

From: Wieseneck, Larry [lwiesene@lehman.com].

Sent: 8/29/2008 3:39 PM.

To: Butler, Shaun K [sbutler@lehman.com]; Lowitt, Ian T [ilowitt@lehman.com]; McDade, Bart [bmodade@lehman.com]; Lauckhardt, Shelby [shelby.lauckhardt@lehman.com]; Freidheim, Scott J [Freidheim@lehman.com]; Gorman, Les [les.gorman@lehman.com].

Cc:

Bcc:

Subject: RE: Earnings Speech - RSF portion.

I just had a quick run through this and found one item I wanted to highlight to folks.....we can not refer to Spinco as a Liquidating Trust. It can never be discussed as akin to one nor that it is one. It neither is liquidating nor is it a trust.

I want to highlight this because it is currently referenced as such in the document and this is a huge accounting issue. If it were a Liq Trust, we would end up in a very bad place accounting wise.

Otherwise, on first fast review, the first few pages look very good.

Larry

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> _____
> From: Butler, Shaun K
> Sent: Friday, August 29, 2008 3:28 PM
> To: Lowitt, Ian T; McDade, Bart; Lauckhardt, Shelby; Freidheim,
> Scott J; Gorman, Les; Wieseneck, Larry
> Subject: FW: Earnings Speech - RSF portion

>
> Guys,
> This was originally the opening portion of Ian's speech. I've
> retooled it for Dick. Perhaps Les can layer parts of it into Dick's
> document. It is in full prose, not Dick's abbreviations.

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> From: Nadler, Mirey S
> Sent: Friday, August 29, 2008 3:25 PM
> To: Butler, Shaun K
> Subject: Earnings Speech - RSF portion

>
> Shaun -
> Please see attached the RSF portion of the speech, both as a word
> document, an also pasted as text below.
> Thanks.

>
> *****
> *****

>
> LEHMAN BROTHERS
> THIRD QUARTER 2008 EARNINGS RELEASE
> SEPTEMBER [10], 2008 @ 5:00 p.M.
> DRAFT A

>
> RSF REMARKS
> * GOOD afternoon AND THANK YOU for joining us TODAY
> 1 this afternoon, we released extremely disappointing results for
> the third quarter, which ian will discuss later in this call
> 2 at the same time, we also announced several IMPORTANT strategic,
> financial and operating initiatives THAT AMOUNT TO A SIGNIFICANT

- > CORPORATE REPOSITIONING OF THE FIRM
- > * these ARE all INTENDED TO ACCOMPLISH A DRAMATIC DE-RISKING OF
- > OUR BALANCE SHEET, WHILE REInforcinG OUR emphasis on OUR CLIENT-FACING
- > BUSINESSES
- > 1 and, clearly, they are also meant to return the firm to
- > profitability in fairly short order, while also putting us on a
- > stronger footing to generate decent roe's
- > * SO THIS afternoon, I SHALL DISCUSS:
- > * THE SPECIFICS OF THIS RESTRUCTURING AND OUR TIMELINE FOR
- > EXECUTION;
- > 1 and how we are evolving our business model, going forward
- > * ian will address:
- > * OUR RESULTS FOR THE QUARTER;
- > 1 OUR REMAINING ASSET EXPOSURES AT QUARTER END AND PRO FORMA FOR
- > THESE TRANSACTIONS;
- > 2 OUR CURRENT CAPITAL AND LIQUIDITY POSITIONS;
- > 3 and how we are thinking about our financial performance in the
- > coming quarters
- > * As many of you are aware, we have BEEN working diligently over
- > the past few months to address the market's concerns regarding the
- > concentration of assets on our balance sheet - and, in particular, our
- > legacy residential and commercial real estate-related positions
- > 1 we concluded that The earnings volatility created by
- > mark-to-market adjustments on these assets had obscured the underlying
- > value of our franchise, and we reached the critical conclusion that it
- > was necessary to de-risk the balance sheet in order TO ESTABLISH a
- > "clean lehman brothers" going forward
- > * clearly, this review has entailed some hard decisions around our
- > balance sheet, our businesses and our people
- > * initially, WE examined TWO primary alternatives:
- > * one option was to retain THESE ASSETS ON our BALANCE SHEET and
- > sell down our exposure in a measured way over time, SUPPORTED BY OUR
- > BELIEF IN THE INTRINSIC VALUE of these assets and a desire to retain
- > future upside
- > * however, this strategy would continue to EXPOSE US TO MARKET
- > UNCERTAINTY, AND WE WOULD RUN THE RISK OF ONGOING WRITEDOWNS FOR THE
- > FORESEEABLE FUTURE
- > * alternatively, we EXAMINED THE OPTION OF SELLING THESE ASSETS AT
- > EXTREME HAIRCUTS TO CURRENT MARKET VALUES. However, WE FELT STRONGLY
- > THAT AN ACCELERATED BULK SALE OF these ASSETS AT A DEEP DISCOUNT WOULD
- > ESSENTIALLY ELIMINATE VALUE FOR OUR EXISTING SHAREHOLDERS BY EMBEDDING
- > THESE HAIRCUTS
- > * Given significant asset pricing pressure AND DIMINISHED
- > LIQUIDITY in the CURRENT quarter, we recognized the need to move
- > quickly to resolve the overhang on our core business
- > 1 and We sought a solution that would preserve the value of THESE
- > assets through a vehicle that would allow for orderly paydowns,
- > liquidations and refinancings
- > 2 To this end, we took a number of significant steps in the third
- > quarter:
- > * TODAY, WE ARE ANNOUNCING OUR plan to separate the commercial
- > REAL ESTATE portfolio from our remaining business through the
- > formation of the Lehman Commercial Real Estate Partnership, which will
- > be spun-off to our existing shareholders as an independently-traded,
- > public company
- > * THIS TRANSACTION WILL ACCOMPLISH OUR GOAL OF QUICKLY SEPARATING
- > US FROM THESE LEGACY ASSETS TO CREATE "CLEAN LEHMAN Brothers"
- > 1 and importantly, it will enable shareholders to retain upside in
- > this high quality asset portfolio - where the assets will be held to
- > maturity, restructured or sold over time in a disciplined manner to
- > optimize value
- > 2 i WILL DISCUSS THIS TRANSACTION IN MORE DETAIL in a few minutes

> * we also moved quickly to bring our residential mortgage
 > exposures down to a far more manageable level
 > * over the course of the quarter, we sold \$[] of our residential
 > exposure, consisting of [name asset classes], which amounted to []%
 > of our starting total
 > 1 today, We are also announcing THE BULK sale of \$[] billion, or
 > []%, of our European residential portfolio to BlackRock
 > * blackrock is in the final stages of fund-raising to close thIS
 > purchase, which we expect to occur by [timing]
 > 1 with this sale AND ADDITIONAL DISPOSITIONS OVER THE COURSE OF
 > THE QUARTER, our remaining residential mortgage exposures HAVE BEEN
 > SUBSTANTIALLY REDUCED TO \$[] billion, A DECLINE OF []% OVER THE
 > COURSE OF THE QUARTER
 > * in total, asset sales and writedowns during the third quarter,
 > as well as these pending transactions, are expected to reduce OUR
 > aggregate residential and commercial mortgage exposure from \$65
 > billion as of May 31st to just \$[] billion, or []% of our pro
 > forma asset base
 > 1 ONCE THE SPIN-OFF TRANSACTION IS COMPLETE - WHICH WE EXPECT TO
 > close in FOUR TO FIVE MONTHS - LEHMAN WILL EMERGE AS A "CLEAN" COMPANY
 > AND WILL BE ABLE TO THRIVE AWAY FROM ITS LEGACY ASSETS
 > * THIS WILL ALLOW us TO REFOCUS ALL OF OUR EFFORTS ON GROWING OUR
 > CORE, CLIENT-FACING FRANCHISE
 > 1 additionally, clean lehman brothers can be more fairly valued in
 > the public markets
 > 2 and we will be better able to restore the confidence of our key
 > stakeholders - including equity investors, debt investors, clients,
 > counterparties and employees
 > * on the capital front, IN ORDER TO SUFFICIENTLY CAPITALIZE BOTH
 > LEHMAN BROTHERS AND THE PARTNERSHIP GOING FORWARD, WE reached [an
 > agreement with a strategic investor and detail], raised \$[] BILLION
 > OF [COMMON/PREFERRED], [ANCHOR INVESTORS; CONVERSION OF PREFERRED] -
 > WITH THE GOAL OF MAINTAINING A SOLID SINGLE-A RATING FOR LEHMAN
 > BROTHERS POST the SPIN-off. CLEARLY, ALL OF THESE TRANSACTIONS HAVE
 > BEEN CLOSELY VETTED BY BOTH THE REGULATORS AND THE RATING AGENCIES
 > * we are also announcing our intention to monetize a minority
 > stake in our investment management division; we are reducing our
 > common stock dividend; and we are undertaking a new round of expense
 > initiatives - all with the aim of further bolstering our capital base,
 > while elevating our pre-tax margins, going forward
 > * these actions represent the major components of our corporate
 > REstructuring
 > 1 now, i would like to clarify the mechanics of how this is all
 > going to work
 >
 > mechanics of the spin-off transaction
 > * first, the spin-off transaction. The structure of the proposed
 > transaction is described on attachment [] of our press release
 > 1 \$[]bn of commercial assets will be contributed to Spinco as an
 > independent legal entity that is totally separate from lehman brothers
 > and operates as a liquidating trust on a non-mark-to-market basis
 > 2 this portfolio represents over [2,300] positions and is highly
 > diversified across regions and asset types:
 > * Approximately [60]% are in the americas, [25]% in europe and
 > [15]% in asia
 > 1 no property type comprises greater than []% of positions, and
 > no state represents more than []% of our U.s. portfolio
 > 2 approximately [60]% are whole loans and corporate debt, [25]%
 > are equity positions and [15]% are securities
 > 3 among our whole loans and corporate debt positions, []% of the
 > portfolio is performing with cash pay loans accounting for []% and
 > an average delinquency rate of just []%

- > * excluding our \$[] billion portfolio of loans that were
- > originally acquired as npl's, these figures go to []% and []%,
- > respectively
- > * in total, this pool of assets generates significant cash flow
- > [include details on amounts]. when combined with the normal course of
- > asset sale activities, these cash flows will be dedicated to paying
- > down debt and returning cash to shareholders over time
- > 1 The publicly traded Partnership will value these assets at
- > market prices as of the time of the spin, which is expected to occur
- > during the first quarter of fiscal 2009
- > 2 in terms of capitalizing the Partnership, Lehman Brothers will
- > contribute equity equal to 25% of asset value (or approximately \$[8]
- > billion) and provide debt financing for 75% of the total
- > (approximately \$[24] billion) - so it will be capitalized similar to
- > other publicly traded real estate entities
- > * The Firm will spin its entire equity interest in the Partnership
- > to existing shareholders
- > 1 Lehman Brothers will initially provide all the debt financing
- > for the Partnership, and we will look to subsequently syndicate a
- > portion of this senior debt to third parties
- > * at this point, we have already received strong interest from
- > third parties related to the syndication
- > * Providing the debt financing will be liquidity neutral to
- > Lehman, as we currently fund these assets with long-term capital
- > 1 We have conducted extensive stress tests on the portfolio, and
- > are confident that the debt is well-covered by expected cash flows
- > 2 We estimate free cash flow for debt paydown and equity
- > distributions of \$4 to \$5 billion per year over the next 5 years
- > * as i noted earlier, today's capital raise, [along with the sale
- > of our imd stake] will ensure sufficient capitalization of both Lehman
- > Brothers and the Partnership going forward
- > 1 Following the spin-off, our shareholders will hold shares of
- > both Lehman Brothers and the Partnership, which will report and trade
- > as a separate entity [with its own rated debt]
- > * Pro forma for the transaction, we estimate Lehman Brothers' book
- > value per share will be approximately \$[15]
- > 1 At a more normalized price-to-book of [1.0] to [1.1] times, core
- > Lehman Brothers post-spin would be worth \$[15] to \$[17] per share
- > 2 Additionally, our shareholders will own interests in the
- > Partnership, which will benefit over time from the value creation and
- > cash flows of our commercial portfolio. book value per share for the
- > partnership will be \$[]. given that companies like this generally
- > trade at a price-to-book of [0.4] to [0.6] times, these shares are
- > expected to be worth \$[] to \$[]
- > * This transaction provides significant asset liquidity and
- > balance sheet benefits for Lehman Brothers post-spin:
- > * after the transaction is completed, we estimate that our gross
- > and net leverage ratios will drop to [] times and [] times,
- > respectively and that our Tier I capital ratio will be []%
- > 1 Additionally, the transaction significantly clears Lehman
- > Brothers' balance sheet of legacy residential and commercial asset
- > exposures
- >
- > * And we will significantly reduce our level 3 asset balance to \$[
- >] billion, or []% of total assets
- > * Importantly, our shareholders are able to benefit from the
- > intrinsic upside and strong cash flow characteristics in our
- > commercial real estate portfolio
- > * As part of an independent company, the assets can be sold down
- > over time, with more negotiating leverage and at prices which maximize
- > returns
- > * This structure has been fully vetted with the SEC, and we have

- > broadly resolved any accounting, disclosure and execution-related
- > issues
- > 1 We have also had full discussions with each rating agency on the
- > spin-off [include more detail here]
- > 2 we are currently in the process of "ring fencing" these assets
- > and developing expanded disclosure similar to how commercial banks
- > provide details on their commercial real estate holdings. all of
- > these portfolio characteristics and disclosures will be provided to
- > investors as part of a roadshow preceding the actual spin-off
- > 3 in terms of execution, it is important to point out that the
- > firm has a long history of establishing bad bank jv's that have
- > provided our partners with significant economic upside, as in the
- > cases of westinghouse credit, woori financial, [name others]
- > mechanics of IMD transaction
- > * turning to the investment management division, we have reviewed
- > various alternatives, including the sale of all or parts of this
- > business with a number of interested parties
- > 1 we have concluded that our best option, at this point in time,
- > is the ipo of a 20% stake in the investment management unit
- > * clearly, this means that the firm will continue to consolidate
- > 80% of imd's revenues and pre-tax income, which amounted to \$3.1
- > billion and approximately \$800 million, respectively in 2007 and \$[]
- > and \$[] year-to-date
- > 1 this, as you know, has been one of our most stable sources of
- > revenues and pre-tax income, given the fee-based nature of its revenue
- > stream
- > 2 also, given its lack of capital intensity, this business has
- > attractive return on asset characteristics
- > 3 the ipo of a minority stake in investment management also has
- > the potential to create a currency that can more directly track the
- > performance of this business and be utilized to incentivize their
- > people
- > 4 our expectation is that this sale would raise approximately
- > \$[] for the Firm, given comparable valuations, and our objective
- > would be to complete a transaction by [month / year], given that
- > preparations are already well underway
- >
- > * we realize that we have given you a lot to absorb this
- > afternoon, but hopefully we have been able to clarify some of the
- > mechanics and rationale behind these transactions
- > 1 let me also point out that the capital markets have clearly
- > changed, and we have changed our business model accordingly in order
- > to compete most effectively
- > 2 it is no longer about rankings and being bigger, but it is very
- > directly about using our resources for the right business
- > opportunities
- > 3 our operating model, going forward, is to maximize our
- > risk-adjusted returns through the disciplined use of our resources
- > * namely, our capital
- > 1 our balance sheet
- > 2 our product-service platform
- > 3 and our people, in order to win dominant wallet share with our
- > priority clients worldwide
- > * this change in model requires that we shift our thinking
- > * about how we define operational excellence through disciplined
- > resource allocation
- > 1 how we deliver intellectual capital to our clients
- > 2 how we approach risk management
- > 3 and how we deliver the entire franchise to a chosen roster of
- > clients
- > * clearly, it entails a change in mindset
- > * and with the significant level of de-risking and the strategic

> restructuring we announced today, this process is well underway
> * ian will now PROVIDE A BRIEF UPDATE ON OUR THIRD QUARTER
> RESULTS, followed by a detailed discussion of our balance sheet, our
> capital and liquidity position and our post-transaction business
> outlook. ian...
>
> << File: 3Q08 EARNINGS SCRIPT_DRAFT A_RSFC SECTION_August 29.doc >>