

- **CLEARLY IAN'S PRESENTATION**

BUT I WANT MAKE SOME REMARKS

AS PART OF TODAY'S EARNINGS CALL

- **BEGIN BY SAYING**

I AM VERY DISAPPOINTED

W/ THESE FINANCIAL RESULTS

- **WE LOST \$2.8B**

- **THAT'S JUST TOTALLY UNACCEPTABLE**

• THIS IS MY RESPONSIBILITY

+

I WANTED U HEAR FEW THINGS

FROM ME DIRECTLY

• LET ME START W/ OUR MODEL

• WE ARE A GLOBAL INST'L INV BANK

THAT FOCUSES ON OUR CLIENTS

• WE PUT OUR CLIENTS IN THE MIDDLE

• WE PROVIDE ACCESS TO THE MKTS

FOR OUR CLIENTS

• WE ADV OUR CLIENTS

• WE LEVERAGE

OUR INTELLECTUAL CAPITAL

ACROSS PLATFORM

TO PROVIDE BEST SOLUTIONS

FOR THESE CLIENTS

• WE COMMIT CAP

ON BEHALF OF OUR CLIENTS

+

WE COMMIT CAP IN PLACES

WHERE WE SEE ATTRACTIVE RISK

ADJUSTED RETURNS

- **YRS AGO WE MADE A DECISION
TO BLD OUT BEST IN CLASS COMM'L

+
RESI MTG ORIG + DISTR PLATFORMS**
- **WE CREATED SIGNIFICANT
REVS + NET INC OVER THOSE YRS
THAT FUNDED

MANY FIRM'S INVESTMENTS
THAT HAVE DIVERSIFIED

OUR CORE FRANCHISE TODAY**

• WE MADE ACTIVE DECISIONS

TO DEPLOY OUR CAPITAL, SOME

OF WHICH, IN HINDSIGHT,

WERE POOR CHOICES BECAUSE

WE DIDN'T REACT QUICKLY ENOUGH

TO THE ERODING ENVIRONMENT

• FOR EXAMPLE, WE ACCUMULATED

POSITIONS IN LEV LOANS THAT

WE BELIEVED WE COULD SYNDICATE

- **TOGETHER, THE ACCUMULATION OF
ALL THESE POSITIONS ULTIMATELY
LED TO OUR DECISION THIS PAST Q
TO AGGRESSIVELY DELEVER**

- **SO NOW LET ME DISCUSS OUR
CURRENT ASSET VALUATION
ON THE REMAINING POSITIONS**

• I'M THE ONE

WHO ULTIMATELY SIGNS OFF

+

I'M COMFORTABLE

W/ OUR VALUATIONS

AT THE END OF OUR 2Q

BECAUSE WE HAVE ALWAYS HAD

A RIGOROUS INTERNAL PROCESS

+

**- IN ADDITION, THIS Q,
WE HAD THE BENEFIT OF
MUCH GREATER PRICE VISIBILITY
DUE TO
- 1) # OF ASSET SALES
ESPECIALLY IN
COMM'L + RESIDENTIAL MTGS
THAT WERE THE RESULT
OF OUR DELEVERAGING
+**

- 2) STRONG TRADING VOLUMES

IN THE CASH

+

CERTAIN DERIVATIVE MKTS

THAT GAVE US IMPORTANT

ADDITIONAL VALUATION INFORMATION

• I'VE ALSO GOTTEN THE MESSAGE

FROM # U ON YOUR DESIRE FOR

MORE TRANSPARENCY →

SO I'VE ASKED IAN

IN HIS PRESENTATION

TO TAKE U THRU MORE DETAIL

THAN WE HAVE BEFORE

• NOW LET ME TALK ABOUT

MGMT CHANGES MADE LAST WEEK

• JOE GREGORY STEPPED DOWN

FROM HIS ROLE AS PRESIDENT + COO

• HE HAS BEEN MY PARTNER

FOR OVER 30 YEARS

– I MUST TELL YOU,

IT WAS 1 OF

THE MOST DIFFICULT DECISIONS

WE’VE HAD TO MAKE TOGETHER

**• OUR NEW PRES + COO, BART MCDADE,
HAS BEEN MY PARTNER**

+

W/ FIRM 25 YRS

+

IS THE FIRM'S BEST OPERATOR

• BART HAS

PROVEN TRACK RECORD OF SUCCESS

IN BLDG + LEADING BUS'S

IN FI, EQ + BANKING

• THIS FIRM IS KNOWN FOR

OPERATING EXCELLENCE

+

**• TOGETHER, BART + I WILL RESTORE
THAT REPUTATION**

**• YOU ALSO SAW THAT ERIN CALLAN
STEPPED DOWN**

FROM HER ROLE AS CFO

• ERIN IS WONDERFULLY TALENTED

– I RESPECT HER

+

– WE ARE HAVING CONVERSATIONS

ABOUT CREATING A POSITION THAT

MAKES SENSE FOR HER

• **IAN LOWITT,**

WHO HAS BEEN W/ FIRM FOR 14 YRS,

IS NOW OUR NEW CFO

• **HE BRINGS SIGNIFICANT EXPERIENCE**

TO THE POSITION

• **FINANCE ALREADY REPORTS TO IAN**

IN HIS CAPACITY AS CO-CAO

+

...

– AS OUR FORMER TREASURER –

HE IS ALREADY WELL-KNOWN

TO MANY OF OUR

DEBT + EQUITY INVESTORS,

ANALYSTS

+

RATING AGENCIES

• I HAVE HUGE CONFIDENCE IN IAN

[PAUSE]

- **REGARDING OUR B/S**
- **WE REDUCED OUR GROSS ASSETS**
BY \$147B OVER THE Q
– WHICH EXCEEDED TARGETS WE SET
- **WE ALSO RAISED \$10B**
OF TANGIBLE EQ
SINCE THE BEGINNING OF
THE SECOND QUARTER
- **PRO FORMA,**
WE NOW HAVE ~\$33B TANGIBLE EQ

[PAUSE]

• SO WE'RE IN A POSITION

– SUPPORT OUR CLIENTS

IN THESE CHALLENGING MKTS

• NOW LET ME TALK ABT

THE MAKEUP OF OUR REV'S

1ST WHAT WE'VE LOST

• RESIDENTIAL + COMM'L MTG ORIG

+

THE SECURITIZATION

OF THOSE PRODUCTS

- AS FAR AS I’M CONCERNED,
NEAR TERM THOSE REVS
ARE SIGNIFICANTLY DIMINISHED.**
- ALTHOUGH SECONDARY TRADING
OF THOSE SECURITIES
IS STILL GOOD.**
- SPONSOR BUS + LEV LOAN ORIG
– WHILE WE’RE DOING DEALS
ON BETTER TERMS,
THOSE REV OPPTYS
WILL REMAIN WEAK
NEXT 6 – 18 MOS**

- THOSE BUS'S,

TAKEN TOGETHER,

CONTRIBUTED LESS THAN 10%

OF OUR TOTAL 2007 NET REVS,

WHICH REMEMBER,

WAS A RECORD YEAR

+

ALSO INCLUDED NET WRITEDOWNS.

• WE ALSO REDUCED

OUR RESOURCES HERE

+

- WHEN U LOOK AT THE 6,000 PEOPLE

WE LET GO

OVER THE LAST 12 MOS,

A LARGE NUMBER OF THOSE PEOPLE

SAT IN THOSE BUS'S.

**• SO THOSE ARE SOME OF THE REASONS
I'M CONFIDENT IN THE EARNINGS
POTENTIAL OF OUR FRANCHISE
EVEN W/O CONTRIBUTIONS
FROM THOSE BUS'S**

• OUR CORE BUS'S

+

OUR STRATEGY ARE SOUND

• FOR MANY YRS,

WE HAVE BUILT A SET OF BUS'S

THAT ARE DIVERSIFIED

BY PROD + BY REGION

• WE HAVE A LEADING

GLOBAL CAP MKTS CLIENT FRANCHISE

ACROSS BOTH EQUITIES

+

FIXED INCOME

...

- OUR CLIENT REVS

UP ABOUT 30% YOY

• WE ALSO HAVE AN IBD FRANCHISE

THAT'S GROWING FEE SHARE

- MOST OF THAT COMING FROM

↑ MKT SH IN

- M&A

- EQ + EQ RELATED

+ ...

- HIGH GRADE DEBT ISSUANCE.

+

• OUR NEWEST PILLAR, IMD,

- IS WINNING

INST'L STRATEGIC MANDATES

- HAS \$277B AUM

+

- A HIGH NET WORTH BUS.

• SO AS U CAN SEE,

OUR STRATEGY OF BUILDING

A DIVERSIFIED SET OF GLOBAL BUS'S

IS WORKING.

• WE HAVE A TRACK RECORD

OF TAKING MKT SHARE

COMING OUT OF DIFFICULT CYCLES

+

- THEN CONVERTING THAT SHARE

INTO REVS + NI

• IN ADDITION TO ALL THAT,

W/IN OUR CORE BUS'S,

WE HAVE A # OF GROWTH OPPTY'S

- **FOCUSING ON**

- **ASIA BROADLY, THE BRIC COUNTRIES**

+

THEN GLOBALLY IN

- **EQ FLOW BUS**

- **RATES + CREDIT FLOW TRADING**

- **PRIME SERVICES**

- **COMMODITIES**

- **FX**

+

- **PRIVATE EQUITY.**

• THIS YR ALREADY HIRED

ABOUT 2,700 PEOPLE

+

REDEPLOYED ABOUT 1,000 PEOPLE

– MANY OF WHOM WILL JOIN THOSE

TARGETED NEW AREAS.

• WE'RE ALSO DEPLOYING CAPITAL

TO SUPPORT THESE GROWING BUS'S.

• THESE ARE GOOD OPPTY'S

– THE KEY IS TO EXECUTE

+ [PAUSE]

– AS U ALL KNOW

– THESE ARE STILL CHALLENGING MKTS.

• OUR CORE FRANCH + CULTURE

ARE STRONG

• OUR CAP + LIQ POSITIONS

HAVE NEVER BEEN STRONGER

• WE REMAIN DEDICATED TO

OUR CLIENT DRIVEN MODEL

• OUR GOAL IS SIMPLE →

CREATE VALUE FOR OUR

SHAREHOLDERS + DEBT HOLDERS,

CLIENTS + EMPLOYEES

• ON MANY FRONTS – IN THIS CYCLE

WE DID NOT ACHIEVE THIS GOAL

• THIS IS MY RESPONSIBILITY

+

- WE HAVE MADE A # OF CHANGES

• IT'S MY JOB

TO MAKE SURE THAT WE EXECUTE

• IAN