

Preliminary Draft for Discussion

Gameplan

20-Jul-08

Overview

<u>Action</u>	<u>Timing</u>
1. Sell \$11B of residential mortgages at \$3B pre-tax loss	Q3
2. Spin off \$36B Commercial Real Estate assets, with \$11B Equity - \$3B MTM Writedown (\$1B in Q3; \$2B in Q4) - \$45B aggregate B/S reduction due to elimination of accounting gross up	Q4
3. Sell IMD (ex ICG) for ~\$7B - \$400M net income at 17x multiple - \$3.2B post tax gain	Q4
4. Reduce Headcount by 8,800 - 1,800 Front Office + 3,000 Back Office + 1,400 MCD - 2,600 from sale of IMD	Q4
5. Raise \$4B new equity	Q4

Lion Revenue Rollup

(\$ in billions)

I: No CRE Asset Sales - 3Q & 4Q MTM losses	▼
II: Resi Sales - \$11+B in 3Q08	▼

Divest IMD	YES
Divest CRE	YES
RSU Acceleration	NO

Common Stock Issuance	ON	\$4.0
Issue Price		\$19.11
Shares Issued		209.3

	2007	2008				FY08E	2009		
	FY07A	1Q08A	2Q08A	3Q08E	4Q08E		Pre-Divest. FY09E	Divest. FY09E	Post-Divest. FY09E
FX	\$0.4	\$0.2	\$0.0	\$0.1	\$0.1	\$0.4	\$0.5		\$0.5
Real Estate	1.3	(1.2)	(1.5)	-	-	(2.7)	0.4	(0.4)	-
Sec Prods	(0.1)	(0.3)	(1.6)	-	0.3	(1.6)	0.7		0.7
Commodities	0.3	0.1	0.2	0.2	0.2	0.5	0.4		0.4
Munis	0.2	(0.2)	0.4	0.1	0.1	0.4	0.1		0.1
Credit	2.1	1.2	0.2	0.7	0.7	2.8	2.5		2.5
Rates	1.7	1.0	(0.1)	0.3	0.5	1.6	1.5		1.5
Prime Svcs	0.8	0.4	0.3	0.3	0.3	1.2	0.3		0.3
Corp/Other	(0.8)	(0.1)	(0.1)	(0.2)	(0.2)	(0.5)	-	0.3	0.3
PIM HNW Adj						-	-	(0.3)	(0.3)
FID	\$6.0	\$1.0	(\$2.1)	\$1.3	\$1.9	\$2.0	\$6.4	(\$0.3)	\$6.1
Liquid Mkts	2.7	0.8	0.7	0.6	0.5	2.6	2.2		2.2
Converts	0.1	0.0	0.1	0.0	0.1	0.2	0.2		0.2
Vol	1.9	0.4	(0.2)	0.1	0.5	0.7	1.2		1.2
EQ Strat	0.6	0.1	0.1	0.0	0.0	0.3	0.3		0.3
Corporate	(0.3)	(0.1)	(0.1)	(0.0)	(0.0)	(0.3)	-		-
Prime Svcs	1.2	0.3	0.4	0.3	0.3	1.3	1.6		1.6
PIM HNW Adj						-	-	(0.3)	(0.3)
EQ	6.1	1.4	1.1	1.0	1.3	4.8	5.3	(0.3)	5.1
Asset Management	2.0	(0.0)	(0.1)	0.3	0.4	0.7	2.3		
Private Equity	0.6	(0.1)	(0.0)	0.1	0.1	0.1	-		
IMD	2.6	(0.1)	(0.1)	0.4	0.6	0.8	2.3	(2.3)	0.0
M&A							1.00		1.00
Financing							2.00		2.00
IBD	3.6	0.1	(0.2)	0.9	0.8	1.6	3.0		3.0
Principal	0.7	0.2	(0.3)	(0.5)	-	(0.6)	0.5		0.5
Banking Offset	(1.2)	0.1	0.2	(0.3)	(0.3)	(0.3)	(1.0)		(1.0)
Treasury/Other	1.5	0.8	0.8	(0.1)	-	1.5	-		-
Net Revenue Before One-time Items	\$19.3	\$3.5	(\$0.7)	\$2.7	\$4.3	\$9.9	\$16.4	(\$2.8)	\$13.6
Resi Sale Losses				(3.0)	0.0	(3.0)	0.0		0.0
CRE MTM Losses				(1.0)	(2.0)	(3.0)	0.0		0.0
Other Cost of Balance Sheet Reduction				(0.2)	(0.3)	(0.5)	0.0		0.0
Gain on Preferred Open Market Purchases					0.0	0.0	0.0		0.0
Total Firm Net Revenue	\$19.3	\$3.5	(\$0.7)	(\$1.5)	\$2.0	\$3.4	\$16.4	(\$2.8)	\$13.6

Lion Income Statement

(*\$ in billions*)

	2007	2008				FY08E	2009		
	FY07A	1Q08A	2Q08A	3Q08E	4Q08E		Pre-Divest. FY09E	Divest. FY09E	Post-Divest. FY09E
Net Revenue Before One-time Items	\$19.3	\$3.5	(\$0.7)	\$2.7	\$4.3	\$9.9	\$16.4	(\$2.8)	\$13.6
One-time Losses & Other Costs, excl. Restructuring	-	-	-	(4.2)	(2.3)	(6.5)	-	-	-
Total Firm Net Revenue	\$19.3	\$3.5	(\$0.7)	(\$1.5)	\$2.0	\$3.4	\$16.4	(\$2.8)	\$13.6
Comp	9.5	1.8	2.3	2.1	2.1	8.4	8.1		6.7
<i>Comp Ratio, excl. one-time losses</i>	49.3%	52.5%	(347.7%)	76.7%	48.9%	84.8%	49.3%		49.3%
NPE	3.8	1.0	1.1	1.0	1.0	4.0	3.6		3.0
<i>NPE Margin</i>	19.5%	28.6%	(163.7%)	NM	47.9%	120.3%	21.9%		22.1%
One-time Restructuring Charge					1.1 ⁽¹⁾	1.1			
Pre Tax	\$6.0	\$0.7	(\$4.1)	(\$4.6)	(\$2.2)	(\$10.2)	\$4.7		\$3.9
<i>Pre Tax Margin</i>	31.2%	18.9%	NM	NM	NM	NM	28.8%		28.6%
Taxes	1.8	0.2	(1.3)	(1.4)	(0.7)	(3.2)	1.4		1.2
<i>Tax Rate</i>	30.3%	26.3%	32.1%	30.0%	30.0%	31.1%	30.0%		30.0%
Gain on Sale of IMD, net of tax					2.3	2.3			
Net Income	\$4.2	\$0.5	(\$2.8)	(\$3.2)	\$0.7	(\$4.7)	\$3.3		\$2.7
<i>Net Margin</i>	21.8%	13.9%	415.0%	218.3%	37%	(141%)	20.2%		20.0%
Preferred Dividends	0.1	0.0	0.1	0.2	0.2	0.5	0.7		0.7
Preferred Dividend Addback						0	-		-
Net to Common	\$4.1	\$0.5	(\$2.9)	(\$3.4)	\$0.6	(\$5.2)	\$2.6		\$2.0
						Pro Forma Divest.			
Common Equity (EoP)		21.8	19.3	20.0	25.4	14.4	28.2		17.2
Book Value / Share		\$39.45	\$34.21	\$28.23	\$26.59	\$15.06	\$29.57		\$18.04
Average Common Equity		\$21.6	\$20.6	\$19.7	\$24.7	\$17.9	\$26.8		\$15.8
ROE		8.6%	-	-	2.3%	-	9.8%		13.0%
ROE (Excl. MTM losses & One-time Charges)		-	-	-	45.6%	0.2%	9.8%		13.0%
Net Balance Sheet			\$328.4			\$309.9			\$281.4
Leverageable Capital		\$29.7	\$27.2	\$29.9	\$38.5	\$27.5			\$25.6
Net Leverage Ratio, pre Divestiture			12.1x			10.2x			
Net Leverage Ratio, Pro Forma Divestitures						11.3x			11.0x

1. Includes ~\$1B of severance costs (~\$600M RSUs & ~\$300M cash) and \$200M of NPE one-time charges.

Lion Balance Sheet

(\$ in billions)

	2007	2008			FY 2009E		
	11/30/07	5/31/08	Pre-Divest. 11/30/08	Divest.	Post-Divest. FY2008	Delta	11/30/09
ASSETS							
FX	\$5.1	\$4.2	\$5.8		\$5.8	-	\$5.8
Real Estate	64.3	58.2	55.2	(44.5)	10.7	(4.9)	5.7
Sec Prods	63.0	57.4	33.5		33.5	(23.6)	9.9
Commodities	1.8	5.6	6.9		6.9	-	6.9
Munis	6.6	6.0	1.7		1.7	-	1.7
Credit	34.4	31.3	34.5		34.5	-	34.5
Rates	47.1	37.9	74.8		74.8	-	74.8
Prime Svcs	6.7	3.3	2.3		2.3	-	2.3
Corp/Other	3.8	6.7	7.7	(25.0)	32.7	-	32.7
FID	\$232.8	\$210.6	\$222.5	(\$19.5)	\$202.9	(\$28.5)	\$174.4
Liquid Mkts	9.2	7.4	5.8		5.8	-	5.8
Converts	3.6	2.2	1.2		1.2	-	1.2
Vol	31.4	23.2	24.2		24.2	-	24.2
EQ Strat	3.9	2.2	2.3		2.3	-	2.3
Corporate	0.4	0.4	3.5		3.5	-	3.5
Prime Svcs	38.2	26.2	30.2		30.2	-	30.2
EQ	\$86.8	\$61.5	67.0	-	67.0	-	\$67.0
Asset Management	5.9	4.1					
Private Equity	6.0	5.6					
IMD	11.9	9.7	8.2	(6.4)	1.7	-	1.7
M&A							
Financing							10.0
IBD	8.0	9.7	10.0	-	10.0	-	10.0
Principal	11.8	9.6	10.0		10.0	-	10.0
Banking Offset	-	-	-		-	-	-
Treasury/Other	22.5	27.2	18.2		18.2	-	18.2
Total Firm	\$373.7	\$328.4	\$335.9	(\$26.0)	\$309.9	(\$28.5)	\$281.4

Lion Capital

(\$ in billions)

	2007	2008				2009			
	11/30/07	2/28/08	5/31/08	8/31/08	Pre-Divest. 11/30/08	Divest. 11/30/08	Post-Divest. 11/30/08	11/30/09	
CAPITAL									
Common Equity									
Beginning Balance		21.4	21.8	19.3	24.0			14.4	
Net Income before Preferreds			(2.8)	(3.2)	0.7			2.7	
Dividends			(0.2)	(0.3)	(0.3)			(1.2)	
Open Market Repurchases			(0.1)	(0.1)	-			-	
Employee Tenders (tax withholding)			(0.0)	(0.0)	(0.2)			(0.5)	
RSU Awards			0.5	0.4	0.5			1.8	
Accelerated RSUs due to Restructuring					0.6				
Bullet Accelerated Vesting of RSUs					-				
Issuance				4.0	-			-	
Ending Balance		21.8	19.3	20.0	25.4	(11.0)	14.4	17.2	
Preferred									
Beginning Balance			7.0	7.0	9.0		9.0	9.0	
Issuance			-	2.0	-		-	-	
Open market purchase			-	-	-		-	-	
Ending Balance		7.0	7.0	9.0	9.0		9.0	9.0	
Junior Subordinated Debt		5.0	5.0	5.0	5.0		5.0	5.0	
Less: Goodwill & Intangibles		(4.1)	(4.1)	(4.1)	(0.9)		(0.9)	(0.9)	
Less: Adjustment for inadequate Common			-	-	-		-	(4.7)	
Leverageable Equity		29.7	27.2	29.9	38.5		27.5	25.6	
Total Net Assets			328.4		335.9		309.9	281.4	
Leverage Ratio			12.1x		8.7x		11.3x	11.0x	
							Non-Common Allowed as % of Total Equity	50%	35%
							Disallowable Non-Common Equity	-	4.7

\$4B issuance

Reduction in GW from Asset Management

Note: IMD business sold for \$7.0B. Equity basis of \$3.2B results into after-tax gain of \$2.3B.

Note: CRE business spun off with \$11.0B of equity.

Projected Compensation

Accrued Compensation

(\$M)	2005	2006	2007	Base 2008E	Adjusted 2008	2009E
Salaries				\$2,574	\$2,450	\$1,676
Production Compensation				484	484	53
Severance				-	291	-
Prior Yrs Eq Amortization, Incl. RSU Acceleration				1,520	2,141	601
Impact of 2008 Equity Award				-	-	391
GTS Partners Return				-	-	32
Benefits				1,621	1,540	1,073
Total Other Comp & Benefits				\$3,141	\$3,972	\$2,097
Bonus						
Guarantees				212	212	50
Current yr amort of IR Eq Awards for full career				79	79	9
NB Production Bonus				3	3	-
Equity Strategies and FID Prop				227	227	128
GTS & GOG (Principal)				37	37	99
Mid Year Bonuses				118	118	118
Total Fixed Bonus				\$754	\$754	\$412
Total Fixed Compensation				\$6,905	\$7,613	\$4,190
Discret Bonus (Cash + Full Career Eq amt)				\$1,461	\$1,461	\$2,535
Total Compensation (reported)	\$7,213	\$8,669	\$9,494	\$8,366	\$9,074	\$6,725
Revenues (excl. write-downs)	\$14,630	\$17,583	\$19,257	\$4,404	\$4,404	\$13,640
Compensation & Benefits Ratio	49.3%	49.3%	49.3%	190%	206%	49.3%

True Compensation

	2005	2006	2007	2008E	Adjusted 2008	2009E
Salaries				\$2,574	\$2,450	\$1,676
Guarantees				386	386	91
Production compensation				682	682	75
GTS Partners Return				-	-	32
Eq Strat, GTS & GOG, FID prop				287	287	286
Mid-year bonuses				118	118	118
Discretionary Bonus				2,340	2,340	3,295
True Comp	\$6,168	\$7,646	\$8,660	\$6,386	\$6,262	\$5,573
Year End Headcount	22,919	25,936	28,556	26,021	17,224	17,224
True Comp / Head (weighted)	\$281	\$302	\$302			\$324
					vs. 2007	7%
True Comp FO (ex IMD)				554	602	584
					vs. 2007	11%

Percent of total comp paid in stock

24%

25%

22%

Headcount

	Headcount as of June 30, 2008					Proforma Headcount					Headcount Reduction					% Reduction				
	Amer	Eur	Asia	India	Global	Amer	Eur	Asia	India	Global	Amer	Eur	Asia	India	Global	Amer	Eur	Asia	India	Global
Rates	163	173	88	1	425	160	160	88	1	409	3	13	0	0	16	2%	8%	0%	0%	4%
FX	73	111	70	0	254	70	110	50	0	230	3	1	20	0	24	4%	1%	29%	0%	9%
Munis	178	0	0	0	178	135	0	0	0	135	43	0	0	0	43	24%	0%	0%	0%	24%
Credit (HG, HY, CDO)	357	164	119	31	671	330	110	65	31	536	27	54	54	0	135	8%	33%	45%	0%	20%
Real Estate Advisory	37	23	14	0	74	30	18	11	0	59	7	5	3	0	15	20%	20%	20%	20%	20%
Real Estate Core	134	69	92	9	304	13	7	9	1	30	121	62	83	8	274	90%	90%	90%	90%	90%
Sec Prods ex-MCD	177	170	29	8	384	100	25	20	8	153	77	145	9	0	231	44%	85%	31%	0%	60%
Commodities	190	60	24	3	277	190	10	5	3	208	0	50	19	0	69	0%	83%	79%	0%	25%
FID Gen Sales/Rsch/Admin	144	138	160	3	445	122	117	136	3	378	22	21	24	0	67	15%	15%	15%	15%	15%
Total FID ex-Prime Svcs	1,453	908	596	55	3,012	1,150	558	384	46	2,139	303	350	212	9	873	21%	39%	36%	16%	29%
Liquid Markets	274	172	107	17	570	249	155	99	17	520	25	17	8	0	50	9%	10%	7%	0%	9%
Volatility	52	146	101	37	336	26	91	51	12	180	26	55	50	25	156	50%	38%	50%	68%	46%
Converts	22	10	4	2	38	22	10	4	2	38	0	0	0	0	0	0%	0%	0%	0%	0%
EQ Strategies	122	15	19	0	156	61	5	19	0	85	61	10	0	0	71	50%	67%	0%	0%	46%
EQ Gen Sales/Rsch/Admin	444	272	250	67	1,033	384	247	215	55	901	60	25	35	12	132	14%	9%	14%	18%	13%
TAL	186	9	0	4	199	186	9	0	4	199	0	0	0	0	0	0%	0%	0%	0%	0%
Total EQ ex-Prime Svcs	1,100	624	481	127	2,332	928	517	388	90	1,923	172	107	93	37	409	16%	17%	19%	29%	18%
Total Prime Services	348	180	70	88	686	296	152	60	66	574	52	28	10	22	112	15%	15%	14%	25%	16%
IBD	1,147	742	325	61	2,275	975	631	276	52	1,934	172	111	49	9	341	15%	15%	15%	15%	15%
Principal Investing	52	18	55	0	125	31	6	45	0	82	21	12	10	0	43	41%	65%	18%	0%	34%
FO ex-IMD, ex-MCD	4,100	2,472	1,527	331	8,430	3,380	1,864	1,154	254	6,652	720	608	373	77	1,778	18%	25%	24%	23%	21%
Total IMD	2,468	324	85	0	2,877	210	77	0	0	287	2,258	247	85	0	2,590	91%	76%	100%	0%	90%
Total MCD	1,973	501	69	149	2,692	1,229	0	0	0	1,229	744	501	69	149	1,463	38%	100%	100%	100%	54%
Total Front Office	8,541	3,297	1,681	480	13,999	4,819	1,941	1,154	254	8,168	3,722	1,356	527	226	5,831	44%	41%	31%	47%	42%
Corporate	5,911	2,420	1,377	2,314	12,022	4,089	1,851	1,062	2,054	9,056	1,822	569	315	260	2,966	31%	24%	23%	11%	25%
Total Firm	17,224	8,908	3,791	2,216	2,308	17,224	5,544	1,926	842	486	8,797	56%	54%	28%	17%	34%	34%	34%	34%	34%

FOIA CONFIDENTIAL TREATMENT REQUESTED BY LEHMAN BROTHERS HOLDINGS INC.

LBEX-DOCID:767208

Appendix

Residential & CRE Assets

(\$ in millions)

	Securitized Products										
	5/31/08	6/30/08	3Q08			4Q08			FY2009		
			Reduction	Loss	8/31/08	Reduction	Loss	11/30/08	Reduction	Loss	11/30/09
HI Resi Sales - S11-B in 3Q08											
US Residential	14,300	13,500	(5,500)	(2,400)	8,000	(1,500)	-	6,500	(5,000)	-	1,500
Europe Residential	9,300	9,600	(5,800)	(600)	3,800	(1,500)	-	2,300	(2,000)	-	300
Asia Pacific Residential	700	600	-	-	600	-	-	600	-	-	600
Asset backed Securities	600	600	-	-	600	-	-	600	-	-	600
Total Residential Exposure	24,900	24,300	(11,300)	(3,000)	13,000	(3,000)	-	10,000	(7,000)	-	3,000
Non-Resi ABS	6,500	5,800	-	-	5,800	(1,000)	-	4,800	(2,000)	-	2,800
Total Resi & Non-Resi	31,400	30,100	(11,300)	(3,000)	18,800	(4,000)	-	14,800	(9,000)	-	5,800
Other Residential Exposures ⁽¹⁾											
Real Estate Owned	198	172			172			172			172
Gov & Agencies Inventory	7,874	10,972			10,972	(4,500)		6,472	(5,500)		972
Corp Debt / Other	2,831	2,526			2,526	(500)		2,026	(1,500)		526
Total Corp Equities	78	74			74			74			74
Other GAAP (MTM ABS/CDS)	7,645	6,922			6,922	(2,000)		4,922	(4,500)		422
Total Other Inventory	18,626	20,666	0	0	20,666	(7,000)	0	13,666	(11,500)	0	2,166
Accounting Gross Up	10,333	10,229	(3,840)		6,389	(1,359)		5,030	(3,059)		1,971
BPM Adjustment	(2,924)										
Reported	57,435	59,004	(15,140)	0	45,855	(12,359)	0	33,496	(23,559)	0	9,937

1. Description of other residential exposures:

REO - are all 1-4 family residential properties from our origination/securitization platform

Govt & Agency - most is Fannie and Freddie securities.

Corporate Debt - mostly secured lending that is deemed corporate debt for GAAP purposes. This is originated in PFR (Principal Finance Residential) warehouse lending products.

Other GAAP - virtually all derivative MTM on ABS CDS, including failed sales and cash collateral.

	CRE										
	5/31/08	6/30/08	3Q08			4Q08			FY2009		
			Reduction	Loss	8/31/08	Reduction	Loss	11/30/08	Reduction	Loss	11/30/09
Mortgage Inventory	29,385	28,120									
Held for Sale	10,393	10,248									
Direct Real Estate Exposure	39,778	38,368									
Derivatives	928	145									
Real Estate Equity (e.g. Archstone)	1,718	1,718									
Real Estate Financing (e.g. Hilton)	6,924	7,204									
Total At Risk	49,349	47,435	(1,000)	(1,000)	46,435	(38,000)	(2,000)	8,435	(4,000)	-	4,435
Accounting Gross Up	10,883	11,187	-		11,187	(8,962)		2,225	(943)		1,282
BPM Adjustment	(1,991)	(1,991)									
Total	58,242	58,621	(1,000)	(1,000)	57,621	(46,962)	(2,000)	10,660	(4,943)	-	5,717