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**Sent:** Tuesday, July 10, 2007 6:26 PM (GMT)  
**To:** Archer, Mary Pat <marcher@lehman.com>; Umezaki, Kentaro <komezaki@lehman.com>  
**Subject:** Comp Discussion Outline  
**Attach:** 2006 FID Comp Pool Summary.xls;2006 FID Comp Model Spreadsheet.xls;2004 FID Scorecard.xls;UNTITLED.PPT;2006 CM Compensation Presentation 12 20 06.ppt

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Here is my attempt at a summary for our 3pm. I want to shoot something to Roger tonight so he can digest (or not, as it seems these days) before our meeting tomorrow. Later! Ken

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FID Compensation Process Summary:

1. Timeline: (generic following last year's rough timetable)

September:

- \* Compensation forecast meetings with businesses and regions.
- \* Compensation modelling and bonus tool set up process (G3) with HR, CAOs, Strategy and FID Finance (Sep - Oct)

November:

- \* Week 1: Initial pool cut by firm; G5 cuts pool into subpools (2006 there were ~60 subpools); FIDOC meeting; pools distributed
- \* Week 2: Round 1: businesses and regions fit to initial pool given.
- \* Week 3: Round 1 review meetings with businesses and regions (2006 there were ~20 meetings in 1 week)
- \* Week 4: G5 reviews business needs; Firm review of FID; Finalize YE revenues; various adjustments to pools get finalized

December:

- \* Week 1: Round 2 distributed to FID; Round 2 allocation by G5 to subpools; distribute new pools; businesses fit to "final" pool; adjustments to pool finalized (prop trading, "other" comp, cross divisional shares, diversity, cross divisional incentive program etc.)
- \* Week 2: Businesses submit "final" pool; adjustments made by G5; system closes at end of week.
- \* Week 3: Communication

2. Documents for review:

A. 2006 Comp Pool summary sheet: This document is what we use to fit the pool to the Firm's pool number.

<<2006 FID Comp Pool Summary.xls>>

B. The FID Comp Model Spreadsheet: This is what the G5 has used for many years to navigate and cut the pool. (It is a rather large spreadsheet) (11 x 17 print needed)

<<2006 FID Comp Model Spreadsheet.xls>>

C. Metrics: we have historically used the following metrics to evaluate business performance and help size the pools from a "top down"

perspective. This is a 2004 document (only one I could find). It will give you an idea of the metrics we have historically tracked for the major business lines

<<2004 FID Scorecard.xls>>

### 3. Topics for discussion:

- A. Comp reviews: discuss templates, use of rankings and composition of people that should be at the comp review meetings. Both for the September and the year end process.
- B. Top down vs. Bottoms Up: The G5 has historically been split on how to size and evaluate pools. I'd say that me and Mike have been the top down advocates, Tom and Ravi as bottoms up, with Mary Pat in the middle. We should determine early on how to approach this. There are benefits and issues with both.
- C. New Businesses: How do we do EM, Romita, Dziadzio, the FIG Vertical etc? How should we treat Eagle, Grange etc.
- D. Regional vs. Biz: we should establish how we will organize around executing the comp process. Historically we have cut pools by region by business pool unit.
- E. Use of the online bonus tool for the process. More an FYI.

### 4. Anomalies and exceptions: We have a number of special items that you should be aware of that add to the dynamics of this process. They include:

- A. RealEstate IBD: we have a "formula" deal on the comp pool change with IBD.
- B. FTA: a single pool is constructed with contributions from FID and IT for the portion of the individuals in each division.
- C. Prop Trading: traders on deals that are related to revenues do not get finalized until after the year end books close. Creates the issue of large potential swings in our available comp pool.
- D. Senior Management: your directs are visible only to you and HR. The aggregate number of the pool by region has been shared historically with G5 only to facilitate the comp process.
- E. Prime Services: One pool is jointly funded by FID and EQ. It's basically a formula based on what NGNNH each division gets. It is then adjusted as the numbers change.
- F. Capital Market "Shares": there is a relatively large number of people that we share, primarily with EQ, that sit on both rosters, so the comp must be shared. We register the %age share of each person/group and then transfer money across divisions thruout the process. We have a similar list (smaller) with IBD.
- G. "Shadow Businesses": We have a number of comp pools that are cut that are not clearly recognized businesses by BPM: These include: Mortgage Pass Thrus; Syndicate, APS, Generalist Sales, Generalist Research, FTA, Senior Management. In addition this year we need to discuss how we intend to deal with EM, Romita, Dziadzio, FIG vertical, and maybe Infrastructure Finance (Gary Killian).
- H. Subsidiary Comp: For consolidated entities that are FID businesses, the firm's practice has been to carve out "off the top" the comp related to those businesses, so that we don't have to deal with designating a comp pool for them. However, the comp associated with these entities do count against our comp/revs ratio. Entities include: our Mortgage subsidiaries; Capital Servicing (Asia RE servicing company) and a few others. This year we will need to figure out Grange and Eagle at a minimum.
- I. Other adjustments: cross divisional incentive program (IMD mostly); diversity award; "other comp" and one off deals that get cut last minute, are part of the dynamics of the comp process. Also, we do a relatively poor job of tracking business unit transfers to Corporate

(like IT) which should be reduced from their comp pool. Indirectly reflected in the pretax margin, but next explicitly part of the comp process.

J. Revenue and metric related issues: New Banking Model; Tax related revenues, travelling sales credits, syndicate revenues, JV shares etc. are aspects of determining YoY changes for revs, comp etc. that we have some rules for that are worth reviewing.

5. Other Documents of interest:

A. The document Mike and I used to describe the dilemma for FID last year with Joe/Dick:

<<UNTITLED.PPT>>

B. you may find this interesting: a "post mortem" by finance on the 2006 Comp.

<<2006 CM Compensation Presentation 12 20 06.ppt>>