From:	Umezaki, Kentaro <kumezaki@lehman.com>
Sent:	Monday, August 18, 2008 2:58 AM (GMT)
To:	Zuckerman, Heather <heather.zuckerman@lehman.com>; Amato, Joseph V <jamato@lehman.com>; Walker, George H <gwalker@lehman.com>
Cc:	Umezaki, Kentaro <kumezaki@lehman.com>
Subject:	RE: EC Meeting
Attach:	comp summary.xls

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1. I've done more work on comp in FI to put some numbers against the "keep intact thru IPO" request from George. Summary attached. I focused on NGNNH of our Fixed Income businesses. I come out at ~-10% NGNNH as the "keep intact" level for Fixed Income. Not sure what it is in EQ/NB so the bigger picture could dominate this analysis.

It still entails:
A. A series of management calls in Chicago: I have significant declines for Knee, Glomski, Johnson that need to be thought thru. We need to discuss Kramer as well. No coheads needed anywhere going forward. Ann can run the HY business without Kramer: expensive though.....and our recent loan mandates are at risk if we do anything.
B. Assumes pretty heavy downs for Dugenske and Tank.
C. Figuring out details on how to spin out EU Quant. This seems really tricky. "Yves you're stuck to your formula" = risk of lawsuits in France that costs us more.....
D. Assumes we are keeping LV infrastructure but letting the traders go to R3 without any incremental comp. Probably a bit optimistic. (I have incorporated Gatward's "netting risk problem" of ~$1mm in my analysis above)

2. I would strongly recommend get 2008 comp to be based on the deferral plan on the pm's own composite to get this to work.

3. I do recommend additional retention incentive comp as Joe and I discussed with you, Heather: Joe's estimate for AM was ~$300MM+ aggregate in long term retention comp to keep the group stabilized thru this process.

4. Investments: not sure how to think of this. I think it is important that we invest in certain business lines (distressed HY, abs distressed, Europe, credit dislocation fund etc.) to attack the market opportunities. The only place we've sorta shorted resources is in HY distressed: $4mm or so. Not sure these are "essential" as defined by George, though. Hate to think we have to "wait for the IPO" before we invest against some of the biggest opportunities around....infrastructure/IT investment, in thinking about it more, is a "nice to have" during this period, in my opinion.

5. Governance changes: shouldn't we establish pseudo-independent governance for IMD if we are going to get spun off? It seems some of the other changes we have discussed (reinvestment, independence of comp process etc.) are important to get right before an IPO?

See you in the am!

-----Original Message-----
From: Zuckerman, Heather
Sent: Sunday, August 17, 2008 4:56 PM

To: Umezaki, Kentaro; Amato, Joseph V
Subject: Fw: EC Meeting

Ken/Joe:

Do you have any further thoughts on this since our conversation on Friday? I've listed the floor on comp, the business closures, the implementation of the deferred comp plan, investment in infrastructure. Anything else?

HPZ

----- Original Message -----
From: Walker, George H
To: Zuckerman, Heather; Bluher, John; Cecil, John; Komaroff, Andrew; Odrich, Michael J; Hoffmeister, Perry; Pignatti, Vittorio; Petersen, Jack; Amato, Joseph V; Umezaki, Kentaro; Grieb, Edward; Manning, Christopher
Sent: Sun Aug 17 10:43:08 2008
Subject: Re: EC Meeting

Essentially we need a very specific list (action / cost) for what we believe the we/the firm needs to do such that we can have a successful 2009 IPO (and we stop the material diminution of the franchise).

This isn't a wish list (or a what we'd recommend in an unconstrained environment or what we'd suggest a PE firm do), but rather what is the bare minimum we really need for this to be a serious option (recognizing that incremental dollars to stabilize IMD come from other good businesses which are also under real strain).

We should focus on things with minimal cost (eg the PIM change in comp deferral which is self-funding, quite specific changes to formulaic comp, etc etc).

"Words" (eg stabilize the franchise or shift to formulaic comp) aren't enough. We need to go to specific steps and 2008/9 costs immediately.

This document (and the firm's ability to implement it versus all of the other key priorities) will help inform whether this is a real option.

----- Original Message -----
From: Zuckerman, Heather
To: Bluher, John; Cecil, John; Komaroff, Andrew; Walker, George H; Odrich, Michael J; Hoffmeister, Perry; Pignatti, Vittorio; Petersen, Jack; Amato, Joseph V; Umezaki, Kentaro; Grieb, Edward; Manning, Christopher
Sent: Sun Aug 17 09:56:03 2008
Subject: EC Meeting

At George's request, I have scheduled an EC meeting for 8:00 am tomorrow. The purpose is to continue the discussion from last week and also to review the actions that would be needed to retain/stabilize the franchise in the event the IPO route is pursued.

Heather Zuckerman
Managing Director
Lehman Brothers Inc.
Tel: (212) 526-5283
Fax: (646) 758-5028