: Earnings Speech - RSF portion

When do you think we will finalize on this? Not sure it matters re the credit story but does affect the equity story. Ian

----- Original Message -----
From: Wieseneck, Larry
To: Lowitt, Ian T
Sent: Fri Aug 29 16:15:59 2008
Subject: Re: Earnings Speech - RSF portion

Good point

Not decided yet

Still work being done by tax and others on Part vs Corp

----- Original Message -----
From: Lowitt, Ian T
To: Wieseneck, Larry
Sent: Fri Aug 29 15:52:17 2008
Subject: Re: Earnings Speech - RSF portion

We are constently referring to it now as the cre partnership. Is it still a partnership? Ian

----- Original Message -----
From: Wieseneck, Larry
To: Butler, Shaun K; Lowitt, Ian T; McDade, Bart; Lauckhardt, Shelby; Freidheim, Scott J; Gorman, Les
Sent: Fri Aug 29 15:39:25 2008
Subject: RE: Earnings Speech - RSF portion

I just had a quick run through this and found one item I wanted to highlight to folks.....we can not refer to Spinco as a Liquidating

Trust. It can never be discussed as akin to one nor that it is one. It neither is liquidating nor is it a trust.

I want to highlight this because it is currently referenced as such in the document and this is a huge accounting issue. If it were a Liq Trust, we would end up in a very bad place accounting wise.

Otherwise, on first fast review, the first few pages look very good.

Larry

From: Butler, Shaun K
Sent: Friday, August 29, 2008 3:28 PM
To: Lowitt, Ian T; McDade, Bart; Lauckhardt, Shelby; Freidheim, Scott J; Gorman, Les; Wieseneck, Larry
Subject: FW: Earnings Speech - RSF portion

Guys,
This was originally the opening portion of Ian's speech. I've retooled it for Dick. Perhaps Les can layer parts of it into Dick's document. It is in full prose, not Dick's abbreviations.

From: Nadler, Mirey S
Sent: Friday, August 29, 2008 3:25 PM
To: Butler, Shaun K
Subject: Earnings Speech - RSF portion

Shaun -
Please see attached the RSF portion of the speech, both as a word document, an also pasted as text below.
Thanks.

****
****

LEHMAN BROTHERS
THIRD QUARTER 2008 EARNINGS RELEASE
SEPTEMBER [10], 2008 @ 5:00 p.M.
DRAFT A

RSF REMARKS
* GOOD afternoon AND THANK YOU for joining us TODAY
1 this afternoon, we released extremely disappointing results for the third quarter, which ian will discuss later in this call
2 at the same time, we also announced several IMPORTANT strategic, financial and operating initiatives THAT AMOUNT TO A SIGNIFICANT CORPORATE REPOSITIONING OF THE FIRM
* these ARE all INTENDED TO ACCOMPLISH A DRAMATIC DE-RISKING OF

OUR BALANCE SHEET, WHILE REinforcinG OUR emphasis on OUR CLIENT-FACING BUSINESSES
1 and, clearly, they are also meant to return the firm to profitability in fairly short order, while also putting us on a stronger footing to generate decent roe's
* SO THIS afternoon, I SHALL DISCUSS:
* THE SPECIFICS OF THIS RESTRUCTURING AND OUR TIMELINE FOR EXECUTION;
1 and how we are evolving our business model, going forward
* ian will address:
* OUR RESULTS FOR THE QUARTER;
1 OUR REMAINING ASSET EXPOSURES AT QUARTER END AND PRO FORMA FOR THESE TRANSACTIONS;
2 OUR CURRENT CAPITAL AND LIQUIDITY POSITIONS;
3 and how we are thinking about our financial performance in the coming quarters
* As many of you are aware, we have BEEN workING diligently over the past few months to address the market's concerns regarding the concentration of assets on our balance sheet - and, in particular, our legacy residential and commercial real estate-related positions
1 we concluded that The earnings volatility created by mark-to-market adjustments on these assets had obscured the underlying value of our franchise, and we reached the critical conclusion that it was necessary to de-risk the balance sheet in order TO ESTABLISH a "clean lehman brothers" going forward
* clearly, this review has entailed some hard decisions around our balance sheet, our businesses and our people
* initially, WE examined TWO primary alternatives:
* one option was to retain THESE ASSETS ON our BALANCE SHEET and sell down our exposure in a measured way over time, SUPPORTED BY OUR BELIEF IN THE INTRINSIC VALUE of these assets and a desire to retain future upside
* however, this strategy would continue to EXPOSE US TO MARKET UNCERTAINTY, AND WE WOULD RUN THE RISK OF ONGOING WRITEDOWNS FOR THE FORESEEABLE FUTURE
* alternatively, we EXAMINED THE OPTION OF SELLING THESE ASSETS AT EXTREME HAIRCUTS TO CURRENT MARKET VALUES. However, WE FELT STRONGLY THAT AN ACCELERATED BULK SALE OF these ASSETS AT A DEEP DISCOUNT WOULD ESSENTIALLY ELIMINATE VALUE FOR OUR EXISTING SHAREHOLDERS BY EMBEDDING THESE HAIRCUTS
* Given significant asset pricing pressure AND DIMINISHED LIQUIDITY in the CURRENT quarter, we recognized the need to move quickly to resolve the overhang on our core business
1 and We sought a solution that would preserve the value of THESE assets through a vehicle that would allow for orderly paydowns, liquidations and refinancings
2 To this end, we took a number of significant steps in the third quarter:
* TODAY, WE ARE ANNOUNCING OUR plan to separate the commercial REAL ESTATE portfolio from our remaining business through the formation of the Lehman Commercial Real Estate Partnership, which will be spun-off to our existing shareholders as an independently-traded, public company

* THIS TRANSACTION WILL ACCOMPLISH OUR GOAL OF QUICKLY SEPARATING US FROM THESE LEGACY ASSETS TO CREATE "CLEAN LEHMAN Brothers"
1 and importantly, it will enable shareholders to retain upside in

this high quality asset portfolio - where the assets will be held to maturity, restructured or sold over time in a disciplined manner to optimize value

2 i WILL DISCUSS THIS TRANSACTION IN MORE DETAIL in a few minutes

* we also moved quickly to bring our residential mortgage exposures down to a far more manageable level

* over the course of the quarter, we sold $[__] of our residential exposure, consisting of [name asset classes], which amounted to [__]% of our starting total

1 today, We are also announcing THE BULK sale of $[ ] billion, or [ ]%, of our European residential portfolio to BlackRock

* blackrock is in the final stages of fund-raising to close thIS purchase, which we expect to occur by [timing]

1 with this sale AND ADDITIONAL DISPOSITIONS OVER THE COURSE OF THE QUARTER, our remaining residential mortgage exposures HAVE BEEN SUBSTANTIALLY REDUCED TO $[ ] billion, A DECLINE OF [__]% OVER THE COURSE OF THE QUARTER

* in total, asset sales and writedowns during the third quarter, as well as these pending transactions, are expected to reduce OUR aggregate residential and commercial mortgage exposure from $65 billion as of May 31st to just $[ ] billion, or [ ]% of our pro forma asset base

1 ONCE THE SPIN-OFF TRANSACTION IS COMPLETE - WHICH WE EXPECT TO close in FOUR TO FIVE MONTHS - LEHMAN WILL EMERGE AS A "CLEAN" COMPANY AND WILL BE ABLE TO THRIVE AWAY FROM ITS LEGACY ASSETS

* THIS WILL ALLOW us TO REFOCUS ALL OF OUR EFFORTS ON GROWING OUR CORE, CLIENT-FACING FRANCHISE

1 additionally, clean lehman brothers can be more fairly valued in the public markets

2 and we will be better able to restore the confidence of our key stakeholders - including equity investors, debt investors, clients, counterparties and employees

* on the capital front, IN ORDER TO SUFFICIENTLY CAPITALIZE BOTH LEHMAN BROTHERS AND THE PARTNERSHIP GOING FORWARD, WE reached [an agreement with a strategic investor and detail], raised $[ ] BILLION OF [COMMON/PREFERRED], [ANCHOR INVESTORS; CONVERSION OF PREFERRED] - WITH THE GOAL OF MAINTAINING A SOLID SINGLE-A RATING FOR LEHMAN BROTHERS POST the SPIN-off. CLEARLY, ALL OF THESE TRANSACTIONS HAVE BEEN CLOSELY VETTED BY BOTH THE REGULATORS AND THE RATING AGENCIES

* we are also announcing our intention to monetize a minority stake in our investment management division; we are reducing our common stock dividend; and we are undertaking a new round of expense initiatives - all with the aim of further bolstering our capital base, while elevating our pre-tax margins, going forward

* these actions represent the major components of our corporate REstructuring

1 now, i would like to clarify the mechanics of how this is all going to work

mechanics of the spin-off transaction

* first, the spin-off transaction. The structure of the proposed transaction is described on attachment [ ] of our press release

1 $[ ]bn of commercial assets will be contributed to Spinco as an independent legal entity that is totally separate from lehman brothers and operates as a liquidating trust on a non-mark-to-market basis

2 this portfolio represents over [2,300] positions and is highly

diversified across regions and asset types:
* Approximately [60]% are in the americas, [25]% in europe and [15]% in asia
1 no property type comprises greater than [ ]% of positions, and no state represents more than [ ]% of our U.s. portfolio
2 approximately [60]% are whole loans and corporate debt, [25]% are equity positions and [15]% are securities
3 among our whole loans and corporate debt positions, [ ]% of the portfolio is performing with cash pay loans accounting for [__]% and an average delinquency rate of just [ ]%
* excluding our $[__] billion portfolio of loans that were originally acquired as npl's, these figures go to [__]% and [__]%, respectively
* in total, this pool of assets generates significant cash flow [include details on amounts]. when combined with the normal course of asset sale activities, these cash flows will be dedicated to paying down debt and returning cash to shareholders over time
1 The publicly traded Partnership will value these assets at market prices as of the time of the spin, which is expected to occur during the first quarter of fiscal 2009
2 in terms of capitalizing the Partnership, Lehman Brothers will contribute equity equal to 25% of asset value (or approximately $[8] billion) and provide debt financing for 75% of the total (approximately $[24] billion) - so it will be capitalized similar to other publicly traded real estate entities
* The Firm will spin its entire equity interest in the Partnership to existing shareholders
1 Lehman Brothers will initially provide all the debt financing for the Partnership, and we will look to subsequently syndicate a portion of this senior debt to third parties
* at this point, we have already received strong interest from third parties related to the syndication
* Providing the debt financing will be liquidity neutral to Lehman, as we currently fund these assets with long-term capital
1 We have conducted extensive stress tests on the portfolio, and are confident that the debt is well-covered by expected cash flows
2 We estimate free cash flow for debt paydown and equity distributions of $4 to $5 billion per year over the next 5 years
* as i noted earlier, today's capital raise, [along with the sale of our imd stake] will ensure sufficient capitalization of both Lehman Brothers and the Partnership going forward
1 Following the spin-off, our shareholders will hold shares of both Lehman Brothers and the Partnership, which will report and trade as a separate entity [with its own rated debt]
* Pro forma for the transaction, we estimate Lehman Brothers' book value per share will be approximately $[15]
1 At a more normalized price-to-book of [1.0] to [1.1] times, core Lehman Brothers post-spin would be worth $[15] to $[17] per share
2 Additionally, our shareholders will own interests in the Partnership, which will benefit over time from the value creation and cash flows of our commercial portfolio. book value per share for the partnership will be $[__]. given that companies like this generally trade at a price-to-book of [0.4] to [0.6] times, these shares are expected to be worth $[ ] to $[ ]
* This transaction provides significant asset liquidity and balance sheet benefits for Lehman Brothers post-spin:

* after the transaction is completed, we estimate that our gross and net leverage ratios will drop to [ ] times and [ ] times, respectively and that our Tier I capital ratio will be [ ]%

1 Additionally, the transaction significantly clears Lehman Brothers' balance sheet of legacy residential and commercial asset exposures

* And we will significantly reduce our level 3 asset balance to $[ ] billion, or [ ]% of total assets

* Importantly, our shareholders are able to benefit from the intrinsic upside and strong cash flow characteristics in our commercial real estate portfolio

* As part of an independent company, the assets can be sold down over time, with more negotiating leverage and at prices which maximize returns

* This structure has been fully vetted with the SEC, and we have broadly resolved any accounting, disclosure and execution-related issues

1 We have also had full discussions with each rating agency on the spin-off [include more detail here]

2 we are currently in the process of "ring fencing" these assets and developing expanded disclosure similar to how commercial banks provide details on their commercial real estate holdings. all of these portfolio characteristics and disclosures will be provided to investors as part of a roadshow preceding the actual spin-off

3 in terms of execution, it is important to point out that the firm has a long history of establishing bad bank jv's that have provided our partners with significant economic upside, as in the cases of westinghouse credit, woori financial, [name others]

mechanics of IMD transaction

* turning to the investment management division, we have reviewed various alternatives, including the sale of all or parts of this business with a number of interested parties

1 we have concluded that our best option, at this point in time, is the ipo of a 20% stake in the investment management unit

* clearly, this means that the firm will continue to consolidate 80% of imd's revenues and pre-tax income, which amounted to $3.1 billion and approximately $800 million, respectively in 2007 and $[__] and $[__] year-to-date

1 this, as you know, has been one of our most stable sources of revenues and pre-tax income, given the fee-based nature of its revenue stream

2 also, given its lack of capital intensity, this business has attractive return on asset characteristics

3 the ipo of a minority stake in investment management also has the potential to create a currency that can more directly track the performance of this business and be utilized to incentivize their people

4 our expectation is that this sale would raise approximately $[__] for the Firm, given comparable valuations, and our objective would be to complete a transaction by [month / year], given that preparations are already well underway

* we realize that we have given you a lot to absorb this afternoon, but hopefully we have been able to clarify some of the mechanics and rationale behind these transactions

1 let me also point out that the capital markets have clearly changed, and we have changed our business model accordingly in order to

compete most effectively
2 it is no longer about rankings and being bigger, but it is very directly about using our resources for the right business opportunities
3 our operating model, going forward, is to maximize our risk-adjusted returns through the disciplined use of our resources
* namely, our capital
1 our balance sheet
2 our product-service platform
3 and our people, in order to win dominant wallet share with our priority clients worldwide
* this change in model requires that we shift our thinking
* about how we define operational excellence through disciplined resource allocation
1 how we deliver intellectual capital to our clients
2 how we approach risk management
3 and how we deliver the entire franchise to a chosen roster of clients
* clearly, it entails a change in mindset
* and with the significant level of de-risking and the strategic restructuring we announced today, this process is well underway
* ian will now PROVIDE A BRIEF UPDATE ON OUR THIRD QUARTER RESULTS, followed by a detailed discussion of our balance sheet, our capital and liquidity position and our post-transaction business outlook. ian...

<< File: 3Q08 EARNINGS SCRIPT_DRAFT A_RSF SECTION_August 29.doc >>