

From: David Einhorn [David@GreenlightCapital.com].

Sent:5/20/2008 12:43 PM.

To: Callan, Erin [ecallan@lehman.com].

Cc:

Bcc:

Subject: Response to e-mail.

Erin,

I completely reject the notion that I have been disingenuous with you in any way. Actually, I have been just the opposite. To wit:

When you contacted me after the Value Investors Conference, I immediately gave you the slides to my presentation, even though Greenlight has not publicly released them to anyone else even to this day. I also made myself available at your request that afternoon.

When you contacted me after the Grants Conference and asked for a copy of my speech, I sent it to you immediately.

Prior to our conversation on Friday you knew that we are short your stock and I have discussed our short position at length publicly in two large forums and mentioned it briefly in many interviews. You had no reason to presume that I would not speak about Lehman again, if I had more to say.

You had no reason to expect that our discussion was confidential in any way. In fact, you knew that I do not want to be restricted in trading the stock and I did not request any information that you would not provide to any other investor who asked.

Yesterday, when you requested additional time to get back to me, I forthrightly informed you of the reason for why I believe a timely response is essential. I had no obligation to tell you in advance that I planned to speak about Lehman on Wednesday, but I told you nonetheless. My only goal is to make sure my facts are accurate.

As I told you on the phone on Friday, I judged your answers to the questions to be inadequate. Your only response was to suggest further follow-up, which I await. I will take into account any information you provide into my coming remarks.

I suspect that your claim that I have been "disingenuous" stems from your own knowledge that you may have made untrue statements in our call – presumably repeating untrue statements you have made to other market participants – and you know that I know the statements to be false.

I think it is telling that you accuse me of taking you out of context or cherry picking, prior to even knowing what I will say. I believe it is because you know you made a number of comments on our call that do not stand-up to factual scrutiny. One would expect better from Wall Street's straight shooter.

I think it is to your credit that you have been willing to engage all comers, including me, in discussions. I think that our discussion has helped me get a better understanding of the facts. Unfortunately, this has led me to have a greater concern about the situation and your veracity. I did not decide to discuss Lehman this week until after I was disappointed with your ability to explain your 10-Q.

Erin, the fact is that I believe that your firm is doing an enormous disservice to our financial markets. Rather than follow the course of most of your peers and take your write-downs, acknowledge your capital hole and seek out a recapitalization – Lehman continues to insist that it is profitable, doesn't need to raise capital, has hedged etc. In fact, you have aggressively added assets into the crisis (July - February) and diminished your capital through aggressive buybacks and dividend increases. It would be much better if you reduced your risk for yourself and the financial system at large.

You and your management seek and receive press for your expert crisis management skills – which from my perspective mostly means denying the reality of your balance sheet and calling for investigations of short-sellers who have the temerity to think for themselves.

I have the following additional questions and facts (please confirm the items not stated as questions) I'd like to check (again, please do not provide me with any information that you would not provide to any other investor), in addition to the open items (the follow-up on the CDO write-down, the KSK valuation, and how the Level 3 gains/losses turned from a \$875 MM loss to a \$228 MM gain between the conf. call and the 10-Q):

1. The invest-grade piece of the CDO portfolio we discussed had ratings spanning from AAA to BBB
2. Do you have any further explanation as to how the Level 3 corporate equity portfolio increased in value by \$722 million during a period when the S&P fell 10% and while you also took a large, but undisclosed write-down on Archstone-Smith? By this I mean that KSK was a positive and Archstone was a negative, do you have any explanation for the balance of the write-up?
3. On KSK - In addition to what you owe me follow-up on, I believe the draft prospectus says Lehman made an initial \$112 MM investment in KSK Electricity Financing in November 2005. In the January 20, 2008 restructuring, Lehman sold its original investment for a gain of approximately \$65 million and concurrently purchased about 1/3 of KSK Energy Ventures for \$86.5 million. The other significant shareholder, KSK Energy Limited owns 65% and did not contribute capital in the round.
4. Lehman wrote down its non-level 3 mortgage assets by 7% and the level 3 mortgage assets by 3% during the quarter. About 20% of the level 3 mortgages are in markets that performed better like Asia.
5. The Level 3 mortgage assets also include some of the lowest quality assets like BIG residuals, IG/BIG MBS and all the subprime exposure.
6. Lehman had \$36 BB in commercial mortgage exposure. Its quality averaged less than AAA. Lehman wrote this exposure down less than 3% gross.
7. Lehman had \$18 BB in high-yield exposure, which it wrote-down less than 3%
8. Lehman has not disclosed a loss in SunCal
9. Please describe further from page 58 of the 10-Q, the disclosure states three funds were liquidated and consolidated, totaling \$1.0bn and the company also purchased \$800mm of assets from certain funds. What are these?

Were there write-downs included in the first quarter related to these?
What segment had any write-downs?

Thanks for your prompt attention.

Regards,
de

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

From: Callan, Erin [mailto:ecallan@lehman.com]
Sent: Monday, May 19, 2008 3:49 PM
To: David Einhorn
Subject: RE: Follow-up

David,

As I mentioned on telephone, I come away from our conversation Friday and this e-mail below feeling you have been very disingenuous. As an investor, my goal was to have an open dialogue with you and help you get a better understanding of some of the facts. However, I can only feel that you set me up and you will now cherry pick what you like out of the conversation to suit your thesis. As I said, it is certainly a lesson learned for me as someone new in my seat. My objective has been to try to be proactive and open with investors and other constituents. In general, there has been good reason to trust that my counterparts were acting fairly and were using any conversation with me to further their views on owing Lehman stock (to the positive or negative).

As I committed to, I will follow up by tomorrow with the open questions you had. Unfortunately, it does not seem prudent on my part to engage in any further conversations with you going forward.

Erin Callan
Chief Financial Officer
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New York, New York 10019
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-----Original Message-----

From: David Einhorn [mailto:David@GreenlightCapital.com]
Sent: Monday, May 19, 2008 2:41 PM
To: Callan, Erin
Subject: RE: Follow-up

Erin,

You should know, that as of now I plan to discuss our conversation and my analysis of the 10-Q at the IRA Sohn conference on Wednesday. This is not a final decision, but I am working on my presentation.

I did feel that your answers were inadequate. I would like to give you every chance to clarify things before that speech and I'd like to send a few additional "fact checks."

I am free all of today and parts of tomorrow. I'd like to finalize my

work so that I can complete the presentation by the end of business tomorrow.

I really would like to get any clarifications you may have to offer.

Best
de

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

From: Callan, Erin [mailto:ecallan@lehman.com]
Sent: Monday, May 19, 2008 2:33 PM
To: David Einhorn
Subject: Follow-up

David,

We will get back to you in next few days on the follow-up items. My objective in having a dialogue (which I am sure you appreciate) is to see if we can get you more comfortable with Lehman Brothers. Look forward to touching base again.

Erin Callan
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