



Aurora Loan Services – Issuer Profile

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EXECUTIVE SUMMARY

Aurora Loan Services (Aurora) is a wholly owned subsidiary of Lehman Brothers Bank, FSB, which in turn is a wholly owned subsidiary of Lehman Brothers Holdings Inc. (Lehman Brothers). Lehman Brothers, an innovator in global finance, serves the financial needs of corporations, governments and municipalities, institutional clients and high-net-worth individuals worldwide. Founded in 1850, Lehman Brothers maintains leadership positions in equity and fixed-income sales, trading and research, investment banking, private investment management, asset management and private equity. The firm has its headquarters in New York, with regional headquarters in London and Tokyo, and operates a network of offices around the world.

Lehman Brothers Mortgage Capital has established origination and servicing capabilities of residential mortgages and consumer and small business loans through its brands in the United States, the United Kingdom and the Netherlands. Lehman Brothers Mortgage Capital operates a vertically integrated approach to its businesses, connecting the loan origination and servicing platforms with securitization, distribution and trading capabilities of the Lehman Brothers fixed-income division.

This report provides an overview of Aurora's servicing operations as well as the origination programs of Lehman Brothers, including loan sourcing, deal performance and financial highlights.

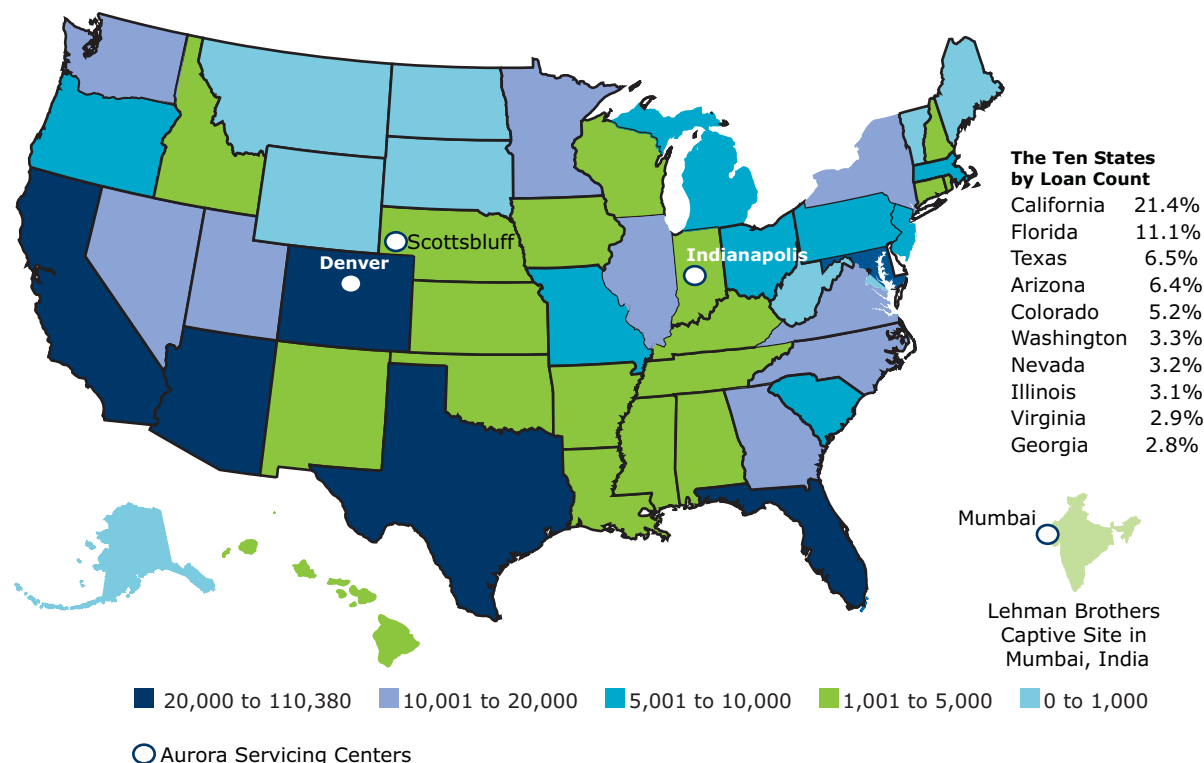
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COMPANY OVERVIEW

Aurora began mortgage loan servicing in August 1997 as a subsidiary of Lehman Brothers. Subsequently, the business was reorganized as a limited-liability company, rolling up to Lehman Brothers Bank, FSB. The bank is a wholly owned subsidiary of Lehman Brothers, a global financial services company offering banking and investment services. Aurora services a variety of products, including Alt-A, Alt-B and subprime mortgages as well as Fannie Mae and Freddie Mac conforming loans.

Aurora Primary Servicing Portfolio Composition by State as of February 29, 2008



Source: Aurora Loan Services.

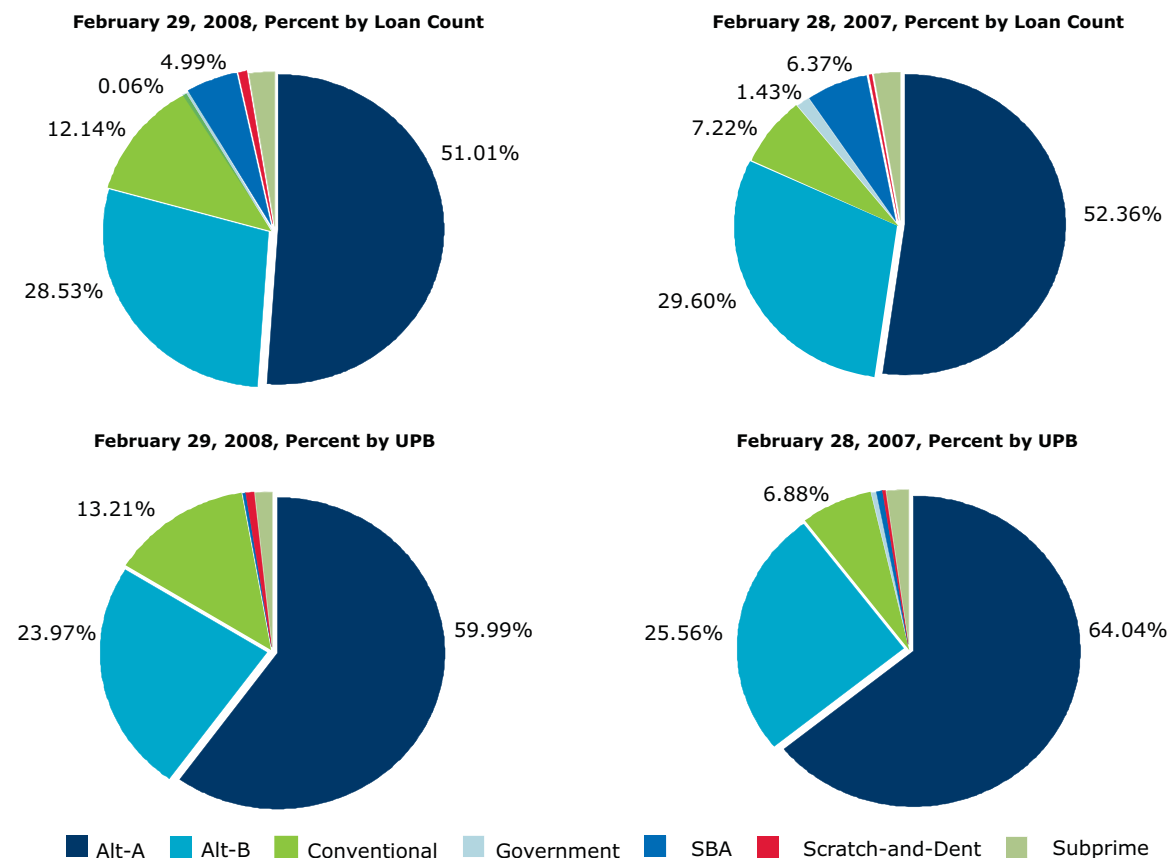
In January 2008, Lehman Brothers announced a reduction in resources and capacity of its U.S. residential mortgage originations platform in light of volatile market conditions. As a result, the company suspended its wholesale and correspondent lending programs. However, Aurora is continuing to originate loans through its direct lending channel and perform loan servicing for both current and future portfolios. As a result, Aurora's regional operations centers in Lake Forest, California; Sunrise, Florida; and Florham Park, New Jersey, were consolidated into Aurora's Littleton, Colorado, office. Lehman Brothers management indicated that the restructuring was necessary to reflect changing industry dynamics. Lehman Brothers management also indicated it would continue to make technology and infrastructure investments in Aurora as it rescales its residential mortgage origination business and sizes the company for the current market environment.

As of February 29, 2008, Aurora serviced 514,831 mortgage loans totaling \$113.2 billion, of which \$67.9 billion were Alt-A, \$27.1 billion were Alt-B, \$2.0 billion were subprime and \$14.9 billion were conventional loans. The remaining portfolio is composed of scratch-and-dent loans, Federal Housing Administration (FHA) loans, Veterans Affairs (VA) loans and other loans.



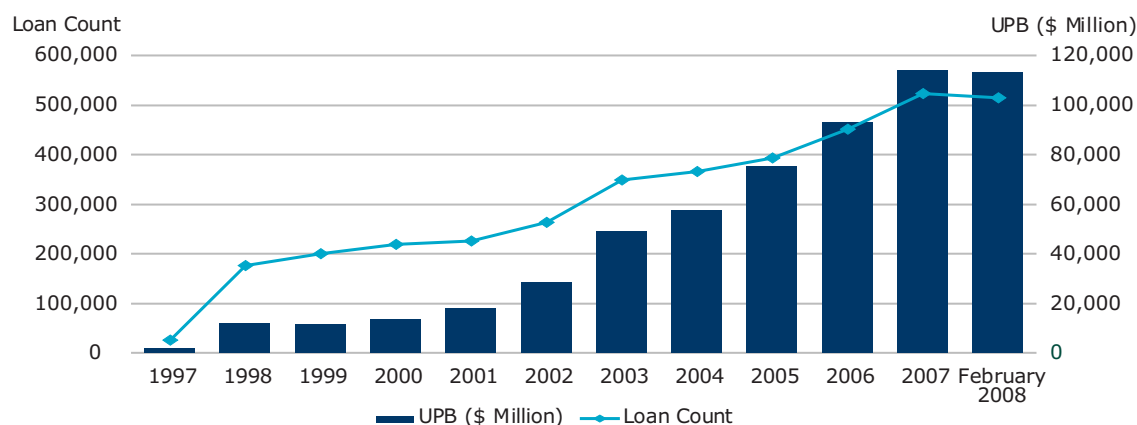
Loans acquired and serviced by Aurora are subject to a wide array of due diligence reviews such as quality control and data integrity checks, credit and property due diligence and compliance reviews. In addition, the company has in place a variety of controls to facilitate loan boarding, investor reporting and loan accounting.

Primary Servicing Portfolio Composition by Product



Source: Aurora Loan Services. SBA= small business administration. UPB = unpaid principal balance

Primary Servicing Portfolio – UPB and Loan Count



Source: Aurora Loan Services. UPB = unpaid principal balance.



MORTGAGE LOAN SOURCING AND UNDERWRITING

Aurora's direct lending channel originates residential mortgage loans for various products, including conforming agency, jumbo prime, agency Alt-A and FHA. The company has been originating and servicing residential mortgage loans since its inception. In addition, Aurora will service loans acquired by Lehman Brothers and recently has been working closely with the mortgage trading desk to grow the whole-loan portfolio of non-performing loans. As previously noted, Aurora discontinued its wholesale and correspondent programs in January 2008.

The company's underwriting guidelines are aligned with documentation and loan program types. In all programs, loans are underwritten, either automatically or manually, to determine the borrower's ability and willingness to repay the loan, the value and marketability of the property and whether the loan is in compliance with applicable regulations. Credit history is also considered and is measured based on the number of obligations, delinquency history and repayment patterns. Loans are reviewed and verified for the loan applicant's sources of income (except under those documentation types where information cannot be independently verified). In addition to reviewing the applicant's credit history, underwriters calculate the debt-to-income ratio to determine the applicant's ability to repay the loan and review the application for compliance with underwriting guidelines. All applications are accompanied by an independent appraisal.

APPLICATION PACKAGE AND REVIEW

Applications are taken over the telephone by Aurora home loan consultants; the borrower will submit income and asset documentation as required by the loan program. Aurora's internal processors and/or underwriters review and process the documents as required by the loan program. Mortgage files are underwritten either manually or by utilizing an automated rules-based underwriting system.

All loan approvals are subject to an acceptable appraisal. The underwriting system applies the applicant's liabilities, income and credit and employment histories in addition to other personal information and property data to a series of rules that includes FICO scores (from the credit report) and debt-to-income ratios to derive a loan approval. Aurora utilizes automated underwriting through Fannie Mae's automated underwriting systems.

Underwriters review each loan for reasonability and accuracy. Loan data, such as the applicant's sources of income and assets, is verified and matched to the information provided by the borrower. Residential Mortgage Credit Reports (RMCR) or tri-merged credit reports are also required and are used by Aurora underwriters to establish credit history and payment patterns. Based on the information provided in the loan application verifications and the appraisal of the property, underwriters determine whether the borrower's monthly gross income is sufficient to enable the borrower to meet the monthly obligation on the mortgage loan in addition to expenses related to the mortgaged property, including property taxes, hazard insurance and other fixed obligations associated with ownership of the mortgaged property.

All loans originated must be in compliance with applicable federal and state laws and regulations and require a full appraisal of the mortgaged property. The maximum allowable loan-to-value ratio varies based on the income documentation, property type, creditworthiness, debt service-to-income ratio of the applicant and the overall risks associated with the loan decision.

APPRAISAL REQUIREMENTS

Qualified independent appraisers perform appraisals on the properties securing the mortgage loans. The appraiser inspects and values the subject property and verifies that the property is in acceptable condition. Following each appraisal, the appraiser prepares a report that presents a concise picture of the neighborhood, the property site and the improvements to the property to support an appraised value that reflects an estimate of market value. The appraised value is typically based on the recent sale price of comparable properties, and appraisal reports generally conform to industry standards.



Aurora has adopted declining market policies for appraisals such as obtaining additional price comparisons to the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index and other data sources such as local Multiple Listing Service (MLS) or tax records. All appraisals must be completed within 90 days of closing and include current sales and competitive active listings or properties under contract. Trainee appraisers are not allowed to complete or sign the appraisal.

SERVICING

Aurora performs primary and master loan servicing for Lehman Brothers mortgage products as well as third-party portfolios acquired by the Lehman Brothers capital markets division. Aurora has serviced residential mortgage loans since its inception more than ten years ago. It operates as a full-service mortgage banking firm, specializing in Alt-A, Alt-B and subprime mortgages as well as conforming conventional mortgages. Aurora recently announced the consolidation of its origination platform into its Littleton, Colorado, office, citing volatile market conditions as the primary reason. To date, the servicing organization remains relatively unaffected by overall staffing reductions.

Aurora maintains servicing facilities in Littleton, Colorado; Indianapolis, Indiana; and Scottsbluff, Nebraska. In July 2007, the Scottsbluff site moved to a new 175,000-square-foot facility, with improved technology capabilities and additional excess capacity. The third servicing site, in Indianapolis, opened a temporary site in October 2007, with the permanent site opening in December 2007. This established an Eastern Time zone presence for customer service, collections and other default functions. Aurora has hired a site manager with extensive industry experience, as well as functional managers to direct additional default initiatives. Additionally, Aurora houses some of its servicing processes to a company in Mumbai, India, that is a wholly owned captive of Lehman Brothers. All the Mumbai employees are Lehman Brothers employees. The Mumbai office performs investor accounting and reporting, cash research, lien release, assignments, payoffs and special loan processing. In addition, the Mumbai office provides customer-service correspondence and loss mitigation package processing and setup. In the past year, Lehman Brothers increased its India staffing by 46%.

Terry Gentry, Managing Director of Loan Administration, oversees the day-to-day servicing operations, which as of February 29, 2008, serviced a portfolio of 514,831 loans totaling \$113.2 billion. The company has an experienced management team averaging more than 25 years of industry experience and an employee base of 806 primary servicing employees and 168 master servicing employees. Overall, the loan administration team has seven years of industry experience.

The loan administration division continuously assesses its servicing environment to match its servicing capabilities to market opportunities. Aurora has begun to take strategic actions to address areas of potential concern such as rising defaults and home inventories and declining home prices. As such, Aurora has developed a proprietary risk-based behavior-scoring model that incorporates various risk attributes that are proven indicators of default. Aurora has also increased its capacity for niche products.

Loan Boarding and Administration

Aurora has a dedicated operations team that manages the automated boarding of all Aurora originated and acquired loans. The group works with prior servicers to obtain and map preliminary data, establish transfer dates and board third-party loans acquired by Lehman Brothers. Broad data-integrity controls are utilized when converting portfolios to Fidelity's Mortgage Servicing Package (MSP) system, recognizing that accurate loan servicing information is crucial when servicing Alt-A and subprime products. In December 2007, Aurora implemented a proprietary loan-boarding audit software upgrade that includes web-based intranet access. Furthermore, more than 220 data-integrity checks are performed, post-conversion, on all portfolios. In addition to post-conversion data checks, Aurora reconciles all balances with the prior servicer and performs a note to systems check on 100% of the loan boardings.



The cash management and payoff group processes customer payments according to established protocols resident in the MSP system. The company offers multiple payment options, including electronic payments through the Internet, telephone or the company's interactive voice response (IVR) system. In July 2007, Aurora implemented Cash Conscious, a rules-based cash-processing system with established payment logic and workflow protocols. Payments are reconciled daily and applied to borrower accounts within 48 hours of receipt.

Collections and Delinquencies

Aurora's collection functions are performed at the Scottsbluff and Indianapolis servicing facilities. Both sites provide the company with support for a nationwide collection-calling strategy, along with system duplication among servicing locations.

Calling campaigns are developed using predictive dialer management that includes risk-based segments whereby higher-risk loans are called more frequently and earlier in the month, while lower-risk accounts are called less frequently and later in the month. The segmentation strategy includes behavioral scoring that incorporates risk variables, such as FICO scores and previous payment history, and patterns and evaluates the probability of a loan becoming 60 days delinquent. Collectors handle inbound and outbound collections calls using the Aspect predictive dialer, blended call management and workforce management tools. Calls to delinquent borrowers typically begin on the sixth day of delinquency. However, calls to very high-risk borrowers begin as early as the first day of delinquency, based on the results of the risk score. Home-retention options are discussed with borrowers throughout the collection process. If the borrower indicates the loan cannot be made current, borrower information is entered into BackInTheBlack (BITB) to establish workout scenarios.

Delinquency management is separated into three groups. The following is a brief outline of Aurora's collection efforts:

- **Early-Stage Collections:** Loan counselors handle loans that are up to 30 days delinquent, averaging 750 loans per collector. Calls are routed to the next available agent. Agents may negotiate short-term repayment plans of up to six months.
- **Mid-Stage Collections:** This unit handles loans in the 31 to 60 days delinquent category, averaging 295 accounts per collector. Agents may negotiate repayment plans of up to 12 months.
- **Late-Stage Collections:** Loan counselors handle loans that are 60+ days delinquent, averaging about 200 loans per agent. Agents may negotiate repayment plans of up to 12 months.

All calls are routed through a predictive dialer according to risk metrics determined by the behavioral score model, including early payment and first payment default loans.

Loss Mitigation Techniques

Aurora's Home Retention unit completes the best possible delinquency resolution for the short- and long-term benefit of the borrower using a dual-track approach designed to keep as many borrowers in their homes while maximizing recovery on behalf of investors. The company is conducting a pilot with Mortgage Outreach Services, a vendor that provides skip tracing, door knocks and deficiency collection services. Aurora indicated it had a 40% success rate during initial tests on 250 loans. Loss mitigation attempts to resolve delinquency include the following:

- **Forbearance and Reinstatement Plans:** Approximately 32% of delinquent accounts are resolved through reinstatement and forbearance plans where borrowers are expected to become current. These plans are the most common method used to resolve delinquencies (40%) and are used for loans whether foreclosure action has been initiated or not. Forbearance plans are usually three to six months in duration.
- **Short Sales:** Short sales comprise approximately 30% of delinquent accounts. This is an agreement whereby the loss mitigation group accepts proceeds that are less than what is owed. The property is generally sold at fair market value. A net present value (NPV) model is used to determine whether it is advantageous to accept a short sale as opposed to attempting to liquidate the property as real estate owned (REO).



- **Modification:** About 18% of Aurora's collection efforts result in modifications. Options include rate reductions, capitalization of interest, stipulated repayment to modification plans and debt forgiveness. Borrowers are fully qualified through a financial analysis, and trial modifications or stipulated agreements are often used in an effort to facilitate ongoing resolution.
- **Deed in Lieu of Foreclosure:** This resolution type is used when the borrower voluntarily deeds title ownership of the property to the lender in exchange for a release from the obligation under the security agreement. Deeds in lieu of foreclosure comprise 3% of resolutions.

Loan workout officers administer the company's loss mitigation efforts and attempt to have a repayment plan in place at the first call with the borrower. In addition, the home retention unit's focus and strategy include increased training and quality-assurance calls and optimizing borrower contact through the predictive dialer. The unit receives loss mitigation referrals from the collection department and uses BITB to analyze borrower information and documentation when developing workout scenarios.

Aurora refers foreclosure cases to a nationwide attorney network using the LenStar communications system and the MSP foreclosure workstation. The foreclosure unit prioritizes first legal filings and administers attorney workloads in addition to monitoring timeline compliance to Fannie Mae and Freddie Mac guidelines.

Real Estate Owned

Aurora's REO unit had 6,379 REO properties as of February 29, 2008. The company liquidates foreclosed loans using traditional and alternative marketing techniques. The REO department uses Res.Net, a web-based system that provides integrated workflow, timeline and vendor management processes as well as title and property valuation ordering and tracking.

Aurora uses a dual strategy of asset disposition. Properties are assigned to internal asset managers (20%) and external asset management firms (80%). The company currently uses five asset management companies to handle its inventory. Offers, reductions and repairs require Aurora management approval.

Aurora also has an active cash-for-keys program or relocation assistance to facilitate quicker access to the property. A cash-for-keys calculator estimates the savings when successful relocation assistance is offered (compared with the eviction process). Relocation assistance is used on about 20% of REO properties.

The company obtains an independent brokers price opinion (BPO) and a full appraisal to establish marketing plans and listing prices. Properties are typically listed at 100% of the market plan value and reduced up to 5% per month until sold. While properties are marketed 31 to 150 days, Aurora re-evaluates the listing after 30 days on the market to determine whether other marketing techniques, such as an auction, would be appropriate to liquidate the property more quickly.

MASTER SERVICING

Aurora's master servicing division has 168 people and performs master servicing for Lehman Brothers acquired portfolios. The department performs oversight of its primary servicers as well as monitors investor reporting and remitting. The company's master servicing portfolio has grown significantly since its inception in 1998 and over the past five years has reached almost \$220 billion and nearly one million loans. The company monitors the primary servicing of a variety of loan product types, including Alt-A, subprime, conventional and jumbo as well as prime mortgages. Loan portfolios are electronically transferred to the SBO 2000, master servicing's primary servicing system. More than 160 edit checks, note reviews and post-boarding portfolio verifications are performed to ensure accurate loan boarding. Portfolio conversions typically average one to two days.



Investor Reporting and Remitting

Aurora's servicer balancing unit monitors the timely receipt of monthly remittance reporting from primary servicers and reconciles reports to loan- and pool-level remittances. The unit also researches and resolves loan-level payment and rate discrepancies. The investor reporting unit performs monthly reporting and remits to trustees and securities administrators in addition to managing the wire transfer process.

Primary Servicer Oversight

The primary oversight unit monitors the servicer to ensure it performs its duties according to the master servicing agreement. The servicer-review function entails a site review, due diligence review and a desk review.

- **Desk Review:** An annual desk review is performed via a questionnaire that asks for basic information and documentation on a servicer's organization as well as service-level metrics on the portfolio that is master serviced by Aurora. A review of the servicer's audited financials, the Uniform Single Attestation Program (USAP), officer certifications and the Errors and Omissions (E&O) bond is performed.
- **Site Reviews:** Aurora's primary oversight team performs additional loan-level testing and a site inspection of the primary servicer operations.

In addition to onsite reviews of primary servicers, the unit also reviews compliance items and Regulation AB as well as Form 10-D and Form 8-K reporting. The oversight unit also maintains a centralized database that tracks servicer performance and issues.

Default Advisory

The default advisory unit ensures all default reporting data received is valid and that timelines comply with set standards. The default advisory group also analyzes values and market data to determine the cause of losses associated with high-risk loans. In addition, the unit reviews and approves loss mitigation and foreclosure actions as appropriate.

Loss Management

The loss management unit is responsible for reviewing mortgage insurance denials and rescissions for validity and materiality. It is also responsible for working with investors, servicers and credit risk managers to identify and ultimately resolve breaches to the applicable purchase and securitization agreements of the loans they master service.

Internal Controls

Aurora has active audit and compliance programs that check operational processes and internal controls. Lehman Brothers Corporate Audit performs internal audits, which are scheduled and performed based on prior audit results and risk levels. As such, audits of default management, cashiering and master servicing were performed in 2007. All servicing functions are audited on a cyclical basis based upon Corporate Audit's risk rating.

Aurora also implemented a self-assessment process in 2007 that tests risk factors and process elements against established thresholds and benchmarks. Each risk factor and test is independently validated by an internal audit. A risk committee meets monthly to review results.

The master servicing unit has a separate quality assurance unit that was established in January 2005 to increase management controls. The unit performs semi-annual quality assurance reviews and completed seven department reviews in 2007 and anticipates completing all departments in 2008.

Technology

Aurora's primary system of record is Fidelity's MSP system. The system is supplemented with add-on applications that enhance its functionality and is an active user of Director, a scripting tool that improves the functionality of MSP. The company's call center, located in Scottsbluff, receives about 100,000 calls per month and uses the Aspect Contact Center system, which contains a predictive dialer, a fully functional



automated call distributor and skills-based routing to direct calls to more than 106 customer service agents throughout the facility. Using a “command center” approach, the company uses a blended-call environment and workforce management tools to leverage its customer service operations. The Aspect IVR unit allows borrowers to complete routine requests without having to speak to an agent. Aurora also uses LenStar for attorney communication, Cash Conscious for payment processing, Res.Net for REO management and BackInTheBlack as its loss mitigation decision model. Aurora’s customer website provides customer self-service for general loan information, payments and payoffs and allows customers to contact customer service through an e-mail link. All e-mail is acknowledged immediately and answered within 24 hours.

The master servicing division uses the SBO 2000 system to perform cash processing, remittance reconciliations and data integrity validations as well as investor reporting and remitting. A secure web portal is used to receive and manage monthly servicer reporting files.

Aurora’s systems configurations are supported by the Lehman Brothers global business technology unit, which provides software implementation and production support in addition to extensive data warehousing and web-based applications. The company has fully documented disaster-recovery and business-resumption plans in place that are aligned with Lehman Brothers system requirements. They are continually tested throughout the year and there have been no recent significant issues identified.

DEAL PERFORMANCE HIGHLIGHTS

Lehman Brothers securitizes loans under numerous shelves, such as SASCO, LMT, LXS, SARM, SAIL and BNC, based on product type and credit profile. This segmentation is done to provide greater consistency in collateral profiles and product performance. For additional deal performance information, please see LehmanLive and for monthly loan-level information by securitization, visit Aurora’s website at www.alservices.com.

FINANCIAL OVERVIEW FOR LEHMAN BROTHERS

On June 9, 2008, DBRS confirmed all ratings for Lehman Brothers Holdings Inc. (Lehman Brothers). At the same, DBRS changed the trend on all long-term ratings to Negative from Stable. The trend on all short-term ratings remains Stable.

The rating actions follow the release of Lehman Brothers’ preliminary fiscal Q2 2008 results indicating a substantial \$2.8 billion loss and its announcement of its raising of approximately \$6 billion in new capital. The confirmation includes the Issuer & Senior Debt rating of AA (low), now with a Negative trend, and its Short-Term Instruments rating of R-1 (middle), with a Stable trend.

The Negative trend reflects the potential impact on Lehman Brothers’ franchise and earnings power resulting from the significantly larger-than-expected quarterly loss and the challenge of returning Lehman Brothers to solid profitability in the current environment of disrupted markets and a slowing economy. Even with a significant deleveraging of the balance sheet during the last quarter, DBRS notes that Lehman Brothers maintains sizable exposures to asset classes that have become increasingly problematic during the first half of 2008 given the unprecedented market conditions. DBRS expects that these assets may require further writedowns if markets continue to deteriorate more than expected over the short term.

In confirming the ratings, DBRS takes into consideration the continuing strength of Lehman Brothers’ underlying diversified franchise, the consistency of its client-driven revenues, its enhanced liquidity resources, its reduced leverage and its strengthened capital position, which should be bolstered by the successful execution of the intended \$6 billion capital raise. Even though the operating environment remains difficult, DBRS believes Lehman Brothers has the necessary franchise strengths, liquidity and capital to successfully manage through the very challenging operating environment. In rating the broker dealers, DBRS considers the strength of their franchises, the resiliency of their earnings and their risk profiles. This assessment incorporates an expectation that these companies can experience volatile results,



but their capacity to generate high returns should enable them to recover from adverse results. Indications of sustained weakness in the Lehman Brothers franchise or its capacity to regain positive earnings would likely result in negative pressure on its ratings.

For Q2 2008, Lehman Brothers' anticipated net loss of approximately \$2.8 billion is primarily driven by a combination of writedowns on cash positions in various asset classes, as well as ineffective hedges. Specifically, Lehman Brothers incurred gross writedowns of \$4.0 billion in residential mortgages, leveraged loans, commercial real estate and other assets. On a net basis, the writedowns totaled \$4.1 billion due to ineffective hedges. In contrast, Lehman Brothers had higher writedowns of \$5.3 billion the first quarter, but the hedges worked much more effectively, resulting in net writedowns of \$2.4 billion. Lehman Brothers also reported net gains of \$0.4 billion related to debt liabilities measured at fair value, but also had net losses on hedges and principal trading. Compensation expenses were elevated by higher severance costs and bonus accruals. DBRS notes that most of Lehman Brothers' businesses continue to perform well and client-driven revenues are holding up, which attests to Lehman Brothers' franchise strength and earnings resiliency.

During the quarter, Lehman Brothers made significant progress in deleveraging its balance sheet. Gross assets were reduced by approximately \$130 billion and net balance sheet assets were reduced by approximately \$60 billion. Increased activity in the cash markets offered more opportunities for sales in this quarter, albeit at lower prices. Excluding the capital raise, Lehman Brothers' net leverage ratio is expected to be less than 12.5 times (x), down from 15.4x, and its gross leverage ratio is expected to decline from 31.7x to less than 25.0x at Q2 2008, which should be considerably lower than its peers.

Lehman Brothers' liquidity position has been further strengthened. The liquidity pool now totals about \$45 billion, up from about \$34 billion in Q1 2008. Management continues to be proactive in issuing debt and terming out repurchase agreements (repos). DBRS also views positively the Federal Reserve's new liquidity facilities for broker dealers, namely, the Term Securities Lending Facility and the Primary Dealer Credit Facility. While DBRS does not expect the broker dealers to need to use these facilities, given the substantial acceptable collateral available to Lehman Brothers and the other major broker dealers, DBRS perceives that these facilities provide an ample source of liquidity with which the broker dealers can withstand a period of sudden intense liquidity pressure.

While DBRS expects Lehman Brothers' underlying fundamentals will enable it to return to solid profitability in the coming quarters, the Negative trend reflects the unprecedented business environment and the potential for future writedowns should the financial markets, housing markets and the economy deteriorate by more than what is now factored into market prices.

If Lehman Brothers fails to return to profitability during the short term, negative pressure on its ratings would be expected. Negative rating pressure could also arise from deteriorating operating performance of Lehman Brothers' core businesses, a deteriorating liquidity profile and a weakening capital position.

Conversely, if Lehman Brothers demonstrates the strength of its franchise by quickly returning to strong profitability and avoiding more significant writedowns, the ratings should revert back to a Stable trend.

Lehman Brothers, based in New York City, reported \$786 billion in assets as of February 29, 2008.



LEHMAN BROTHERS HOLDINGS INC.
PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Income
(Unaudited)

| In millions, except per share data | Quarter Ended | |
|--|---------------|--------------|
| | Feb 29, 2008 | Feb 28, 2007 |
| Revenues | | |
| Principal transactions | \$ 773 | \$ 2,921 |
| Investment banking | 867 | 850 |
| Commissions | 658 | 540 |
| Interest and dividends | 9,635 | 9,089 |
| Asset management and other | 437 | 395 |
| Total revenues | 12,370 | 13,795 |
| Interest expense | 8,863 | 8,748 |
| Net revenues | 3,507 | 5,047 |
| Non-Interest Expenses | | |
| Compensation and benefits | 1,841 | 2,488 |
| Technology and communications | 302 | 266 |
| Brokerage, clearance and distribution fees | 253 | 194 |
| Occupancy | 185 | 146 |
| Professional fees | 98 | 98 |
| Business development | 89 | 84 |
| Other | 76 | 72 |
| Total non-personnel expenses | 1,003 | 860 |
| Total non-interest expenses | 2,844 | 3,348 |
| Income before taxes | 663 | 1,699 |
| Provision for income taxes | 174 | 553 |
| Net income | \$ 489 | \$ 1,146 |
| Net income applicable to common stock | \$ 465 | \$ 1,129 |
| Earnings per common share: | | |
| Basic | \$ 0.84 | \$ 2.09 |
| Diluted | \$ 0.81 | \$ 1.96 |
| Dividends paid per common share | \$ 0.17 | \$ 0.15 |

See Notes to Consolidated Financial Statements.



LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition
(Unaudited)

| In millions | At | |
|---|---------------------|---------------------|
| | Feb 29, 2008 | Nov 30, 2007 |
| Assets | | |
| Cash and cash equivalents | \$ 7,564 | \$ 7,286 |
| Cash and securities segregated and on deposit for regulatory and other purposes | 16,569 | 12,743 |
| Financial instruments and other inventory positions owned (includes \$58,588 in 2008 and \$63,499 in 2007 pledged as collateral) | 326,658 | 313,129 |
| Collateralized agreements: | | |
| Securities purchased under agreements to resell | 210,166 | 162,635 |
| Securities borrowed | 158,515 | 138,599 |
| Receivables: | | |
| Brokers, dealers and clearing organizations | 11,915 | 11,005 |
| Customers | 37,298 | 29,622 |
| Others | 3,186 | 2,650 |
| Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$2,567 in 2008 and \$2,438 in 2007) | 4,189 | 3,861 |
| Other assets | 5,863 | 5,406 |
| Identifiable intangible assets and goodwill (net of accumulated amortization of \$348 in 2008 and \$340 in 2007) | 4,112 | 4,127 |
| Total assets | \$ 786,035 | \$ 691,063 |

See Notes to Consolidated Financial Statements.



LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition—(Continued)
(Unaudited)

| In millions, except share data | At | |
|---|--------------|--------------|
| | Feb 29, 2008 | Nov 30, 2007 |
| Liabilities and Stockholders' Equity | | |
| Short-term borrowings and current portion of long-term borrowings (including \$10,660 in 2008 and \$9,035 in 2007 at fair value) | \$ 34,524 | \$ 28,066 |
| Financial instruments and other inventory positions sold but not yet purchased | 196,903 | 149,617 |
| Collateralized financings: | | |
| Securities sold under agreements to repurchase | 197,128 | 181,732 |
| Securities loaned | 54,847 | 53,307 |
| Other secured borrowings (including \$8,605 in 2008 and \$9,149 in 2007 at fair value) | 24,539 | 22,992 |
| Payables: | | |
| Brokers, dealers and clearing organizations | 11,717 | 3,101 |
| Customers | 72,835 | 61,206 |
| Accrued liabilities and other payables | 11,596 | 16,039 |
| Deposit liabilities at banks (including \$12,421 in 2008 and \$15,986 in 2007 at fair value) | 28,829 | 29,363 |
| Long-term borrowings (including \$26,593 in 2008 and \$27,204 in 2007 at fair value) | 128,285 | 123,150 |
| Total liabilities | 761,203 | 668,573 |
| Commitments and contingencies | | |
| Stockholders' Equity | | |
| Preferred stock | 2,993 | 1,095 |
| Common stock, \$0.10 par value: | | |
| Shares authorized: 1,200,000,000 in 2008 and 2007; | | |
| Shares issued: 612,948,910 in 2008 and 612,882,506 in 2007; | | |
| Shares outstanding: 551,384,099 in 2008 and 531,887,419 in 2007 | 61 | 61 |
| Additional paid-in capital | 11,129 | 9,733 |
| Accumulated other comprehensive loss, net of tax | (343) | (310) |
| Retained earnings | 19,880 | 19,698 |
| Other stockholders' equity, net | (3,739) | (2,263) |
| Common stock in treasury, at cost (61,564,811 shares in 2008 and 80,995,087 shares in 2007) | (5,149) | (5,524) |
| Total common stockholders' equity | 21,839 | 21,395 |
| Total stockholders' equity | 24,832 | 22,490 |
| Total liabilities and stockholders' equity | \$786,035 | \$ 691,063 |

See Notes to Consolidated Financial Statements.

Note: All figures are in U.S. dollars unless otherwise noted.

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