MEMORANDUM

To: Dick Fuld
Joe Gregory

From : Skip McGee

Subject: Idea

Date: May 29, 2007

Attached please find some summary analysis I had Dave Erickson (Head of U.S. Equity Capital Markets) prepare on the potential value pick-up of a partial flotation of our investment management business. After Fortress and anticipating Blackstone, it is clear there is a substantial valuation gap in the market (see today's WSJ re: Goldman). Merrill's experience with Blackrock has been a positive one for their multiple and gives them an attractive acquisition currency.

Bottom line, if we were to float 10% of IMD, the value pick-up per Lehman Brothers share could be approximately \$6 to \$9 (or \$3.5b to \$5.2b total). This is based on disclosure straight from our Annual, IPO values in line with the peer group and earnings growth rates of 18%. A more aggressive assumption around earnings growth rates would push these numbers up.

No doubt there are lots of issues around a deal like this but interesting food for thought. It may be something to have in your "back pocket" if our stock continues to move sideways. Please let me know if you like to have a meeting to review this analysis with the two of you or with a broader group.

Regards.

Skip

P.S. In case you were wondering: Hercules = IMD business. Zeus = Lehman.

Attachment

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