

From: Umezaki, Kentaro <komezaki@lehman.com>
Sent: Wednesday, April 18, 2007 7:43 PM (GMT)
To: Lowitt, Ian T <ilowitt@lehman.com>
Subject: RE: Feedback

Great thanks.

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

From: Lowitt, Ian T
Sent: Wednesday, April 18, 2007 1:23 PM
To: Umezaki, Kentaro; O'Meara, Chris M (NY); Reilly, Gerard; Freidheim, Scott J
Cc: Gelband, Michael; Archer, Mary Pat
Subject: RE: Feedback

Think it's a great idea to get us all together. I will ask Julie to set up time. (Suggest this to be in addition to a meeting with Chris to review the plan.) Ian

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

From: Umezaki, Kentaro
Sent: Wednesday, April 18, 2007 1:16 PM
To: O'Meara, Chris M (NY); Lowitt, Ian T; Reilly, Gerard; Freidheim, Scott J
Cc: Gelband, Michael; Archer, Mary Pat
Subject: RE: Feedback

Thanks to each of you for coming back so quick. Let's touch base when your back, Chris. And perhaps we should meet as a group on this topic at some point too? We need to get this thing right within FID.

Chris: in 2007 I have not seen "the plan" as you call it. Maybe that's intentional. If not please show me what that is. Might be my mistake, but I'm very sure since I've not seen it this year, so none of the FID business heads know what that is either. We can start with that.....

Ken

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

From: O'Meara, Chris M (NY)
Sent: Wednesday, April 18, 2007 11:34 AM
To: Umezaki, Kentaro; Lowitt, Ian T; Reilly, Gerard; Freidheim, Scott J
Cc: Gelband, Michael; Archer, Mary Pat
Subject: Re: Feedback

K - Good points. I agree that we need to be together on the message. As far as the comment around having more balance sheet capacity available, I think Dick is right. We're increasing equity faster than plan, and we've allowed our leverage ratio to tick up a bit higher than plan. So, this creates significant additional balance sheet...vs plan.

I'm not sure your characterization of belt-tightening re: FID balance sheet is the way others see it. Simply looks like FID ran over its balance sheet plan for Q1, and is getting closer to plan for Q2. We (on this mail) all know the challenges associated with growing the FID business within the balance sheet plan in the current environment, but we haven't really played this out around the table of the broader mgmt group. We should. I think we will have to make choices on how best to deploy the balance sheet we have available. From my perspective, getting AA- can be accomplished with our planned balance sheet leverage ratio. On your broader comment about setting out targets of important metrics for longer term (and getting them communicated), I agree 100%. I'll follow up when back in NY. C

Sent from my BlackBerry Wireless Handheld

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

From: Umezaki, Kentaro

To: Lowitt, Ian T; Reilly, Gerard; O'Meara, Chris M (NY); Freidheim, Scott J

Cc: Umezaki, Kentaro; Gelband, Michael; Archer, Mary Pat

Sent: Wed Apr 18 10:44:40 2007

Subject: Feedback

Ian, Scott, Gerry and Chris:

Given our balance sheet belt tightning effort in FID, I thought you should get the following feedback post Dick's MD talk last night from some of the business people in FID.

Basically, they heard we don't have a balance sheet problem: in fact we have excess capacity given our growth in equity and so we have to work harder at putting capital to work: Goldfarb's group, more principal trades, find bigger trades to do etc. etc. Their view is that the message we are sending from Corporate/Finance and "FID central" around Q2 balance sheet target, ratings upgrade etc. is contrary to the basic message from the chairman:

1. Inconsistent Messages: As I have said many times already in the past, I continue to be somewhat confused as to what the real objectives of the firm are around managing financial and risk constraints vs. revenue growth. I found I could not adequately respond to the people's questions in a way that I felt was credible. As we go thru our process around controlling our balance sheet targets more efficiently, I'm pretty sure this will come up repeatedly as well. As FID is the largest consumer of the firm's capital resources, personally I feel I need to get "re-educated" on this so I can represent the views of the firm better. FID can't be given unresolved conflicting messages from "CAO vs. Chairman", if you will. What's the answer?

2. Balanced Communication: I would very much appreciate it if we could get better going forward at sending a more consistent message to the organization in these public forums? Of course I totally understand the "motivational" aspects of Dick's presentation. But, even a simple

statement that we are currently on watch for an upgrade and it's important to strive for AA for <x> reasons; the importance of growing our business in a "fiscally responsible way" etc. would have been sufficient to balance the message. (I don't believe "we are striving for 22-24% ROE" is sufficient, by the way: too vague). Otherwise it's an unfair "fight": revenue growth is what we in FID heard from Dick. He didn't say manage our balance sheet.

Unfortunate, but one sentence is all that is/was needed, in my opinion.

3. Let's articulate the strategy!: I think it is time (again) to draft a composite message from the differing objectives amongst the constituents in the firm's Corporate and Business areas. Sort of a "big picture" strategy piece like what Goldfarb presented in FLA a few years back. If there is a composite message from the Firm around how to grow responsibly, we MUST be able to articulate it? If we don't want to do this for some reason, then I'd like to understand the real reasons behind why we don't.

In a basic sense, there should be a "living/breathing" document that we can continuously recirculate/recalibrate as to what our long term goals are and check ourselves as the markets change the rules. A way to do this, perhaps, is to articulate our strategic "non-negotiables": maybe AA rating is one of them, for instance. Maintaining our culture could be another. Cross cycle ROE of 20%+ could be another. Revenue growth that exceeds our cost growth could be another. Etc. The non-negotiable objectives put no constraints on what we can achieve as a firm, but do put reasonable "caps and floors" on how and how quickly we can achieve them. There are probably 10 or so of these, and all of us know what they are, yet we rarely transform/translate the non-negotiables into financial objectives: financial objectives being what our people really understand.

In my opinion, we all (including me) gotta get our act together better around this stuff given how big a set of businesses we are running and how many "new" people we are adding into team LEH every day! Thanks for e-listening. Would like to hear your views.

Regards,

Ken