LEHMAN IB UPDATE J^2: F.R. Restricted 7/11/2008

Update Discussion with Treasurer and Data for July 10th (Go to the Appendix to see recent days' narratives).

Liquidity Pool
The pool started the day up at $40.3B from yesterday's $39.9B beginning balance. The increase was in part due to the influx of $375 million cash triggered from a longer term structured transaction with insurance and pension fund investors.

Repo
No issues rolling in either Europe or the US today. Repos in Europe included a three-month term financing. Reports show that yesterday's $1.5B increase was primarily due to a $2.0B increase with the ECB to $13.3B and a $500 million increase with State Street Bank to $12.6B.

CP
Although CP issuance was reported to be in line with current levels, two term investors did not roll: **State of Oregon** ($100 million) and **AIG** ($100 million). **T. Rowe Price,** a third maturing term investor, opted to roll $75 million until August.

CDS
Five-year spreads widened further from 327 to 360/370, levels not seen since the week of March 17. **Rogge Global Partners**, a bond specialist fund, and **Dai Ichi** sold $100 million and $55 million, respectively, away from Lehman. As with Lehman's stock price, the widening over the past several days is due to what Lehman characterizes as being a "side casualty" to current concerns with FNMA and Freddie Mac.

Prime Brokerage Movements
Three brokerage accounts, GLG ($800 million), Marble Bar ($1.0B), and Amber ($500 million), moved balances away from LBIE, Lehman's UK broker-dealer. The Treasurer reported that this had limited impact on the U.K. broker's liquidity, which continues to be long by $3.5B to $4.0B.

Novations
The Treasurer reported nothing out of the ordinary regarding novations. He added, however, that both **AIM** and the **Central Bank of France** are substituting FNMA/Freddie Mac paper with Treasuries and other GSE paper (i.e., Federal Home Loan Banks and Federal Farm Credit Banks).

Comments from CPC Teams
Prime Brokerage: CS reported that it has received a flurry of activity from Lehman Brothers clients looking to open Prime Brokerage accounts at CS. The past several days have been very active in the number of these requests coming into CS. Gary Gluck (Global Treasury) noted that this level of activity reminds him of the Bear Stearns March period.
Secured Markets: The Repo desk has seen a notable volume of offers of cash against agencies coming to CS. CS is not currently looking to build up its balance sheet and so is not currently taking these trades. CS noted that the increase could indicate trouble in Lehman Brothers ability to finance their agency portfolio, or simply concerns over Fannie Mae and Freddie Mac. This is concerning to CS since, to date, they have never seen problems in the

agency repo markets. CS noted that Lehman Brothers did not have a lot of equity finance rolling in the short term, giving no indicators of concern in this segment of the repo market.
(Credit Suisse 7/11 Funding Update 2 PM)

The **Deutsche Bank** Treasurer pointed out that on July 2, there were zero draws from the PDCF. While this may be a sign that sufficient liquidity is returning, it may also be a sign that institutions simply do not want to be seen borrowing from the PDCF. The Treasurer noted that he did not feel that Lehman Brothers "did itself a favor" by telling the press that it wouldn't borrow from the PDCF – which could potentially put the institution in a bind in the future if it needed access to PDCF funding again. *(Weekly Liquidity Update 7/7 – 7/10)*

Lehman Bros. dropped 12% and CDS spreads widened dramatically as the market continues to question the IB's viability; **WFC** management, in concert with near-unanimous market participant opinion, dismissed PIMCO statements of business as usual relationship with Lehman. (WFC 7/10 Update)

Rumors around Lehman, Fannie and Freddie continue in market. **Barclay's** rationalized limits where appropriate and reasonable for Lehman. Continue to trade on a business as usual basis. *(Barclays 7/10 Credit Update)*

15:20 Stock Price

Price 14.960	Change -2.340	% Change-13.526	Bid N.A.	AskN.A.	Open15.090
Volume 155,535,897	High 16.060	Low13.290	52-Week High 74.09(07/17/07)	52-Week Low 13.29(07/11/08)	1-Yr Return -77.828

Lehman's Stock Slide Hasn't Hurt Firm's Liquidity, S&P Says
By Steve Dickson

July 11 (Bloomberg) -- Lehman Brothers Holdings Inc.'s record share price decline hasn't damaged the firm's liquidity, funding or client business, Standard & Poor's said. ``The firm's management continues to successfully implement a number of measures -- including strengthening its funding platform, reducing exposure to troubled assets, and increasing capital -- to ensure the maintenance of sound liquidity and the ability to meet funding obligations,'' S&P said today in a statement.

Lehman fell as much as 23 percent today, the most since the company went public in 1994, on speculation home-loan financing companies Freddie Mac and Fannie Mae might fail. The shares dropped $3.36, or 19 percent, to $13.94 at 12:33 p.m. in New York Stock Exchange composite trading. S&P lowered its credit rating on Lehman to A from A+ on June 2, based on expectations that the global credit contraction would continue to weigh on earnings. ``We are concerned that ill-founded and persistent pressures on Lehman's stock unnecessarily prolong what is already a very challenging business environment,'' S&P said today.

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JULY 11 SUMMARY DETAILS FOR JULY 10

7/10/2008 Changes in Liquidity Pool				
Asset Composition ($B)			Funding Composition ($B)	
Position	Change in Cash		Sources	
25.6	0.6	NY	2.3	CP Issuance
7.7	1.8	London	0.1	LTD Settlements
			0.4	Other
Position	Change in Inventory			
4.9	-	LBHI		
1.7	(2.0)	LBI (NY)		
0.5	-	LBIE (LDN)	Uses	
-	-	LBAH (ASIA)	2.2	CP Maturities
			0.1	LTD Maturities
$40.3B	$0.5B	Net Change	$0.5B	Net Funding

Lehman Credit Spreads		
Day / Week	5-Year CDS (open)	5-Year (vs 3 Mo LIBOR)
3/14	650	
3/17 – 3/21	450 – 273	
3/24 – 3/28	210 – 300	313 – 328
3/31 – 4/4	183 – 300	245 – 283
4/7 – 4/11	158 – 222	234 – 269
4/14 – 4/18	167– 222	214 – 269
4/21 – 4/25	169 – 190	215 – 232
4/28 – 5/2	135 – 160	219 – 232
5/5 – 5/9	135 – 171	219 – 233
5/12 – 5/16	154 –164	225 – 232
5/19 – 5/23	153 – 215	229 – 251
5/27 – 5/30	226 – 247	273 – 278
5/30 (2 Q End)	226	274
6/2 – 6/6	233 – 262	253 – 275
6/9 – 6/13	237 – 280	246 – 273
6/16 – 6/20	225 – 260	248 – 266
6/23 – 6/27	258 – 285	264 – 279
6/27	285	279
6/30	276	279
7/1	276	278
7/2	280	274
7/3	280	274
7/7	286	276
7/8	283	280
7/9	285	281
7/10	327	302

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Dates	Total Cash	Boxed inventory	Liquidity Pool: Cash & Equivalents Available to LBHI	LBI 15c3 Lockup	LBIE PB Cust. Free Credit	$2.0B US Committed Bank line (drawn)	$2.5B LDN Committed Bank line (drawn)
3/14 – 3/18	9.0–20.6	6.5–19.9	27.1–30.2				
4/1 – 4/4	10.9–20.5	11.8–19.9	27.5–32.2	2.3	6.3 – 6.4		2.0
4/7 – 4/11	16.2–18.7	12.5–15.8	31.2–32.7	2.3	6.5 – 7.1		
4/14 – 4/18	18.0–21.5	9.3 –12.4	30.2–33.9	2.3	5.7 – 7.3	2.0	
4/21 – 4/25	18.4–20.4	8.9–11.8	30.2–33.3	4.2	5.9 – 6.2	2.0	
4/28 – 5/2	7.7–20.9	10.9–26.3	31.8–35.6	5.5 – 6.0	6.0 – 7.1		
5/5 – 5/9	17.6 – 22.0	17.2 – 19.1	34.8 – 39.2	5.5	3.7 - 6.0		
5/12 – 5/16	21.3 – 27.0	10.5 – 18.4	37.5 –39.7	3.1	3.7– 3.9		
5/19 – 5/23	26.1 – 30.0	9.3 – 12.6	36.4 – 40.2	3.0	3.8 – 4.3		
5/27 – 5/30	1.2 – 30.8	10.9 – 43.4	41.7 – 44.6	3.3	4.0 – 4.3		
5/30 (2Q End)	1.2	43.4	44.6	3.3	4.0		
6/2 – 6/6	26.6 – 31.3	10.2 – 15.9	42.4 – 43.3	3.8	3.7 – 3.9		
6/9 – 6/13	31.2 – 36.6	8.5 – 12.0	40.6 – 48.4	2.8	3.9 – 4.3		
6/16 – 6/20	23.0 – 30.1	12.5 – 18.5	41.5 – 43.1	5.6	3.1 – 3.6		
6/23 – 6/27	30.2 – 33.8	7.7 – 11.7	41.0 – 42.2	2.5	3.6		
6/27	31.4	9.6	41.0	2.5	3.6		
6/30	2.6	38.4	41.0	5.0	3.0		
7/1	29.4	11.6	41.0	5.0	3.0		
7/2	31.9	8.2	40.1	5.0	3.1		
7/3	28.1	11.2	39.3	5.0	3.1		
7/7	27.8	10.9	38.7	5.0	2.8		
7/8	28.0	10.4	38.4	5.0	2.7		
7/9	30.9	9.0	39.9	5.0	2.6		
7/10	33.3	7.0	40.3	5.0	2.1		

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Secured Funding ($ Billions)							Secured Funding Breakdown		
Secured Funding	Asia	Europe	U.S.	Total	Change		% Next Day	% < 1 week	% > 1 week
3/17 – 3/20	2.9	45.6 – 47.7	65.5 – 67.8	115.3 – 117.4			N/A	N/A	N/A
3/24 – 3/28	1.6	47.1 – 41.6	69.2 – 63.8	117.9 – 107.0			37 – 43	15 – 18	41 – 47
3/31 – 4/4	1.4	41.5 – 48.0	63.2 – 61.6	105.0 – 111.7			38 – 54	8 – 13	38 – 48
4/7 – 4/11	1.4 – 1.5	46.6 – 48.0	61.8 – 62.3	109.9 – 111.7			37 – 44	11 – 17	44 – 49
4/14 – 4/18	1.5 – 1.6	47.4 – 50.5	60.3 – 61.8	110.1 – 112.5			39 – 44	9 – 12	44 – 51
4/21 – 4/25	1.6 – 1.7	50.5 – 51.6	60.2 – 61.7	112.5 – 114.7			40 – 43	11 – 18	42 – 47
4/28 – 5/2	1.7	49.3 – 51.3	59.0 – 60.2	110.8 – 113.2			42 – 48	10 – 17	40 – 45
5/5 – 5/9	1.7	49.6 – 50.6	59.9 – 61.6	112.2 – 113.1			45 - 47	9 -11	43 - 44
5/12 – 5/16	1.7	48.8 – 49.2	59.5 – 61.2	110.4 – 112.0			42 – 48	7 – 9	46 – 51
5/19 – 5/23	1.7	49.1 – 51.4	56.8 – 60.8	109.8 – 111.7			40 – 43	6 – 9	49 – 51
5/27 – 5/30	1.7	48.3 – 50.0	54.1 – 57.1	107.0 – 108.8			39 – 42	11 – 13	46 – 50
5/30 (2Q END)	1.7	49.5	54.1	105.3			42	12	46
6/2 – 6/6	1.7	50.5 – 51.3	54.6 – 56.8	107.4 – 109.2			37 – 40	11 – 14	49 – 51
6/9 – 6/13	1.7 – 1.8	49.9 – 51.2	54.9 – 55.4	106.8 – 108.0			39 – 43	9 – 13	47 – 51
6/16 – 6/20	1.7	49.9 – 50.7	56.4 – 59.9	108.0– 112.1			37 – 44	7 – 12	49 – 50
6/23 – 6/27	1.7	49.7 – 50.3	58.7 – 59.7	109.7 – 111.0			42 – 43	8 – 10	47 – 49
6/27	1.7	50.3	58.7	110.7	(0.2)		42	9	49
6/30	1.7	49.6	59.1	110.3	(0.4)		44	10	47
7/1	1.7	49.6	57.9	109.1	(1.2)		42	10	47
7/2	1.7	49.8	58.5	109.9	0.8		45	9	46
7/3	1.7	48.7	57.4	107.8	(2.1)		45	9	46
7/7	1.7	48.6	58.6	108.9	1.1		43	11	46
7/8	1.7	49.1	57.9	108.7	(0.2)		45	9	46
7/9	1.5	48.5	57.4	107.4	(1.3)		45	7	48
7/10	1.5	48.9	58.5	108.9	1.5		43	7	50

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Commercial Paper	Europe	U.S.	Total	Change	% Overnight Maturing	% Within Two Weeks
3/17 – 3/20	2.4 - 2.6	5.2 – 5.8	7.7 – 9.4		-	-
3/24 – 3/28	2.3 – 2.6	6.7 – 8.6	9.2 – 11.1		45 – 53	
3/31 – 4/4	2.4 – 2.6	6.4 – 8.0	8.8 – 10.6		49 – 52	
4/7 – 4/11	2.3 – 3.4	7.1 – 7.6	9.6 – 11.0		46 – 55	
4/14 – 4/18	3.0 – 3.4	6.6 – 7.8	9.8 - 11.0		47 - 57	
4/21 – 4/25	3.0 – 3.3	6.4 – 7.7	9.5 – 11.0		47 – 52	61 – 70
4/28 – 5/2	2.9 – 3.3	6.2 – 7.5	9.5– 10.7		27 – 50	56 – 61
5/5 – 5/9	3.0 – 3.7	7.0 – 7.9	10.0 – 11.3		41.2 – 50.2	52.2 – 64.1
5/12 – 5/16	2.9 – 3.8	7.7 – 8.3	10.9 – 11.1		35.7 – 40.4	53.9 – 60.3
5/19 – 5/23	3.2 – 3.9	6.9 – 7.5	10.7 – 11.4		33.4 – 41.6	50.7 – 63.2
5/26 – 5/30	1.5 – 3.9	6.4 – 7.1	8.0 – 10.8		16 - 38	55.7 – 64.6
6/2 – 6/6	2.1 – 3.6	6.0– 6.5	8.2 – 10.0		15.4 – 41.1	57.1 –65.4
6/9 – 6/13	1.2 – 2.1	5.0 – 6.0	6.1 – 7.9		20.8 – 42.2	56.7– 77.8
6/16 – 6/20	1.0 – 1.3	4.6 – 55	5.6 – 6.7		17.9 – 30.9	n/a
6/23 – 6/27	0.9 – 1.0	4.8 – 5.3	5.8 – 6.2		36.3 – 43.9	62.0 – 66.6
6/27	1.0	4.8	5.8		43.9	66.6
6/30	0.9	4.0	4.9	(0.9)	48.1	63.4
7/1	1.0	3.8	4.8	(0.1)	45.8	61.7
7/2	0.8	3.8	4.6	(0.2)	43.2	n/a
7/3	0.9	3.8	4.6	0.0	47.7	n/a
7/7	0.9	3.8	4.7	0.1	49.4	n/a
7/8	0.9	3.6	4.5	(0.2)	46.7	n/a
7/9	0.9	3.9	4.7	0.2	46.6	61.3
7/10	0.9	3.9	4.8	0.1	48.4	60.8

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ST Debt Maturities:	Next Day	< 1 wk	1wk – 1 mth	> 1 mth	Total	Change
3/19 – 3/20	1.7 – 3.2	1.0 – 4.4	2.4 – 3.7	24.0 – 24.1	32.1 – 32.4	
3/24 – 3/28	4.4 – 7.2	1.3 – 3.8	3.0 – 3.4	23.2 – 25.9	33.9 – 38.2	
3/31 – 4/4	4.7 – 5.5	1.0 – 1.6	3.2 – 3.8	25.9 – 26.9	35.1 – 37.2	
4/7 – 4/11	4.9 – 5.9	2.5 – 2.7	2.2 – 2.5	26.8 – 26.9	36.6 –37.8	
4/14 – 4/18	4.1 – 7.7	0.5 – 1.8	2.7 – 3.5	26.1 – 26.7	36.1 – 37.9	
4/21 – 4/25	4.6 – 5.8	1.6 – 2.3	2.9 – 3.5	26.0 – 26.4	36.1 – 37.1	
4/28 – 5/2	2.8 – 5.7	1.1 – 2.7	5.8 – 6.6	23.6 – 24.2	35.6 – 37.0	
5/5 – 5/9	4.2 – 5.9	0.8 – 2.7	5.3 – 7.2	23.3 – 23.9	35.6 – 37.5	
5/12 – 5/16	4.2 – 5.2	1.0 – 2.3	7.2– 7.7	22.7 – 22.9	36.1 – 37.2	
5/19 – 5/23	3.8 – 4.9	0.9 – 3.7	5.5– 8.4	22.7 – 24.4	35.8 – 37.7	
5/26 – 5/30	1.3 – 6.4	1.9 – 3.4	4.9 – 6.1	24.1 – 24.3	32.4 – 37.9	
6/2 – 6/6	3.4 – 4.3	1,3 – 2.6	2.7 – 4.8	24.0– 25.0	33.5 – 35.5	
6/9 – 6/13	2.6 – 3.5	1.6 – 3.1	2.3 – 2.8	23.8 – 24.6	30.8 – 33.0	
6/16 – 6/20	1.1 – 2.4	1.3 – 2.3	1.6 – 3.0	23.9 – 24.5	29.8 – 30.2	
6/23 – 6/27	2.4 – 3.1	0.6 – 2.7	1.4 – 2.7	23.5 – 23.8	29.5 – 30.5	
6/27	3.1	0.7	2.7	23.5	30.0	(0.2)
6/30	2.4	0.6	2.7	23.4	29.0	(1.0)
7/1	2.3	0.5	2.8	23.6	29.1	0.1
7/2	2.0	0.8	2.4	23.6	28.8	(0.3)
7/3	2.0	0.9	1.9	23.6	28.4	(0.4)
7/7	2.3	2.1	1.7	22.9	29.1	0.7
7/8	2.2	2.1	1.8	23.3	29.3	0.2
7/9	2.5	1.8	1.8	23.1	29.3	0.0
7/10	2.3	1.7	1.9	23.4	29.3	0.0

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CURRENT RATINGS

Ratings Summary			
Rating Agency	**LBHI**	**LBI**	**Comments**
Moody's			
• Short-term	P-1	P-1	• June 2008 Placement on Negative Watch • June 2008 Outlook change to *Negative* • March 2008 Outlook change to *Stable* • September 2007 Credit commentary opinion with no rating.
• Long-tern (senior)	A-1	Aa3	
• Long-term (subordinated)	A-2	A1	
Standard & Poor's			
• Short-term	A-1	A-1	• June 2008 LT Ratings Downgraded • April 2008 Commentary on Credit Summary • March 2008 Outlook change to *Negative*
• Long-tern (senior)	A	A+	
• Long-term (subordinated)	A-	A	
Fitch Ratings			
• Short-term	F1	F1	• June 2008 LT & ST Ratings Downgraded • April 2008 Outlook change to *Negative* • March 2008 Commentary
• Long-tern (senior)	A+	A+	
• Long-term (subordinated)	A	A	
Dominion Bond Rating Service			
• Short-term	R-1 (Middle)	R-1 (Middle)	• June 2008 Outlook change to *Negative* • March 2008 Ratings Affirmed • December 2007 Ratings Upgraded
• Long-tern (senior)	AA (Low)	AA	
• Long-term (subordinated)	A (High)	AA (Low)	

APPENDIX

Update Discussion and Data for July 9th

Quick conversation with Lehman's Treasurer at 11:30am:

Regarding today's rumors, Lehman said the PIMCO rumors and rumors on credit lines are false, as noted by PIMCO's public denial. Another firm agitated that Lehman was losing Prime Brokerage customers which is also not true.

Additionally, Lehman's Treasurer noted that what is also in play is uncertainty over Fannie and Freddie. Lehman sees its shares, primarily, as highly a correlated proxy to Fannie and Freddie as a hedge to them and other mortgage exposures, further increasing IB stock volatility. The reason is Lehman's holding of mortgage and mortgage related assets. The only meaningful cure is continued asset reduction and a more distributed portfolio that will make the quantitative program fund trades less attractive using Lehman shares. **Note: next week we are having the quarterly Funding & Liquidity meeting on Wednesday, and the monthly Risk update on Thursday.**

Liquidity Pool

The pool is expected to return to the $45B level by quarter-end. Current levels reflect the reduction in CP, some modest debt buybacks ($2+ bil.) over recent weeks and retirement of some short-term debt that did not roll. Nothing precipitous has occurred, and additional asset sales continue, details of which will follow next week.

Repo

Levels decreased from $108.7B to $107.4B yesterday. The decrease was due to $200 to $300 million reductions in prior days' balances across several counterparties (e.g., **BONY/Mellon, Calyon, Norwest, RBC**) rather than larger reductions from one or two counterparties.

CDS

Spreads, which closed at 285 yesterday, have been ranging between 280 and 290. This is up from the 270/280 range reported last week.

Maturing Debt

Other than the occasional $1.0 plus billion, there is little impact in the maturing debt schedules for either long- or short-term debt through October.

CP

CP levels increased to $4.7B from $4.5B as Lehman was able to roll the entire $1.8B that matured yesterday. Slightly over $2.0B will be rolling overnight for the foreseeable future, with the current weighted average for the entire book running around 40 days.

Liquidity Pool

The pool started the day at $39.9B, up from $38.4B. This is the first up-tick in pool balances since June 24. Derivatives ($1.5B) and the net increase in commercial paper outstanding ($0.2B) contributed to the increase.

Stock Price 10:49 New York Currency: USD

Price17.550
Change -2.190
% Change -11.094
BidN.A.
AskN.A.
Open 19.630

Volume 45,925,453
High 20.410
Low 15.400
52-Week High 74.09 (07/17/07)
52-Week Low15.40 (07/10/08)
1-Yr Return
-75.702%

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Update Discussion and Data for July 8th

Today Treasury staff summarized the following in today's weekly review of financing activities.

Ratings Fitch affirmed Lehman's A+/A-1 debt ratings this morning. Current ratings were also affirmed for Goldman, Morgan Stanley, and Merrill Lynch. Lehman, however, is monitoring today's placement by Fitch of Merrill Lynch on CreditWatch Negative.

CDS Unlike Lehman's stock price, five-year spreads for the week have remained fairly stable in the 270 to 280 range.

Repo Levels have also been fairly stable ($109B -$110B range) for non-Treasury, non-agency, and non agency MBS repos. Discussions are under way, however, with **Fidelity**, who will likely not roll $500 million in high yield term repo maturing July 22. (Yesterday **Fidelity** opted not to roll a maturing $200 million tranche of residential mortgage term repo.)

CP CP levels declined to $4.5B, down $0.3B from a week ago, the lowest level reported since we began tracking this. Roughly 50% is maturing each day. The weighted average maturity of outstandings is 40 days. Staff argued that recent pullbacks are not Lehman-specific but tactical moves by investors in response to cash positions.

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Debt Buybacks Debt buybacks have been $30 to $40 million per day with the exception of $150 million bought back yesterday, primarily from the bond specialist, **Rogge Global Partners**.

Credit Marketing Management discussions with investors have slowed down as key contacts at investment firms take summer vacations.

Stock Price15:35 New York Currency: USD

Price 20.280	Change -1.990	% Change -8.936	Bid N.A.	Ask N.A.	Open22.440
Volume 38,394,592	High 22.890	Low 20.050	52-Week High 75.39(07/09/07)	52-Week Low 19.24 (07/01/08)	1-Yr Return-72.664

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Update Discussion and Data for July 7th

Repo Monday's levels came in $1B higher than last Thursday's levels. The largest increase was $500 million with Dwight Asset Management (up from $1.1B).

CP CP levels were maintained today at $4.7B, up slightly from last Thursday's $4.6B level.

Liquidity Pool The beginning-of-day liquidity pool declined to $38.7B from $39.1B. This is the firm's lowest reported level since the week of May 19. Today the Treasurer affirmed that the liquidity pool is targeted to be in the $40B to $45B range by next quarter end.

Stock Price

13:28 New York Currency: USD

Price 20.520	Change -0.320	% Change -1.536	BidN.A.	AskN.A.	Open 21.130
Volume 31,577,465	High 21.220	Low 19.700	52-Week High 75.39(07/09/07)	52-Week Low 19.24(07/01/08)	1-Yr Return-72.168

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Update Discussion and Data for July 3rd

Repo Current levels are in line with last Thursday's levels. Treasury staff report that last Thursday's $2.1B decline in repo (which excludes Treasuries, Agencies, and Agency Mortgage-Backed repos) from $109.9B on Wednesday was due to a decrease in Lehman collateral in need of being funded.

CP CP levels are virtually unchanged at $4.6B from Thursday.

CDS Lehman's CDS spreads are trading 5 bps wider at 285 vis-a-vis that reported for Thursday. The widening, in line with the financial services sector, stems from investors' adverse reactions to the potential increase in capital requirements (~$75B) for FHLMC and FNMA due to a pending accounting rule.

Stock Price

14:58 New York

Price 20.640	Change -2.210	% Change -9.672	Bid N.A.	Ask N.A.	Open23.470

Volume 38,727,960 High 23.800 Low 20.550 52-Week High 75.39(07/09/07) 52-Week Low 19.24(07/01/08) 1-Yr Return -71.938

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Update Discussion and Data for July 2nd

Repo Current levels held.

CP CP levels declined by $50 million, largely due to **Ameriprise** opting not to roll $100 million one-month CP. This is the sixth straight day where overall CP levels have declined. **JP Morgan Asset Management**, which holds $200 million CP in Europe and $100 million CP in the US, reportedly decided to reduce Lehman CP exposure by 25%. We are not sure whether or not this will carry over into JPM's secured funding positions: $1.2B, which should have rolled today, and another $1.2B due July 8.

CDS Lehman's spreads are underperforming vis-à-vis industry peers today. Five-year CDS spreads widened from 275/280 yesterday to 285.

Price23.920 Change 1.560 % Change 6.977 Bid N.A. Ask N.A. Open 22.730
Volume 30,156,828 High 24.100 Low 22.360 52-Week High 75.39(07/09/07) 52-Week Low 19.24(07/01/08) 1-Yr Return -67.562

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Update Discussion and Data for July 1st

Treasury staff summary points:

1) Funding markets were "fairly stable", albeit dismal.
2) The market sentiment is negative toward the industry rather than Lehman-specific.
3) The rumors about Lehman discussed in recent days persist (see recent reports in the appendix).
4) There is considerable uncertainty underlying upcoming bank earnings announcements (e.g., Merrill Lynch, Deutsche, Citi, regional banks) and whether or not reporting institutions will raise additional capital, where appropriate, to redress impairments.
5) The continuing apprehension with investment banks is being further reinforced with 1) Paulsen's recent comments/second

thoughts about rescuing investment banks and 2) the uncertainty as to whether or not Fed facilities will be kept in place.

Repo Repo levels held today, although everything continues to roll overnight. Two counterparties with outstanding term repo trades, initiated prior to March 15, have announced they will not roll:1) **Fidelity,** with $1.3B in asset backed repos maturing July 22, and 2) **Dwight Asset Management** with $800 million high yield corporate repos maturing in December. (The firm would like to unwind much sooner.)

CP CP levels continue to slowly with current level at $4.8B, though the full $2.4B maturing paper rolled. Four counterparties told Lehman they will not continue to invest in CP including:

- **J. P. Morgan Chase Asset Management** reduced funding in Europe by $100 million;
- **Credit Suisse Asset Management** ($100 million)
- **New York State** ($250 million), and
- **New York City** ($250 million).

CDS Five-year CDS spreads are oscillating around the 275 level between 270 and 290. Five-year cash spreads were trading between 270 and 275, also per recent days. One-year CDS spreads are still reported at 400+, in line with Lehman's inverted yield curve where one-year spreads are 200 to 300 basis points higher than five year spreads.

Debt Issue and Buyback

A brief discussion centered around Lehman's outstanding debt management. Overall, the Treasury staff sees Lehman as continuing to be a net issuer of structured notes in Europe, which has offset buybacks. In the U.S., Lehman is a net purchaser of its debt on buyback for $2 to 3B over the past month.

Today's JPMC Counterparty Update

JPM recognizes the importance of transacting with "liquidity providers" but is concerned about the persistence of 'noise and innuendo' about Lehman. The risk manager cited several reasons for his growing cynicism; (i) Lehman's weak balance sheet, which is reported to be comprised of a significant level of illiquid assets (more than Bear before its collapse), (ii) believes they may have additional writedowns to report, and (iii) the absence of a natural strategic plan to complement its investment banking activities. The Risk Manager described the bulk of his business with Lehman as "plain vanilla" and he does not plan to take on any complex or long dated transactions. He cited one instance where he recently declined to enter into a more complex transaction (e.g. option on mortality) with Lehman which would have required a new ISDA and CSA.

Today's Financial Times

Shares in Lehman Brothers, battered in recent days by rumours of an emergency sale, stabilised on Tuesday after several analysts said what Lehman executives have been saying privately for days: that the rumours are completely bogus. The problem for Lehman is that similar rumours circulated about Bear Stearns in the weeks leading to the investment bank's collapse and emergency sale to JPMorgan

Chase. Those rumours, mainly that the bank had run out of cash, were also untrue until they became a self-fulfilling prophecy. People close to Lehman say the bank is now convinced that it is the target of an orchestrated campaign by short-sellers attempting to force it into sharing the same fate as befell Bear. And executives at the bank are deeply frustrated that regulators have not moved more aggressively – and publicly – to investigate who is behind the latest rumours and make clear that those who are will be punished severely.

Stock Price at close:

Price22.360	Change1.400	% Change6.679	BidN.A.	AskN.A.	Open21.000
Volume73,819,431	High23.440	Low20.110	52-Week High76.99(07/02/07)	52-Week Low19.24(07/01/08)	1-Yr Return-69.489%

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