

From: Goodman, Jeffrey <jeffrey.goodman@lehman.com>
Sent: Wednesday, September 10, 2008 7:33 PM (GMT)
To: DiMassimo, Vincent <vincent.dimassimo@lehman.com>
Subject: FW: (DJN) PRESS RELEASE: Moody's Places Lehman's A2 Rating On Review With

take a look at this moodys statement, they have certainly put us in a very tight box for possible next steps

-----Original Message-----

From: STEPHEN B LAX, LEHMAN BROTHERS, INC [mailto:slax@bloomberg.net]
Sent: Wednesday, September 10, 2008 3:26 PM
To: Lax, Stephen
Subject: (DJN) PRESS RELEASE: Moody's Places Lehman's A2 Rating On Review WithDirection Uncertain

New York, September 10, 2008 -- Moody's Investors Service has placed on review with direction uncertain the long-term ratings of Lehman Brothers Holdings Inc. ("LBHI", senior at A2), as well as the long-term ratings of the company's principal rated operating and guaranteed subsidiaries (all referred to collectively as "Lehman"). Lehman's Prime-1 short-term ratings were placed on review for possible downgrade.

Today's rating action follows Lehman's pre-announcement of a multi-faceted restructuring plan and Q3-08 results, which included a \$3.9 billion net loss for the quarter, driven largely by a \$7.8 billion decline in gross asset valuations of residential real estate, commercial real estate and, to a lesser degree, other assets.

Moody's said that the review with direction uncertain reflects the high degree of fluidity in Lehman's current situation. Moody's believes that Lehman's financial flexibility has become more limited as its stock price has fallen to near all-time lows and the firm is experiencing a crisis of confidence. Although Moody's believes liquidity remains firm and has not shown signs of material erosion, the potential for rapid franchise impairment in this environment remains a significant rating concern for Moody's. Blaine Frantz, a Moody's Senior Vice President, said: "A key ratings factor will be Lehman's ability to turn around market sentiment."

The sharp reduction in market confidence has led Lehman's management to consider all strategic alternatives, including the possible sale of the firm. Moody's believes that the heightened level of market stress on Lehman has increased pressure on the firm to consider this option. The ratings review with direction uncertain reflects the fluidity of the current situation, as well as our assessment of the likelihood of such a transaction. Mr. Frantz remarked that "A strategic transaction with a stronger financial partner would likely add support to the ratings and result in a positive rating action."

Conversely, should a strategic arrangement fail to materialize in the near term, Moody's said that the ratings would be downgraded, likely into the Baa category, with the ratings continuing on review for possible downgrade. The rating agency also expects that, should this occur, the rating differential between Lehman's preferred stock ratings and senior ratings would be widened. Moody's said that the wider differential would reflect the increased risk of a suspension of

dividend payments in such a scenario.

In assessing the plan that Lehman's announced today, Moody's is considering the extent to which the plan achieves risk reduction and capital replenishment, has the capacity to restore confidence as well as the trade-offs associated with the proposed spin-off of commercial real estate. Additionally, Moody's will evaluate the execution risk of achieving this ambitious plan.

Moody's believes that Lehman's liquidity pool and its access to the Primary Dealer Credit Facility provide the firm with time to address these challenges. The rating agency believes that Lehman's liquidity management and stand-alone liquidity position remain acceptable. Lehman ended Q3-08 with \$42 billion of liquidity available to the holding company in addition to unencumbered assets with substantial loan value. Further, Lehman has extended the maturities and added capacity to its secured financing. Lehman's market access to funding also has benefited from the supportive actions of the Federal Reserve, including access to the Primary Dealer Credit Facility and the Term Securities Lending Facility.

Moody's said that its most recent rating action on Lehman was on July 17 when the rating agency lowered Lehman's long-term senior rating to A2 from A1 and assigned a negative outlook to the firm's long-term ratings.

Today, the long-term ratings of Lehman Brothers Holdings Inc. and its subsidiaries were placed on review with direction uncertain; short-term ratings were placed on review for possible downgrade. The following is a list of Lehman's major operating subsidiaries:

Lehman Brothers, Inc. -- long-term issuer rating of A1 placed on review with direction uncertain; commercial paper rating of P-1 placed on review for possible downgrade,

Lehman Brothers Bank, FSB -- long-term deposits of A2 placed on review with direction uncertain; short-term deposits of P-1 placed on review for possible downgrade.

Lehman Brothers Holdings Inc. is a global investment bank and financial services firm headquartered in New York, NY with total stockholders equity of approximately \$28.4 billion and \$143 billion of long-term capital at August 31, 2008.

Additionally, Moody's will host a teleconference to discuss these rating actions on Wednesday, September 10th, at 4:00PM EDT. Please visit www.moody.com/events for further information.

Copyright 2008, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "MOODY'S").
All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH

INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER

OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human

or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling. MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody's.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Moody's Investors Service Pty Limited does not hold an Australian financial services licence under the Corporations Act. This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.

Click here to go to Dow Jones NewsPlus, a web front page of today's most important business and market news, analysis and commentary: <http://www.djnewsplus.com/al?md=BmB6zJwi0pQvKogVShuQ5A%3D%3D>. You can use this link on the day this article is published and the following day.

(END) Dow Jones Newswires
09-10-08 1526ET- - 03 26 PM EDT 09-10-08