Confidential ***Presentation***

Risk Limits

September 2006

LEHMAN BROTHERS

Risk Limits Which Apply to Lending Commitments

- The Firm manages High Grade and High Yield risk against four main parameters.
- The most relevant constraint the Firm faces in financing Corporate Acquisitions and LBOs is the nominal commitment limit.
  - As a result of the limit, the Firm cannot commit to funding financings >$3.6 billion.
    - The Firm must reduce its commitment by either finding a balance sheet partner or by giving up economics to a competitor who splits the commitment.
- The Firm has a great track-record in distributing risk, so once a deal syndicates, our hold position is quickly managed down.

Nominal Commitment Limit

- The Federal Reserve mandated that U.S. regulated banks may not make a single commitment in excess of 15% of Tier 1 + 2 Capital.
- Even though LEH is not a regulated bank, the Firm has an understanding with the agencies that it will not breach this limit.
- The SEC has not explicitly adopted the Fed's rule. However the SEC has indicated we should also be following the Fed's rule.
  - LEH's limit is $3.6bn. (a)

Single Transaction Limit

- Absolute size of financing for which LEH can make a legally binding commitment determined by LEH's internal model.
  - STL HY loss must be <$250mm in quarter.
  - STL HG loss must be <$250mm in quarter.
  - Both STLs calculated as quarterly loss at 99.5% confidence level.
- Calculation based on amount "expected" to be committed to in the final loan documents rather than amount actually committed to in preliminary papers.

Aggregate HG and HY Contingent Commitments

- Total amount of contingent High Grade and High Yield commitments reportable in external filings.
  - Includes only commitments where LEH has signed legally binding papers.
- No official limit, but the Street monitors the quarterly disclosures closely.
  - Maximum HY reported to date: $7.9bn in Q3 2004.
  - Maximum HG reported to date: $6.4bn in Q3 2004.

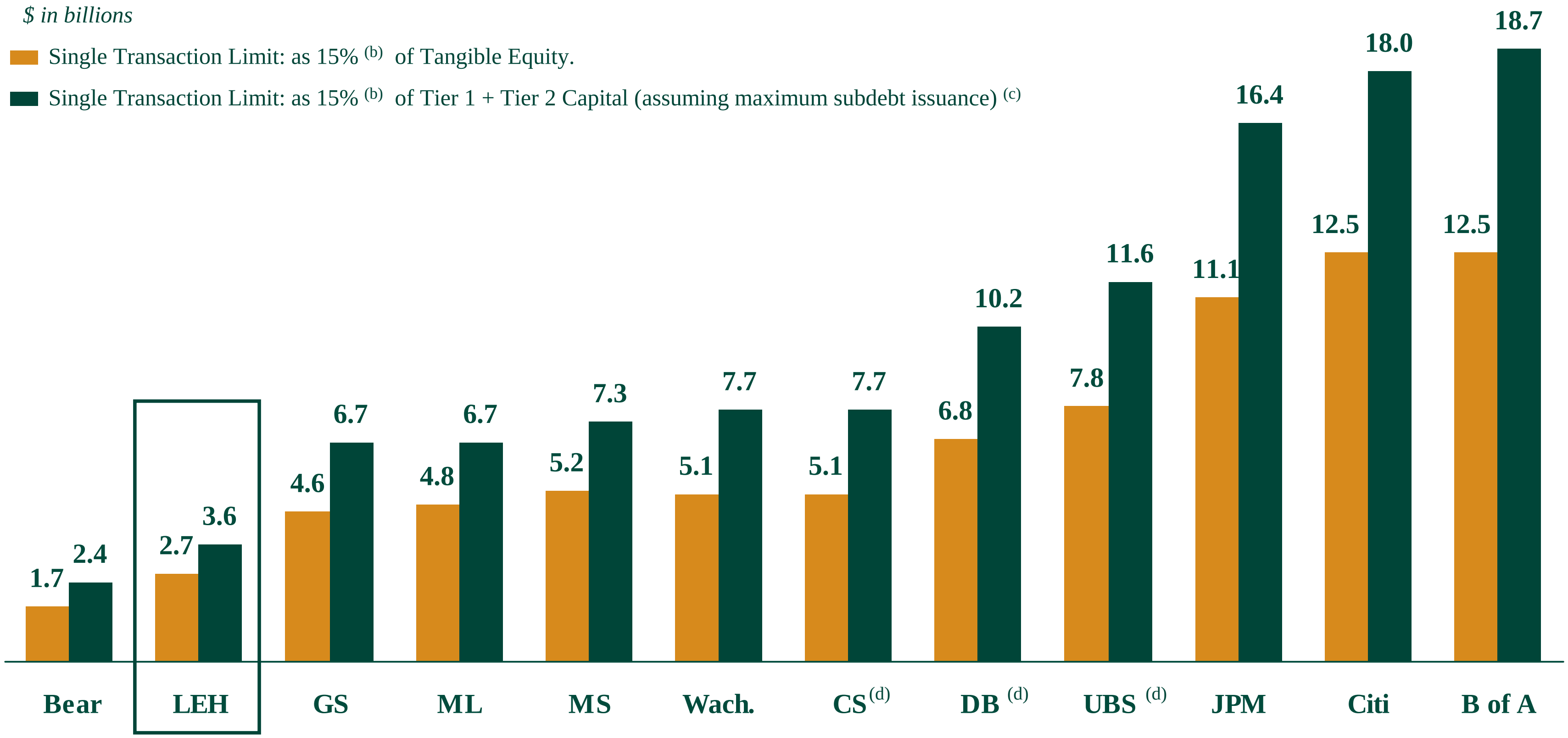
Risk Appetite

- Total amount of portfolio risk that origination business is permitted to take; measures market volatility and default risk.
  - $300mm annual High Yield origination limit.
    - Allocated: U.S.: $150mm; EU: $185mm; Asia: $0mm.(b)
  - $150mm annual High Grade origination limit.
    - Allocated: U.S.: $125mm; EU: $50mm; Asia: $0mm.(b)
  - Both calculated as annualized potential loss at 95% confidence interval.

(a) Limit calculation as of 3 Q 2006.
(b) Regional risk appetites sum to greater than the global total due to the diversification benefit.

Competitor Comparison – Nominal Commitment Limit

Nominal Commitment Limit: Competitor Comparison 3Q 2006 (a)



(a) *LEH, GS, and MS as of 3Q 2006. ML and BSC as of 2Q 2006. All others as of 1Q 2006. Tier 1 and 2 data for competitors not disclosed; estimate from GAAP data and recent subordinated issuances. Competitor tangible equity is estimated as Tier 1 Capital + Deferred Tax Assets.*

(b) *Difference between Tang. Eq. and Tier 1 Capital is primarily due to deferred tax assets > 1 year. Tier 1 Capital does not include deferred tax assets, however, Tangible Equity does.*

(c) *SEC allows qualifying LT debt to be included in Tier 2 capital for 3 years (through YE '08). This allows securities firms to gradually replace LT debt with sub debt without causing market disruptions. LEH currently includes the maximum LTD allowed (50% of Tier 1). For competitors, Tier 2 capital assumes maximum subordinated debt issuance - 50% of Tier 1.*

(d) *U.S. banking rules allow a maximum limit of 15% for single name exposure. European banking rules allow a maximum limit of 25% for single name exposure, and that limit may be exceeded without immediate notification to the regulatory body as long as the excess over the limit is covered completely by freely eligible equity resources.* ***The 25% limit has been applied to CS, DB and UBS.***

Detailed Competitor Comparison – Nominal Commitment Limit

Nominal Commitment Limit: Competitor Comparison 3Q 2006 [(a)]

$ in billions

	Tangible Equity	Tier 1 + 2 Capital [(b)]	Tier 1 + 2 Capital: w/ Max Subdebt [(c)]	Single Transaction Limit: % Limit [(d)]	% Tangible Equity	% Tier 1+2 Capital	% Tier 1+2 Capital (w/Max Subdebt)
Bear	11.6	10.7	16.0	15%	1.7	1.6	2.4
LEH	**17.7**	**16.4**	**23.8**	**15%**	**2.7**	**2.5**	**3.6**
GS	30.5	31.1	44.3	15%	4.6	4.7	6.7
ML	32.1	31.6	44.5	15%	4.8	4.7	6.7
MS	34.7	36.5	48.8	15%	5.2	5.5	7.3
Wachovia	34.0	49.5	51.0	15%	5.1	7.4	7.7
CS	20.6	25.9	30.9	25%	5.1	6.5	7.7
DB	27.1	41.2	40.7	25%	6.8	10.3	10.2
UBS	31.0	33.8	46.5	25%	7.8	8.5	11.6
JPM	74.3	103.8	109.6	15%	11.1	15.6	16.4
Citi	83.5	109.7	119.9	15%	12.5	16.4	18.0
B of A	83.2	111.4	124.8	15%	12.5	16.7	18.7

(a) LEH, GS, and MS as of 3Q 2006. ML and BSC as of 2Q 2006. All others as of 1Q 2006. Tier 1 and 2 data for competitors not disclosed; estimate from GAAP data and recent subordinated issuances. Competitor tangible equity is estimated as Tier 1 Capital + Deferred Tax Assets.

(b) Difference between Tang. Eq. and Tier 1 Capital is primarily due to deferred tax assets > 1 year. Tier 1 Capital does not include deferred tax assets, however, Tangible Equity does.

(c) SEC allows qualifying LT debt to be included in Tier 2 capital for 3 years (through YE '08). This allows securities firms to gradually replace LT debt with sub debt without causing market disruptions. LEH currently includes the maximum LTD allowed (50% of Tier 1). For competitors, Tier 2 capital assumes maximum subordinated debt issuance - 50% of Tier 1.

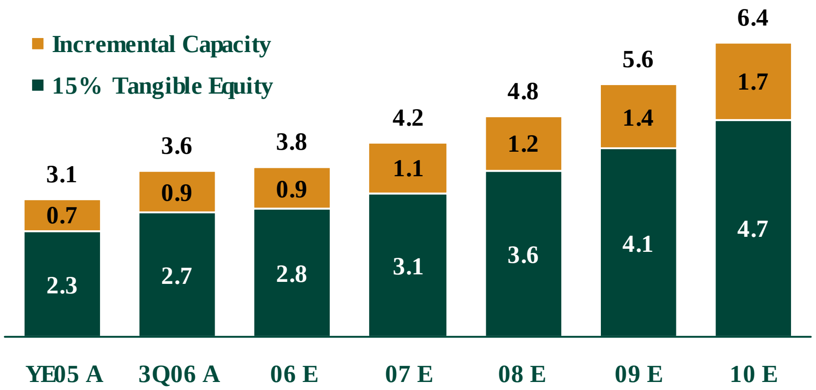
(d) U.S. banking rules allow a maximum limit of 15% for single name exposure. European banking rules allow a maximum limit of 25% for single name exposure, and that limit may be exceeded without immediate notification to the regulatory body as long as the excess over the limit is covered completely by freely eligible equity resources. ***The 25% limit has been applied to CS, DB and UBS.***

Lehman's Nominal Commitment Limit – Going Forward

Nominal Commitment Limit Calculation ($bn)

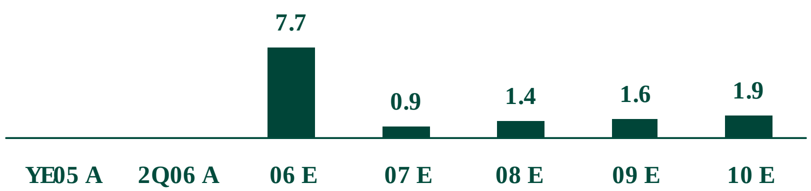
Original Limit: 15% of Tangible Equity [a]

Revised Limit: 15% of Tier 1 + 2 Capital [b,c]

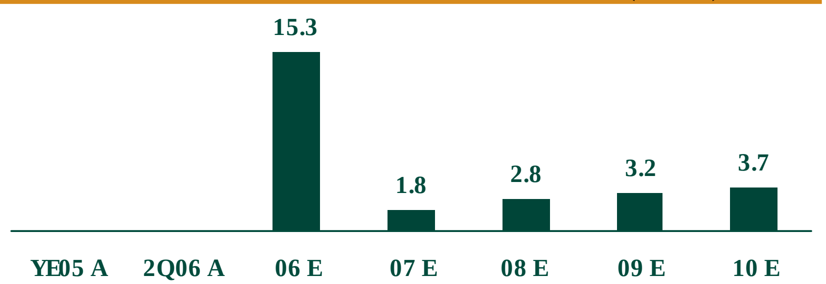


Incremental Capacity

Subordinated Debt Issuance ($bn) [c]



Incremental Cost of Sub Debt Issuance ($mm) [d]

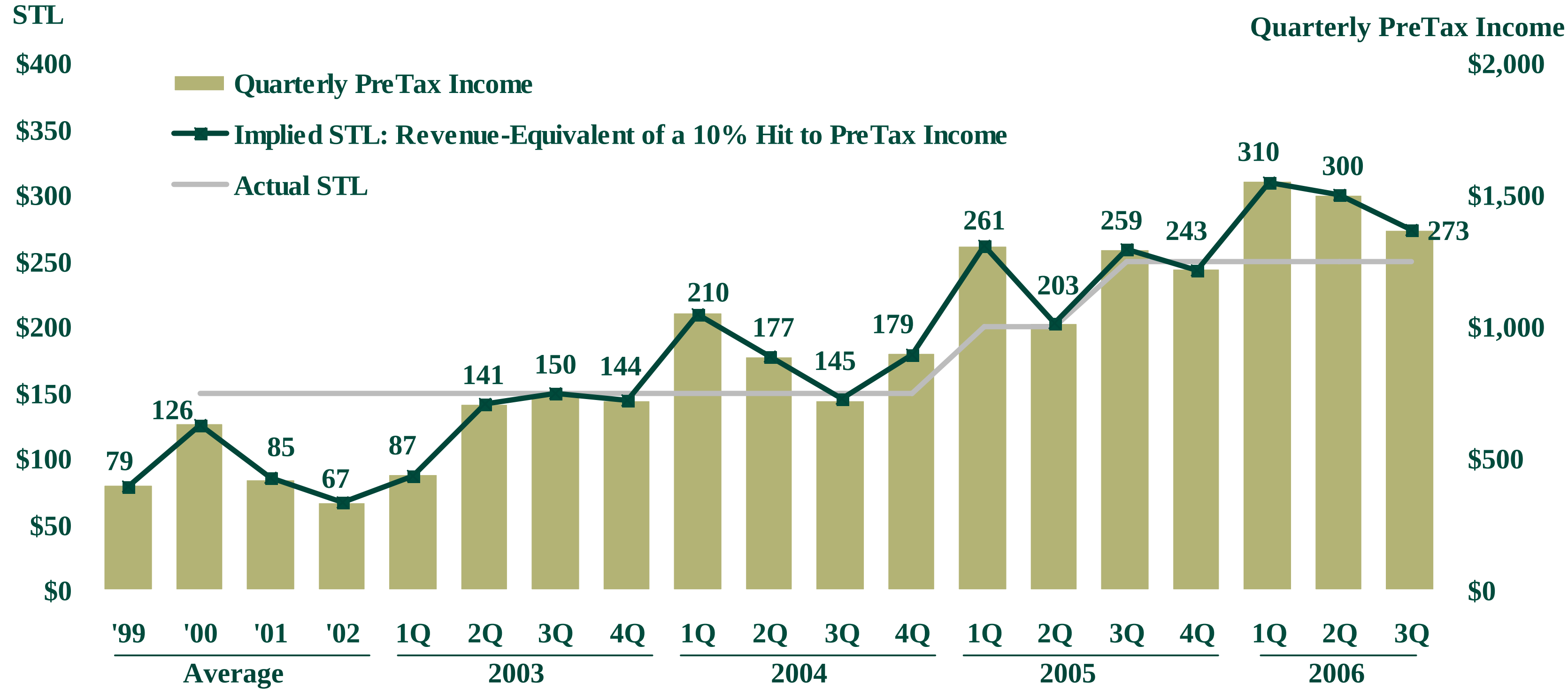


a) *Leverage equity forecasts for 2007 to 2010 are from March to $150 analysis conducted in Mar-06. Estimate for 2006 year end is from mid-year business review.*
b) *Major difference between tangible equity and Tier 1 capital is deferred tax assets > 1 year (Tier 1 deducts DTA). Assumes DTA grows at 10% annually.*
c) *Currently under CSE framework, SEC allows qualifying long-term debt to be included in Tier 2 capital for a period of 3 years (through end of 2008). This essentially is to allow securities firms to gradually replace long-term debt with sub debt without causing market disruptions. The Firm currently includes the max LTD allowed (50% of Tier 1). For 2006 onwards, Tier 2 shown assumes the Firm will issue max amount of sub debt to replace LTD (50% of Tier 1).*
d) *Assumes subordinated debt costs 20 bps more than long term debt.*

Lehman's Single Transaction Limit – Actual vs. Benchmark

- In ~2000, STL model created with a max quarterly loss limit of $150 million.
  - $150 million limit was not based on a particular metric.
    - Rather it was an estimate of what the ratings agencies and the Street would see as the maximum permissible catastrophic loss on a single position.
- In ~1Q 2005, the Firm increased the limit to $200 million.
  - Limit loosely based on the revenue equivalent of a 10% pretax reduction (assuming 50% comp ratio).
- In ~3Q 2005, the limit was increased to $250 million, where it still remains.
- **If limit were to be re-adjusted to the revenue equivalent of a 10% pretax reduction: it would be ~$275million.**

Comparison of Actual STL to STL Implied by Benchmark ($mm)



Lehman's Single Transaction Limit – Internal Single Transaction Limit Model (a)

Single Transaction Limit

	Visibility	Maturity / Secured	MACs: Business	MACs: Market	Credit Rating: Aa+	A	Baa	Ba	B	Caa
Bought Deals	Market Visibility ~2 Weeks	0-2 Years			25,000	14,000	7,500			
		2-5 Years			17,500	9,000	4,500			
		5+ Years			11,500	6,000	4,000			
		Unsecured						3,125	1,650	800
Credit Facilities	Market Visibility ~1 Month	0-2 Years			12,500	7,000	3,750			
		2-5 Years			8,750	4,500	2,250			
		5+ Years			5,750	3,000	2,000			
		Secured						4,250	1,875	700
		Unsecured						1,563	825	400
Acquisition Finance	Expected Closing Less Than 2 Months	Secured	✓	✓				6,250	4,650	NA
		Unsecured	✓	✓	10,500	5,000	3,500	2,500	1,700	1,050
		Secured	✓	X				4,464	3,321	NA
		Unsecured	✓	X	7,500	3,571	2,500	1,786	1,214	750
		Secured	X	✓				3,472	2,583	NA
		Unsecured	X	✓	5,833	2,778	1,944	1,389	944	583
		Secured	X	X				3,125	2,325	NA
		Unsecured	X	X	5,250	2,500	1,750	1,250	850	525
	Expected Closing More Than 2 Months	Secured	✓	✓				4,420	3,290	NA
		Unsecured	✓	✓	7,400	3,500	2,500	1,770	1,200	740
		Secured	✓	X				3,160	2,350	NA
		Unsecured	✓	X	5,300	2,500	1,800	1,260	860	530
		Secured	X	✓				2,460	1,830	NA
		Unsecured	X	✓	4,100	2,000	1,400	980	670	410
		Secured	X	X				2,210	1,640	NA
		Unsecured	X	X	3,700	1,800	1,200	880	600	350

a) Assumes max quarterly loss of $250mm. If the max loss were to be raised to $300mm, then limits would increase by ~20%. If it were raised to $350mm, then limits would increase by ~40%.

Impact of Risk Limits – Resulting Fees Left on the Table

Lehman scaled down its involvement or did not participate in certain High Yield financings due to balance sheet constraints or risk concerns.

- Group (1): Did not approve the full commitment size due to B/S constraints or concerns regarding aggressiveness of terms.
- Group (2): Eroded economics to reduce risk exposure using hedges, e.g., purchase of credit default swaps.
- Group (3): Chose not to participate because of concerns about the credit. However, these transactions succeeded in the market.
- Group (4): Chose not to participate because of concerns about the credit. However, this transaction failed in the market (hung bridge).

	Total Financing Size $mm	Lehman Brothers' Financing Fees [a] Booked $mm	Booked % Deal	Unrealized Fees $mm	Unrealized Fees % Deal	Total Potential Fees $mm	Total Potential Fees % Deal	Impact on Competitors' Fees Additional Fees $mm	Additional Fees % Deal	Competitor	Reason for Miss
(1) Full Commitment Size / Terms Not Approved											
Hertz	$6,520	$34.1	22.0%	**$9.3**	6.0%	$43.4	28.0%	$9.3	6.0%	DB & Others	Commitment Size Cap
Worldspan	$300	$2.6	20.0%	**$1.3**	10.0%	$3.9	30.0%	$1.3	10.0%	JPM, UBS, DB, GS	Business MAC & Flex
Hanley Wood	$302	$0.0	0.0%	**$4.0**	50.0%	$4.0	50.0%	$4.0	50.0%	CSFB & JPM	Leverage Cap
Gala	$1,638	$35.0	40.0%	**$8.0**	10.0%	$43.0	50.0%	$8.0	10.0%	RBS	Commitment Size Cap
SBS Broadcasting	$2,628	$12.7	33.3%	**$2.5**	10.0%	$15.2	40.0%	$2.5	10.0%	RBS	Commitment Size Cap
Total	**$11,388**	**$84.4**		**$25.1**		**$109.5**		**$25.1**			
(2) Internal Hedging Activity											
Gala (CDS + Sub-UW)	$4,438	$35.0	40.0%	**$5.5**		$40.5	40.0%				Reduce Exp. by $900M
Coral Eurobet (CDS + Sub-UW)	$1,525	$23.3	50.0%	**$2.6**		$25.9	50.0%				Hedging and Sub-UW
Total	**$5,962**	**$58.3**		**$8.1**		**$66.4**					
(3) Transaction Not Approved (Market Success)											
Activant Solutions	$305	-	-	**$2.5**	33.3%	$2.5	33.3%	$2.5	33.3%	DB & JPM	Credit Issues
Centennial Communications	$1,142	-	-	**$6.9**	50.0%	$6.9	50.0%	$6.9	50.0%	CSFB	HoldCo Terms & Exec.
Sorenson Communications	$565	-	-	**$3.8**	33.3%	$3.8	33.3%	$3.8	33.3%	BOA & RBS	Leverage Too High
Double-Click	$405	-	-	**$2.7**	33.3%	$2.7	33.3%	$2.7	33.3%	BS & CSFB	Leverage Too High
Infor Global (Latest Acquisition)	$550	-	-	**$9.4**	50.0%	$9.4	50.0%	$9.4	50.0%	JPM, CSFB, ML	Inadequate Financials
N&W	$529	-	-	**$3.4**	33.3%	$3.4	33.3%	$3.4	33.3%	CIBC/SG	Leverage Too High
Total	**$3,496**	**$0.0**		**$28.7**		**$28.7**		**$28.7**			
(4) Transaction Not Approved (Market Failure)											
Affinion [b]	$1,126	-	-	**$11.5**	33.3%	$11.5	33.3%	$11.5	33.3%	DB & CSFB	Leverage Too High
Total	**$1,126**	**$0.0**		**$11.5**		**$11.5**		**$11.5**			
Grand Total		**$142.7**		**$73.4**		**$193.1**		**$42.2**			

(a) This analysis excludes M&A fees

(b) Affinion cleared the market in 6 months.

Impact of Risk Limits – Resulting Fees Left on the Table

$ in millions

Deal Size						
Deal Size	$4,000	$8,000	$12,000	$16,000	$20,000	$24,000
Equity Contribution [a]	1,000	2,000	3,000	4,000	5,000	6,000
Total Financing (total deal less equity)	3,000	6,000	9,000	12,000	15,000	18,000
% of total financing to which Lehman can commit [c]	100%	58%	39%	29%	23%	19%
Upfront Commitment (50% of total) [b]	1,500	3,000	4,500	6,000	7,500	9,000
Lehman's ability to commit to 50% under current parameters [c]	✓	✓	x	x	x	x
Ultimate Expected Commitment (33% of total) [d]	990	1,980	2,970	3,960	4,950	5,940
Lehman's ability to commit to 33% under current parameters [c]	✓	✓	✓	x	x	x
% of ultimate expected commitment to which Lehman can commit [c]	100%	100%	100%	88%	71%	59%
Potential Fees to Lehman Brothers						
Financing Fee [e]	12	25	37	50	62	74
M&A Fee [f]	8	11	14	16	18	19
Total Potential Fees	**20**	**36**	**51**	**65**	**79**	**93**
Lehman's Fees Under Current Constraints						
Financing Fee	12	25	37	44	44	44
M&A Fee [g]	8	11	14	0	0	0
Total Lehman Fees Under Current Constraints	**$20**	**$36**	**$51**	**$44**	**$44**	**$44**
Fees Left on the Table						
Financing Fee	0	0	0	6	18	31
M&A Fee	0	0	0	16	18	19
Total Fees Left on the Table	**$0**	**$0**	**$0**	**$21**	**$36**	**$50**

(a) Assume 25% equity contribution.
(b) Assume 50% upfront commitment.
(c) Given Lehman's current nominal commitment limit of $3.5bn (15% of Tier 1+ 2 Capital, assuming maximum sub debt issuance).
(d) Assume 33% ultimate hold.
(e) Assume 33% ultimate hold and 1.25% fee, including mark on revolver.
(f) Assumes M&A fees per the fee card, discounted 50%. For example, the fee card dictates a fee of 0.23%, or $28mm, on a $12bn M&A advisory assignment. For Sponsors, we assume this fee is discounted to $14mm.
(g) Assumes Lehman cannot earn an advisory fee if the Firm cannot commit to more than 30% of the financing.