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Sent: Wednesday, September 10, 2008 2:46 PM (GMT)
To: McDade, Bart <bmcdade@lehman.com>
Cc: Umezaki, Kentaro <kumezaki@lehman.com>
Subject: Questions

First:

1. Has anything changed in terms of your timing on my decision given we preannounced?
2. I am having lunch with Mike on Friday in 745. Also meeting Ian and Alex on Friday afternoon. Maybe we should meet in person on Friday again?

My basic assessment is:

- A. I want to keep doing investment management from my long term career perspective;
- B. I'm having a hard time reconciling that with the fact that we are selling 50%+ of IMD; Net, net: I'm emotionally not prepared at this time to go with IMD; Basically more clarity on my questions below as it relates to the risk role will help me sort this out really fast;
- C. I want to participate in LEH getting it's "mojo" back regardless of my role;
- D. I love the firm and the team that is being "reassembled";
- E. I feel I can do a "good" job at what you are asking around risk, IF the role has real authority (see below);
- F. You don't know how much I truly appreciate the opportunity to work in a senior capacity for you and the firm.

With that, here are the q's: I know there's a lot, but I assume you expected that :) Let me know how best to follow up.

Thanks a million for opportunity and consideration. Thanks again for your trust, friendship and everything you've provided which has defined Flo and my adult life. I am honored and privileged to be in your company.

Ken

PS: I told George I'm leaning toward it, fyi. Hence his email yesterday.

Role:

1. What's the title of the role?
2. Key issue for me: does the role have real authority? "teeth" if you will? Please clarify. It's a key aspect of my interest, and ultimate success of the role. Having thought about it more, if no teeth, then it's really not different than past roles, and I'm not interested. I

took from our conversation that the role will have the ultimate authority, on you and the firm's behalf, for major firmwide risk and capital commitment decisions: including risk limit setting and redistribution of limits over time, veto power for transactions and business plans that don't fit the firm's risk tolerance, balance sheet allocation across businesses, commitment committee decisions, major firmwide commitments etc. A few details:

A. How does this role interact with commitment committees? Do I chair these? Do I have the veto power here?

B. Are limits going forward going to be "hard"? Also, if the business doesn't deliver comprehensible risk #s to the firm, can I reduce their financial resources as the "stick"?

C. Acid test: If Gelband wants to take up risk and I find it unprudent, how do we reconcile?

D. How dynamic do we want to manage our risk and financial resources? The more dynamic the better, which again points to authority being critical. Seems like we need to say "no" a lot nearterm and then be dynamic? The market opportunities to take risk with a clean balance sheet are as best as we've ever seen, so lots of demand for risk taking capital allocation, but we need to be conservative nearterm to get our "mojo" back.....great challenge and great opportunity for me to be actively engaged. It's exciting if set up right: disasterous if done wrong. I get that.

E. The history of "end arounds" on risk decisions and process at the firm level is a major concern for me. For example, IBD says yes, FID says no, Risk says no, Dick says yes. Or, some business says yes (obviously), Risk says no, Joe says yes, we do the deal...etc. I heard you say we need to say "no" more. How do you see the "end arounds" ending?

3. When we look back 1 year from now, what would be viewed by you as success in this role?

4. Can I get some information around current firmwide revs, income statement, risk #s etc. Current weekly firmwide summary or something like that would be good. + whatever risk report you look at today. Also, is there a way for me to get a "sneak peak" at what Risk mgt looks like today in terms of org structure, mandate, # of people etc? I'm out of touch. I will have more q's post reviewing that.

5. Can you commit to investing in better people and analytics for risk? It's underfunded relative to what we need to run a truly world class risk oriented business. I would want to raid some "A" grade talent from the businesses to do that. Can we decree or mandate that as part of this? How much freedom will I have to move things and people around?

6. I want Risk IT to work for me if we are going to do this. I assume that's not an issue?

9. When do you see a migration of IT and Ops happening? I'm actually not sure I want that part of the role added prospectively as per below.

10. I feel a bit uncomfortable about the lack of formal linkage between Finance and Risk. Philosophically overlaps a lot. How do you see that linkage working? Who controls balance sheet limit setting for example? I would argue risk, not finance?

11. Is Madelyne still around the ball? Nonstarter for me if she is anywhere on the continent related to risk.

"Management Committee":

1. Need to understand better what you are planning to do: Is there still gonna be an exec committee still? Two tiers or 1 tier? Was a bit unclear to me after our conversation.
2. Who will ultimately be on this committee? Not be? What are some of the other people changes that you can share with me, if any, at this point? Only to the degree you can share so I can understand the peer group better.
3. Do the relevant people "buy in" to the role and it's importance? Would others really consider me and my role "pari passu" with other people and roles on the committee? Risk Mgt has been a "service" (and poorly viewed for a long time) so for it to be viewed as important it seems:
 - A. it needs to be "pari" meaning real vote, active involvement in business matters, seat at the table etc;
 - B. it needs to be really supported by you actively, especially early on, for the platform to be viewed as credible. Kinda like when we started our FID business strategy "journey";

Future:

1. Would like to understand "what's next" in more detail if we go down this path together. I do recognize it's very fluid, but I want to make sure I can commit to you, the firm, Flo and myself 150% if we do this. How long do you anticipate this role to "last"?
2. Would like to understand if the "COO for LEH" title is really possible over time.
3. My real longterm interest ultimately is to be in the "buyside"; I really don't want to end up being a person who's viewed as a support and control person. I actually would prefer if I didn't end up getting tagged with the Ops and IT piece for this reason, though I can understand the rationale. It all comes down to what are the options I might have a bit down the road. Is there anyway I can do both? (stupid question I know). Can I at least be considered for the board of IMD post sale if it's being spun off?
3. Would like to have more clarity around comp expectations and any longterm comp incentives/handcuffs/agreements etc. as it relates to this role. Don't kill me, but the stock price being below \$10 makes me feel the need to be much more certain about what I'm really signing up for here.