Eileen A. Fahey/CF/CHI/F-I
06/09/2008 08:13 AM

To: Nancy Stroker/CF/NYC/F-I@F-I, Stephen Joynt/EXECUTIVE/NYC/F-I@F-I
cc: james.moss@fitchratings.com, Charles Prescott
bcc:
Subject: Fw: Fitch Appeal Urgent - Press Release going to QUEUE

Despite me and Nancy telling Lehman Bros there would be no appeal, they continue to push, I am putting our press release into the queue this morning and told them that already.

There is nothing new in here since our rating committee meeting on Thurs - we had an expected capital raise of $5 bn.
If you think I should NOT release the press release please call me ASAP

I am on a conference call with Charles but make myself available.

FitchRatings
Driven to do things better

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----- Forwarded by Eileen A. Fahey/CF/CHI/F-I on 06/09/2008 07:11 AM -----

"Tonucci, Paolo" <paolo.tonucci@lehman.com>
06/09/2008 07:02 AM

To: <Eileen.Fahey@fitchratings.com>, <Leslie.Bright@fitchratings.com>
cc: "Thatcher, Kevin" <kevin.thatcher@lehman.com>, "Azerad, Robert" <RAzerad@lehman.com>
Subject: Fitch Appeal

Eileen,

Attached is a document that we would like you and the committee to consider in the context of a potential appeal. We believe there are strong reasons to support the current rating - and have highlighted as well as the main changes from when we last met.

Dick was extremely keen to be involved and will call Steve Joint. He thinks there is value in meeting again with him in attendance.

Please let me know what you think.

Paolo
<<Fitch Appeal v4.ppt>>
- -

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Fitch Appeal v4.ppt

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LEHMAN BROTHERS

June 9, 2008

Presentation to Fitch Ratings
Rating Appeal

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Overview

Since we met on June 3, there have been a number of new developments that we believe Fitch should consider in its current assessment of Lehman's credit ratings

- The purpose of this presentation is to present our rationale for appealing Fitch Ratings' decision to downgrade Lehman Brothers by one notch from AA- to A+ (long-term) and F-1+ to F-1 (short-term) while keeping our outlook as 'negative'.
- The following information was not available when we last spoke:
  - At the meeting, we announced our intention to raise capital to cover the Q2 '08 loss. This morning, we raised $6 billion of capital ($4 billion in common equity, $2 billion in mandatory convertible preferred).
    - This additional capital is a rating positive, strengthening our capital position and protecting bondholders and creditors
    - This capital raise is also a vote of confidence by institutional investors, particularity in light of current market conditions
  - Trading conditions have materially improved. For June YTD we have already generated $0.4 billion of firm revenues, which, if the pace continues unabated, would translate into $6.2 billion of revenues for Q3 '08.
  - Deleveraging exceeded plan with gross leverage of 20.1x and net leverage of 10.0x after capital raise
  - Liquidity exceeded forecasts with a liquidity pool of $50.6 billion after capital raise
  - We are continuing to reduce our commercial real estate exposure and, based on recent sales (ours and our competitors'), we believe that our marks are conservative.
    - We are not selling our "best" assets first. Our intention is to keep the best assets (e.g., last waterfront development property in Orange County) due to their higher upside when the market ultimately recovers.
  - We have been informed that both Moody's and DBRS will affirm Lehman's long-term debt ratings at A1 and AA-, respectively
    - They will both revise their outlook from 'Stable' to 'Negative'
- Additionally, in view of our very strong liquidity position ($45 billion of liquidity pool, $15 billion of cash capital surplus at quarter end), we believe strongly that a short-term rating downgrade is not warranted – particularly because we were already rated F-1+ when our long-term rating was last A+.

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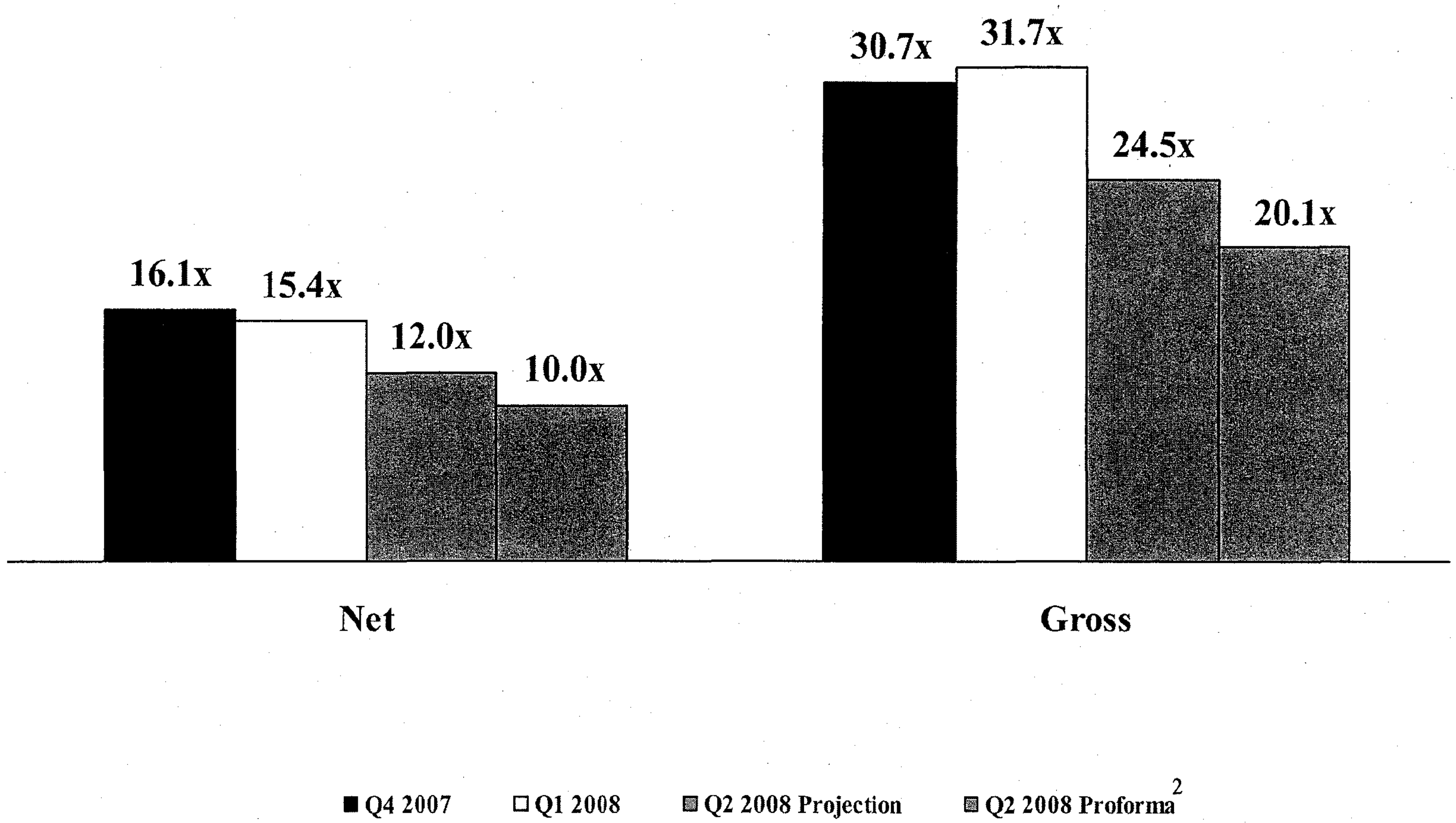
Significant Shrinkage of the Balance Sheet…

Net balance sheet (primarily inventory) is expected to be almost $70 billion lower than Q1 ‘08, and gross balance sheet is expected to be almost $140 billion lower. This, coupled with our recent capital raises, reduces leverage significantly

Gross and Net Leverage Ratios[1]



1. *Q2 '08 Balance Sheet still being finalized: Net $326B and Gross $643B*
2. *Q2 '08 Proforma includes impact of $4B Common Equity and $2B Non-cumulative Preferred offering*

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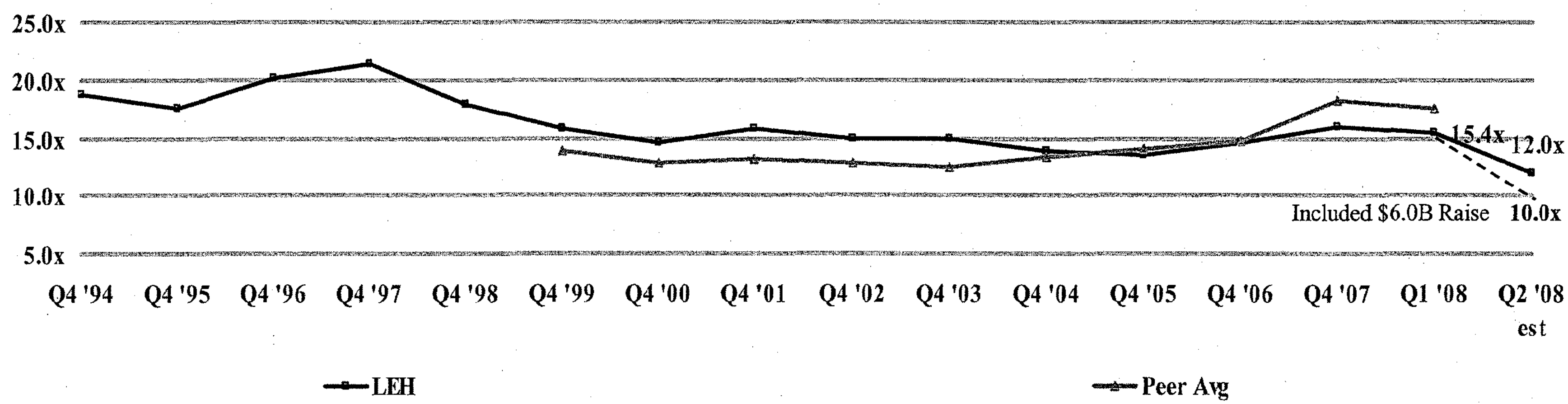
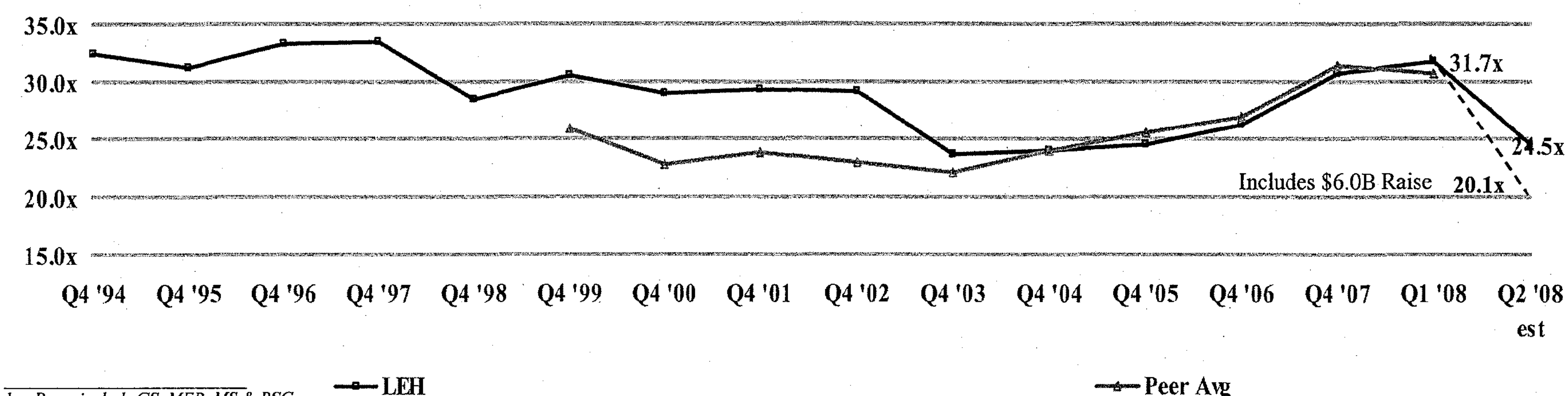
…Results in Historically Low Leverage Levels…

Lehman's equity raise results in its lowest leverage ratios since becoming a public firm

Lehman versus Peers Net Leverage[1]



Lehman versus Peers Gross Leverage[1]



1. *Peers include GS, MER, MS & BSC.*

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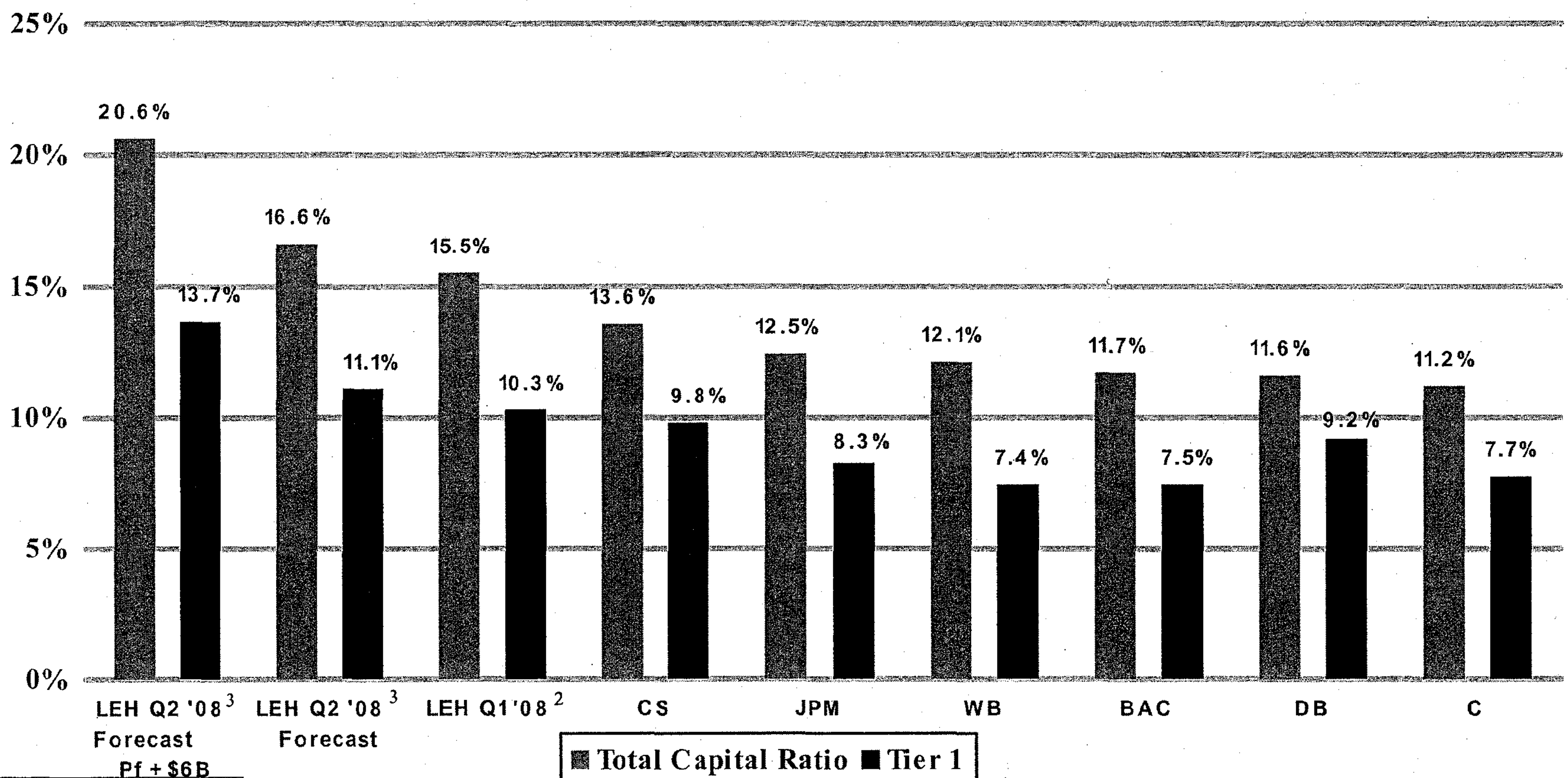
…And Strong CSE Capital Ratios

The Firm has made a conscious decision to bolster its capital base and maintain a Total Capital ratio under the CSE regime above that of the major Commercial Banks' equivalent Total Capital Ratio under Basel

Total Capital and Tier 1 Ratios[1]



1. *All Banks' ratios are as of Q1 '08 per their Earnings press releases*
2. *Updated for approved SEC Methodology*
3. *If FV gains on debt are excluded from capital then Forecast Q2 '08 ratios would be 10.4% Tier 1 and 15.6% Total Capital. For Q2 '08 Proforma, the ratios would be 13.1% Tier 1 and 19.6% Total Capital*

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June Revenues MTD off to a Strong Start

- MTD, the Firm is on track to deliver $6.2 billion of revenues for Q3 – driven by a strong performance of Fixed Income. Strong Fixed Income performance was across all businesses.

June 2008 MTD Revenues ($ millions)

Fixed Income	270	4,315
Equities	56	899
Inv Banking	35	565
Inv Management	55	880
Principal Investing	20	322
Other and Offsets	(49)	(781)
Total	**388**	**6,200**

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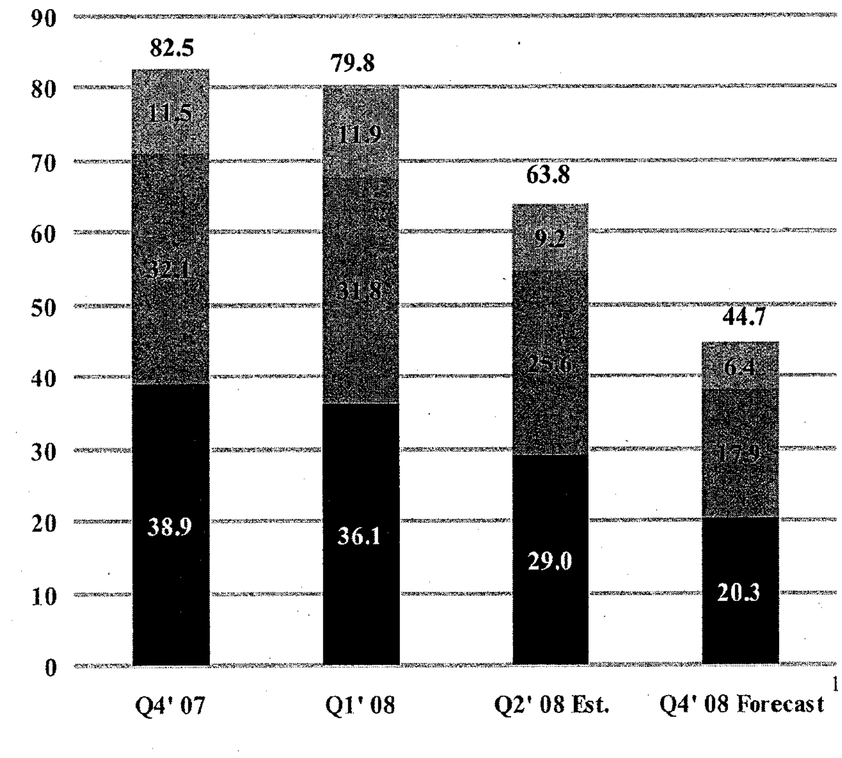
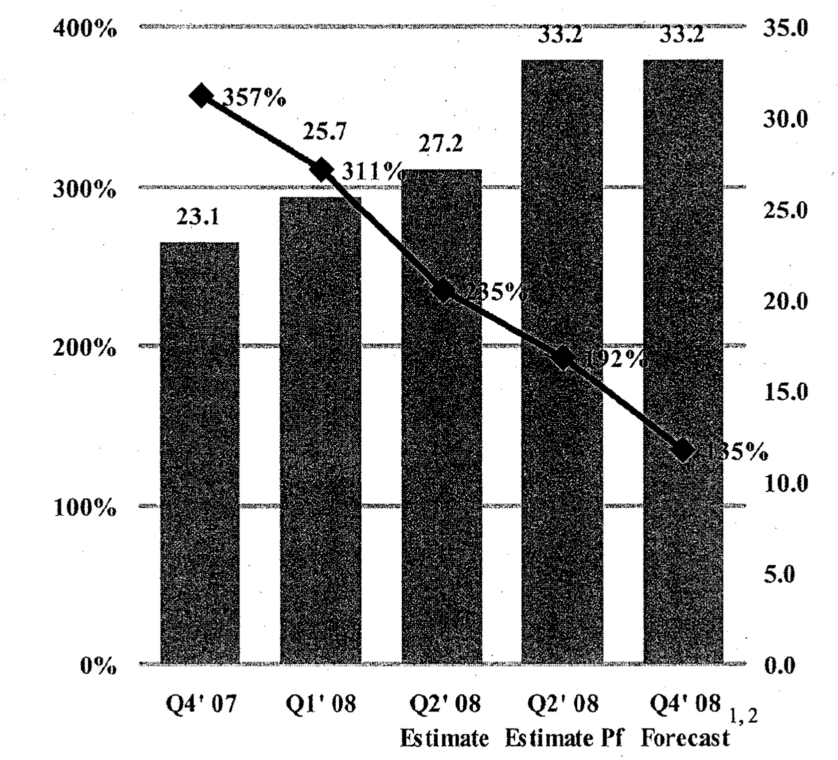
Risky Assets Are Falling In Absolute and Relative Terms

The Firm has reduced its exposure to 'high risk' assets and this, coupled with our equity raises, has significantly reduced these assets as a percentage of equity. Additionally, we have committed to further reduce exposure to mortgages by 30% by fiscal year end

Risky Asset Trend Q4' 07 – Q4 '08 Est



Risky Assets as a % of Equity Q4' 07 – Q4 '08 Est

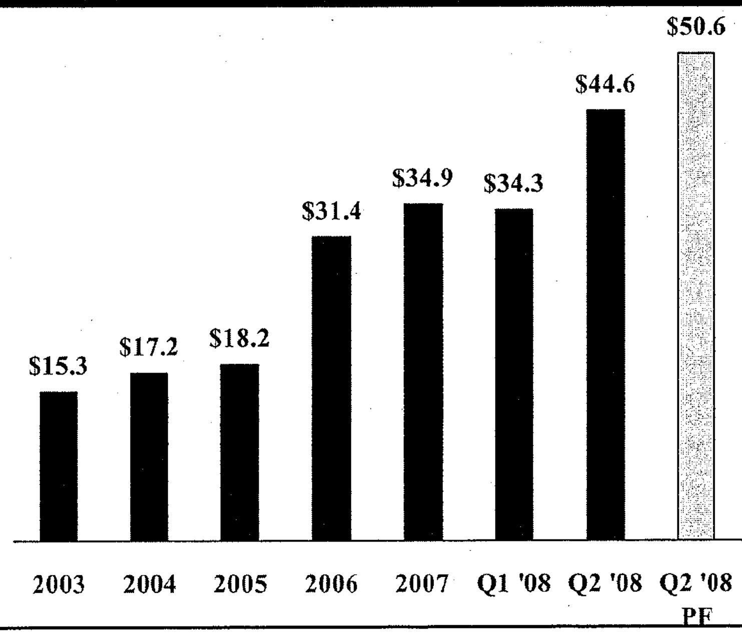


1. *Q4 '08 Forecast assumes a 30% decline from Q2 level in Risky Assets*
2. *Q4 '08 Forecast assumes no growth in Leverage Equity (i.e. Tangible Common + Hybrid Equity) from Q2 level (+ $6B in equity offering)*

Short-Term Rating Downgrade To F-1 Unwarranted

- When Fitch upgraded LBHI from A+/F-1 to A+/F-1+ in 2005 Q3 (TBC), it wrote:
  - "Fitch upgraded the Short-term debt of Lehman Brothers to F1+ based on funding strength and prudent liquidity management. Lehman's funding profile is conservative emphasizing the use of longer dated and secured funding sources. Liquid investments are held at the broker dealer and at the parent providing material coverage of short term liabilities." (Report on Lehman Brothers, August 2005)
- CP balance is only $8 billion, and current portion of Long Term Debt only $20 billion
- Maturities in the next six months are less than $6 billion
- We believe that our funding is stronger today than in 2005 and that our liquidity management is even more prudent than it was in 2005.

Liquidity Pool ($ Billions)



Cash Capital Surplus ($ Billions)