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NORTHERN DISTRICT OF CALIFORNIA

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM, Plaintiff, vs. RICHARD S. FULD, JR., CHRISTOPHER M. O'MEARA, ERIN M. CALLAN, MICHAEL L. AINSLIE, JOHN F. AKERS, ROGER S. BERLIND, THOMAS H. CRUIKSHANK, MARSHA JOHNSON EVANS, SIR CHRISTOPHER GENT, ROLAND A. HERNANDEZ, HENRY KAUFMAN, JOHN D. MACOMBER, CABRERA CAPITAL MARKETS, LLC, THE WILLIAMS CAPITAL GROUP, L.P., LOOP CAPITAL MARKETS, LLC, BBVA SECURITIES INC., BNY CAPITAL MARKETS, INC.,	No. COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS DEMAND FOR JURY TRIAL

[Caption continued on following page.]

CITIGROUP GLOBAL MARKETS INC., RBC CAPITAL MARKETS CORPORATION, GREENWICH CAPITAL MARKETS, INC., SUNTRUST CAPITAL MARKETS, INC., ABN AMRO INC., ANZ SECURITIES, INC., CIBC WORLD MARKETS CORP., HSBC SECURITIES (USA) INC., HVB CAPITAL MARKETS, INC., CAJA DE AHORROS Y MONTE DE PIEDAD DE MADRID, NATIONAL AUSTRALIA CAPITAL MARKETS, LLC, SANTANDER INVESTMENT SECURITIES INC., BNP PARIBAS S.A., ING FINANCIAL MARKETS LLC, MELLON FINANCIAL MARKETS, LLC, M.R. BEAL & COMPANY, NATEXIS BLEICHROEDER INC., SG AMERICAS SECURITIES, LLC, WELLS FARGO SECURITIES, LLC, WACHOVIA CAPITAL MARKETS, LLC, HARRIS NESBITT CORP., DZ FINANCIAL MARKETS LLC, MIZUHO SECURITIES USA INC., SCOTIA CAPITAL (USA) INC., SOVEREIGN SECURITIES CORPORATION, LLC, UTENDAHL CAPITAL PARTNERS, L.P., FORTIS SECURITIES LLC, MURIEL SIEBERT & CO., INC. and DAIWA SECURITIES SMBC EUROPE LIMITED,

Defendants.

INTRODUCTION

1. The California Public Employees' Retirement System ("CalPERS") brings this action to recover losses suffered due to its purchases of the common stock and bonds of Lehman Brothers Holdings Inc. ("Lehman" or the "Company")[1] between June 12, 2007 and September 15, 2008, inclusive (the "Relevant Period"), including certain bonds purchased pursuant and/or traceable to the Company's false and misleading registration statement and prospectus, dated May 30, 2006, and filed with the Securities and Exchange Commission ("SEC") on Form S-3 (the "Registration Statement"), issued in connection with the Company's shelf registration or continuous offering process, seeking to pursue remedies under the Securities Act of 1933 ("1933 Act") and the Securities Exchange Act of 1934 ("1934 Act"). The Registration Statement, together with the prospectuses, prospectus supplements, product supplements and pricing supplements, as well as all SEC filings incorporated therein, are collectively referred to herein as the "Offering Documents." These claims are asserted against certain of Lehman's officers and/or directors and the underwriters who made materially false and misleading statements during the Relevant Period in press releases, analyst conference calls and filings with SEC.

2. Between 2006 and 2008, Lehman and its bankers raised billions of dollars in several offerings of investment-grade rated notes by means of the false and defective Registration Statement, including offering the bonds acquired by CalPERS. As set forth herein, the Offering Documents that were filed in connection with the offerings at issue (the "Offerings") failed to disclose the true financial condition and performance of the Company. Specifically, the documents failed to disclose Lehman's losses and exposure in connection with its subprime and Alt-A lending activities and the true value of the Company's mortgage-related assets. The defendants' public statements, including in the Offering Documents, further failed to disclose the risks associated with Lehman's substantial increase in its use of leverage. Lehman's executives also made materially false statements about its

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[1] Lehman is not a defendant in this lawsuit due to its filing, on September 15, 2008, for bankruptcy protection under Chapter 11 of the Bankruptcy Code. Similarly, Lehman Brothers, Inc. ("LBI") is not a defendant in this lawsuit due to its forced dissolution on September 19, 2008. LBI was wholly owned by Lehman and was Lehman's primary broker-dealer subsidiary.

financial condition causing Lehman's stock and bond prices to be artificially inflated. When Lehman's losses and exposure came to light, the revelations led to severe declines in Lehman's stock price and ultimately to its bankruptcy. Lehman also had engaged in manipulative quarter-end transactions called "REPO 105" transactions that hid billions of dollars of Lehman's debt from the public.

OVERVIEW

3. Prior to its bankruptcy filing, Lehman provided various financial services to corporations, governments and municipalities, institutions and high-net-worth individuals worldwide, including equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity.

4. From 1994 to 2006, at the direction of defendant Richard S. Fuld, Jr. ("Fuld"), Lehman became increasingly involved in the mortgage market and securitizing mortgage-related products. Furthermore, at the direction of defendant Fuld, Lehman dramatically increased its use of leverage to fund its real estate investment activities from 2004 to 2007. As a result, Lehman's revenue and earnings grew at an impressive rate. Lehman engaged in securitizing mortgage-backed securities, becoming one of the largest issuers of mortgage-backed securities by the early 2000s. Mortgage-backed securities are created by purchasing mortgages and repackaging pools of mortgages into new securities. The new securities are divided into different types of tranches or slices classified by varying levels of credit risk and sold to investors. Lehman marketed and sold its mortgage-backed securities to large pension funds and other financial institutions.

5. The demand for mortgage-related securitized transactions grew substantially from 1994 to 2005, generating a great deal of revenue for Lehman. In order to fuel the demand for its securitization transactions, Lehman purchased two mortgage lenders, BNC Mortgage ("BNC") and Aurora Loan Services LLC ("Aurora"). BNC specialized in the subprime mortgage market while Aurora specialized in the Alt-A market. An Alt-A mortgage or Alternate A-paper is a type of mortgage where the risk profile falls between prime and subprime. An Alt-A borrower has a credit score above subprime but the mortgage generally has some issues that increase its risk profile, such as higher loan-to-value or debt-to-income ratios or inadequate documentation of the borrower's

income. Both BNC and Aurora engaged in risky lending practices in order to generate a greater number of loans for Lehman to purchase and securitize.

6. The Offering Documents failed to adequately disclose Lehman's aggressive mortgage lending activities and the risks surrounding these activities, including failing to adequately discuss Lehman's relationship with its mortgage originators, including BNC and Aurora. The Offering Documents further failed to properly value Lehman's mortgage-related assets or to provide proper risk disclosures concerning Lehman's mortgage-related exposure. Additionally, the Offering Documents failed to provide adequate disclosures regarding the risks associated with Lehman's increased dependence on leverage to fund its real estate investment activities. The Offering Documents further provided false assurances that Lehman was properly engaging in risk management strategies to minimize its real estate related risks.

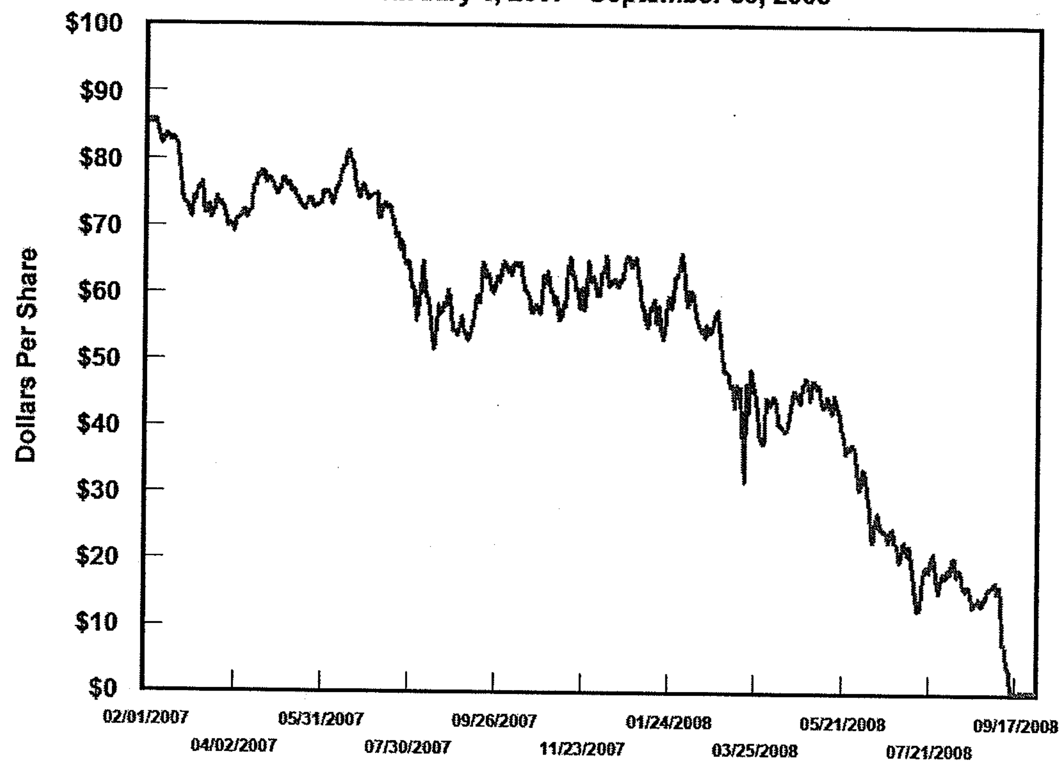
7. Throughout the remainder of fiscal year 2006 and through mid-fiscal year 2008, defendants continued to issue false and defective statements concerning Lehman's operations and its accounting for its real estate-related assets. Defendants further downplayed Lehman's exposure to risky real estate assets and its leverage exposure. In the meantime, Lehman was engaged at quarter end in an accounting gimmick called REPO 105 in which billions of dollars of debt was temporarily removed from Lehman's books and then reinstated following quarter end. Internal emails at Lehman referred to this practice as basically "window dressing."

8. On September 10, 2008, Lehman pre-released its results for the third quarter of 2008, reporting a net loss of $3.9 billion and $7.8 billion in write-downs, which included $7 billion on its residential and commercial real estate holdings. Four days later, Lehman filed the largest bankruptcy in U.S. history.

9. The value of Lehman's securities collapsed. *See* the following charts:

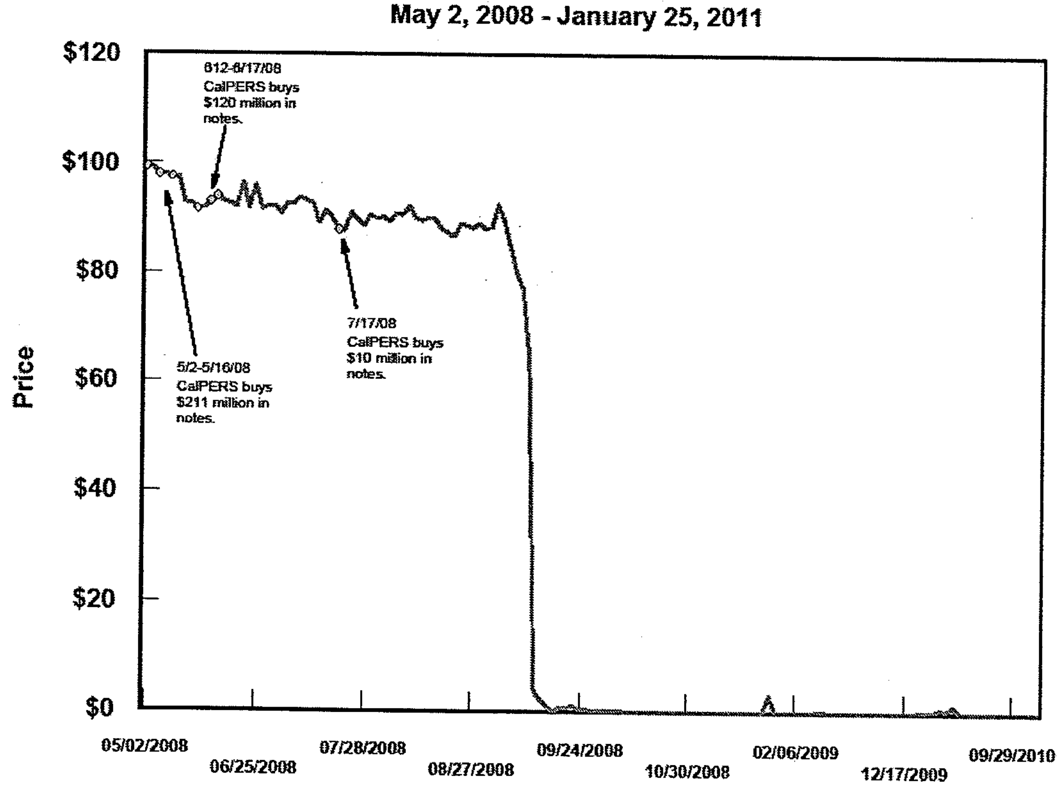
Lehman Brothers

February 1, 2007 - September 30, 2008



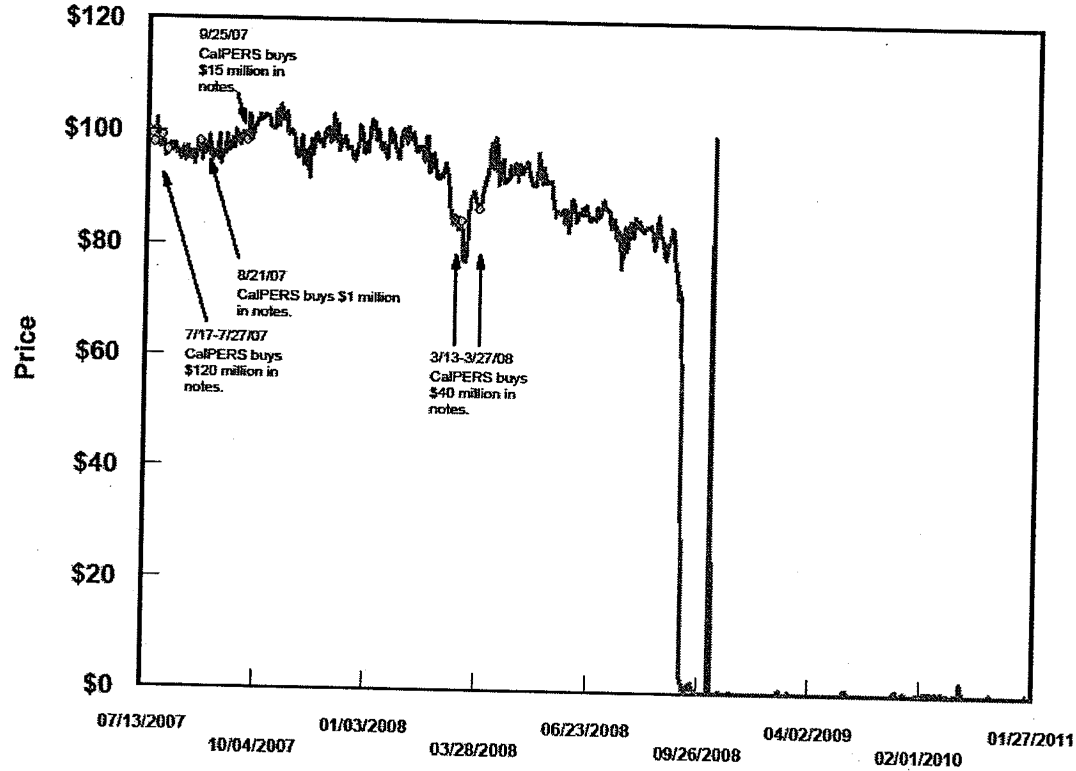
Lehman Bros 7.5% due 5/11/2038

May 2, 2008 - January 25, 2011



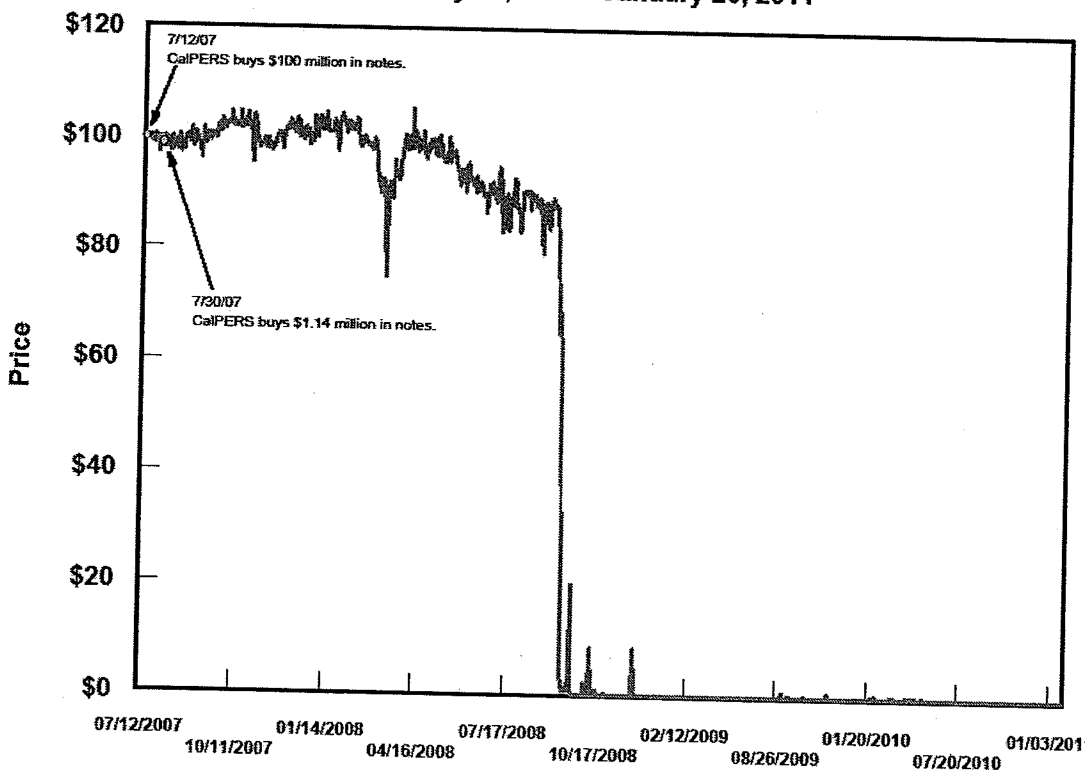
Lehman Bros 6.875% due 7/17/2037

July 13, 2007 - January 27, 2011



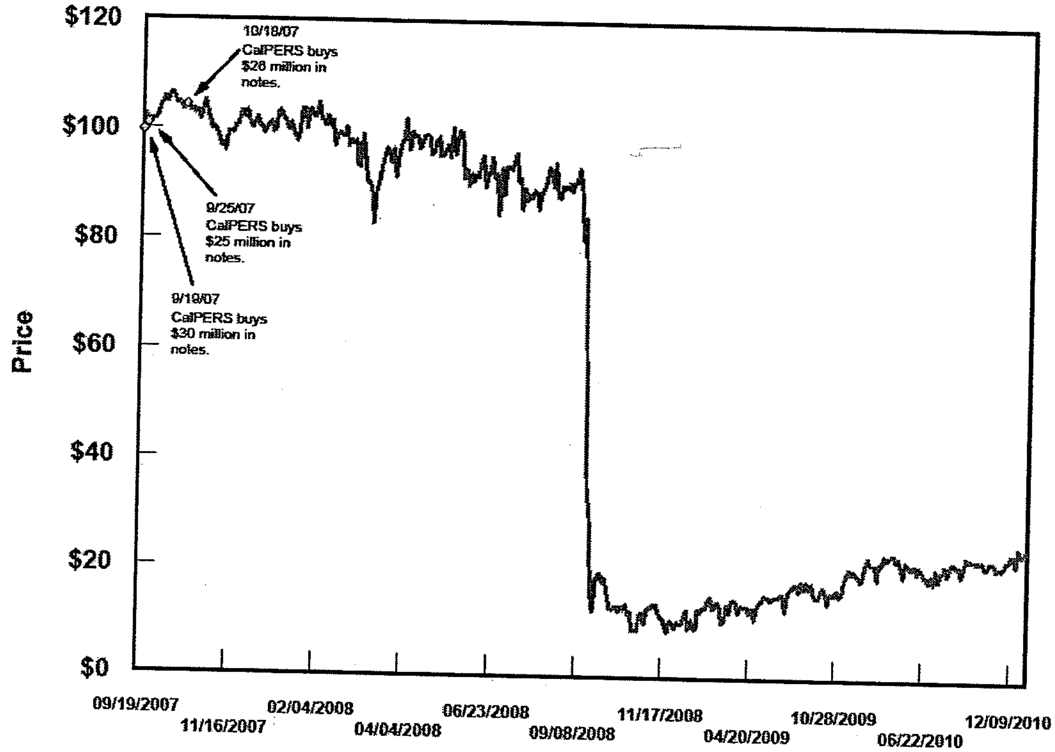
Lehman Bros 6.5% due 7/19/2017

July 12, 2007 - January 26, 2011



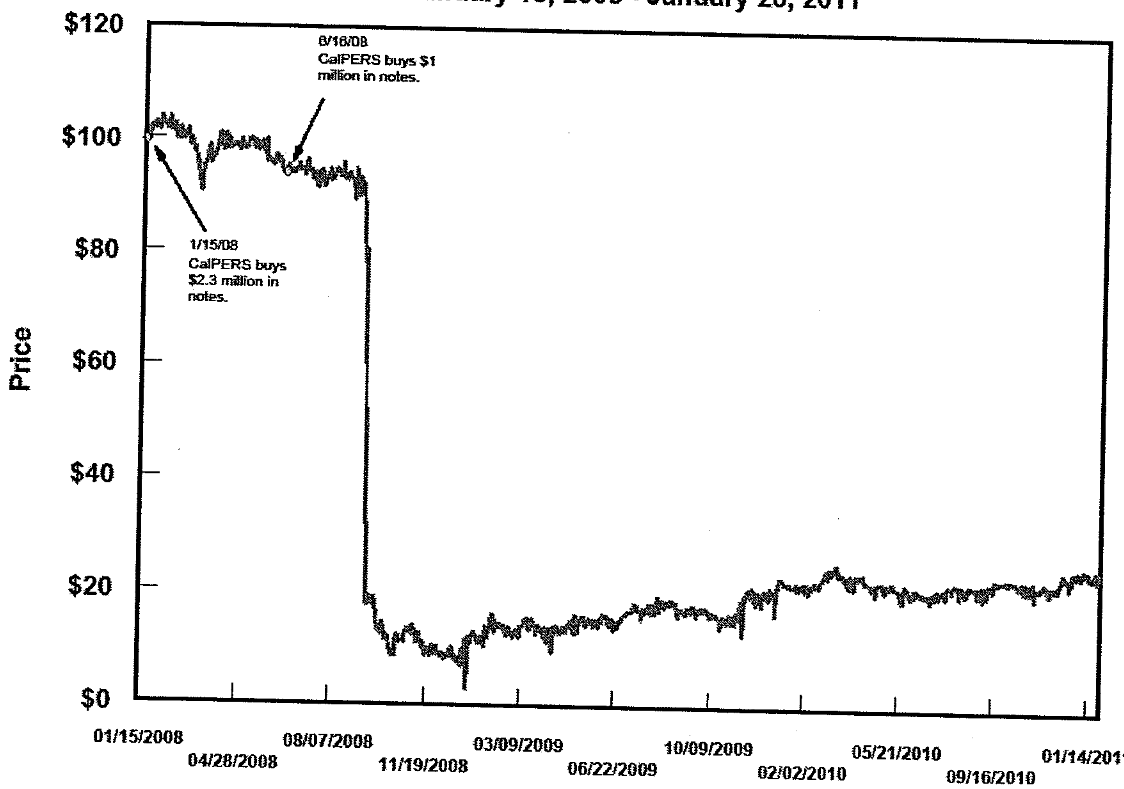
Lehman Bros 7% due 9/27/2027

September 19, 2007 - January 26, 2011



Lehman Bros 5.625% due 1/24/2013

January 15, 2008 - January 28, 2011



10. On October 6, 2008, the Committee on Oversight and Government Reform held hearings to determine the causes and effects of Lehman's bankruptcy.

11. Further in October 2008, three separate criminal investigations were launched by the U.S. Attorney's offices in the Eastern and Southern Districts of New York as well as the District of New Jersey into the events surrounding the collapse of Lehman and whether the Company and its executives misled investors, including whether Lehman valued its assets at artificially high levels.

12. The Bankruptcy Court-appointed examiner, Anton R. Valukas (the "Examiner"), later testified before the House Committee on Financial Services that "the public did not know there were holes in the reported liquidity pool, nor did it know that Lehman's risk controls were being ignored, or that reported leverage numbers were artificially deflated. Billions of Lehman shares traded on misinformation."

13. The true facts, which were known by the defendants but concealed from plaintiff during the Relevant Period, were as follows:

(a) Lehman's true exposure to risk from mortgage-related transactions and assets was understated.

(b) Lehman's subsidiaries, BNC and Aurora, were engaging in high-risk residential mortgage lending practices, which resulted in mortgage loans that would be much more likely to end up defaulting and causing losses.

(c) Defendants failed to properly mitigate the risks associated with Lehman's mortgage financing activities.

(d) Lehman violated Generally Accepted Accounting Principles ("GAAP") in preparing and disseminating false and misleading financial statements with respect to its accounting for mortgage-related assets.

(e) Lehman was engaging in quarter end accounting manipulations that understated its debt in quarterly financial statements by billions of dollars.

(f) The extent of Lehman's leverage exposure was misstated.

(g) Defendants represented that all of Lehman's assets were presented at "fair value." Lehman, however, failed to consider market information when valuing certain of its commercial real estate assets, thereby materially overstating their value.

(h) Lehman's internal controls were inadequate to prevent the Company from engaging in risky lending practices.

(i) The Company's capital base was not adequate enough to withstand the significant deterioration in the real estate markets and, as a result, Lehman would be forced to file for bankruptcy protection due to its subprime and Alt-A exposure.

INTRADISTRICT ASSIGNMENT

14. A substantial part of the events or omissions which give rise to the claims in this action occurred in the county of San Francisco, and as such this action is properly assigned to the San Francisco division of this Court.

JURISDICTION AND VENUE

15. This Court has jurisdiction over the subject matter of this action pursuant to §22 of the 1933 Act, 15 U.S.C. §77v; §27 of the 1934 Act, 15 U.S.C. §78aa; and 28 U.S.C. §1331.

16. Venue is proper in this District pursuant to §22 of the 1933 Act, 15 U.S.C. §77v; §27 of the 1934 Act, 15 U.S.C. §78aa; and 28 U.S.C. §1391(b), (c), and (d). Many of the acts and transactions described herein, including the preparation and dissemination of materially false and misleading public filings, occurred in this District. At all times relevant, Lehman maintained operations and offices in this District.

17. In connection with the acts alleged herein, defendants used the means and instrumentalities of interstate commerce, including, but not limited to, the U.S. mails, interstate telephone communications, and the facilities of national securities exchanges.

PARTIES

18. Plaintiff CalPERS is the largest public employee retirement system in the United States, with assets of approximately $218 billion and nearly 1.6 million beneficiaries, including active and retired public employees. CalPERS purchased Lehman securities as described below and

was damaged thereby. CalPERS purchased the following Lehman common stock and notes (the "Lehman Notes") during the Relevant Period:

Lehman Common Stock	3,893,586 shares
Lehman Brothers Holdings Inc. 7.50% Subordinated Notes Due 2038	$341,075,000
Lehman Brothers Holdings Inc. 6.875% Subordinated Notes Due 2037	$176,000,000
Lehman Brothers Holdings Inc. 6.75% Subordinated Notes Due 2017	$775,000
Lehman Brothers Holdings Inc. 6.50% Subordinated Notes Due 2017	$101,140,000
Lehman Brothers Holdings Inc. Medium Term 7% Notes Due September 27, 2027	$81,000,000
Lehman Brothers Holdings Inc. Medium Term 5.625% Notes Due January 24, 2013	$3,300,000

Relevant Non-Parties

19. Lehman was a corporation organized under the laws of the state of Delaware with its headquarters located at 1271 Avenue of Americas, New York, New York. Lehman operated as a global investment bank and purported to be "an innovator in global finance" with a "leadership position in equity and fixed income sales, trading and research." Lehman's common stock traded on the New York Stock Exchange. On September 15, 2008, Lehman filed a voluntary petition for bankruptcy protection under Chapter 11 of the Bankruptcy Code. For this reason, Lehman is not named as a defendant in this action.

20. LBI, based in New York, New York, was a wholly-owned subsidiary of Lehman and operated as a registered broker-dealer under the 1934 Act. LBI's services included brokerage, mergers and acquisitions and restructuring advice, debt and equity underwriting, market making, debt and equity research, and real estate and private equity investments. On September 17, 2008, the Securities Investor Protection Corporation moved for an order commencing liquidation and protection under the automatic stay provisions of the Bankruptcy Code. The Bankruptcy Court

granted the request on September 19, 2008. For this reason, LBI is not named as a defendant in this action.

Defendants

21. Defendant Fuld had served as the Chairman of the Board of Directors and Chief Executive Officer ("CEO") of Lehman since 2000. Fuld received $111.8 million from fiscal year ("FY") 2003 to FY 2007 in salary, bonuses and restricted stock unit awards, including $3.75 million in salary, $36.9 million in bonuses and $71.2 million in restricted stock unit awards. Fuld's bonus amount was a substantial portion of his compensation as it was nearly ten times his base salary. Additionally, Fuld received $190.8 million in insider trading proceeds from FY 2003 through FY 2007. Fuld signed the Registration Statement.

22. Defendant Christopher M. O'Meara ("O'Meara") served as the Company's Chief Financial Officer ("CFO"), Controller and Executive Vice President from 2004 until December 1, 2007, when he assumed the role of Global Head of Risk Management. O'Meara received $12.4 million from FY 2005 to FY 2007 in salary, bonuses and restricted stock unit awards, including $600,000 in salary, $4.8 million in bonuses and $6.7 million in restricted stock unit awards. O'Meara's bonus amount was a substantial portion of his compensation as it was eight times his base salary. Additionally, O'Meara received $1.2 million in insider trading proceeds from FY 2003 through FY 2007. O'Meara signed the Registration Statement.

23. Defendant Erin M. Callan ("Callan") served as the Company's CFO, Controller and Executive Vice President from December 2007 until June 2008. Callan resigned from the Company in July 2008. Previously, Callan served in various positions at Lehman after joining the Company in 1995.

24. Defendant Michael L. Ainslie ("Ainslie") was a director of Lehman during the Relevant Period. Ainslie signed the Registration Statement.

25. Defendant John F. Akers ("Akers") was a director of Lehman during the Relevant Period. Akers signed the Registration Statement.

26. Defendant Roger S. Berlind ("Berlind") was a director of Lehman during the Relevant Period. Berlind signed the Registration Statement.

27. Defendant Thomas H. Cruikshank ("Cruikshank") was a director of Lehman during the Relevant Period. Cruikshank was also a director of LBI. Cruikshank signed the Registration Statement.

28. Defendant Marsha Johnson Evans ("Evans") was a director of Lehman during the Relevant Period. Evans signed the Registration Statement.

29. Defendant Sir Christopher Gent ("Gent") was a director of Lehman during the Relevant Period. Gent signed the Registration Statement.

30. Defendant Roland A. Hernandez ("Hernandez") was a director of Lehman during the Relevant Period. Hernandez signed the Registration Statement.

31. Defendant Henry Kaufman ("Kaufman") was a director of Lehman during the Relevant Period. Defendant Kaufman signed the Registration Statement.

32. Defendant John D. Macomber ("Macomber") was a director of Lehman from 1996 until Lehman's bankruptcy on September 15, 2008. Defendant Macomber signed the Registration Statement.

33. The defendants identified in ¶¶21-23 are referred to herein as the "Officer Defendants."

34. The defendants identified in ¶¶21 and 24-32 are referred to herein as the "Director Defendants."

35. Defendant Cabrera Capital Markets, LLC ("Cabrera") is an investment bank and full-service institutional brokerage firm which provides services worldwide to a substantial and diversified client base that includes financial institutions, unions, governments, corporations, hedge funds, and foundations/endowments. Cabrera is based in Chicago, Illinois. Cabrera was an underwriter of the 7.50% Notes offering and the 7.0% Notes offering.

36. The Williams Capital Group, L.P. ("Williams Capital") is an investment bank providing institutional investors and corporate, governmental, and municipal clients with products and services in equities, fixed income, corporate finance, investment management and private equity. Williams Capital is based in New York, New York. Williams Capital was an underwriter of the 7.50% Notes offering.

37. Defendant Loop Capital Markets, LLC ("Loop") is a boutique investment banking and brokerage firm. The firm offers corporate and public finance, financial advisory, municipal finance, equity research, and securities sales and trading services. Loop is based in Chicago, Illinois. Loop was an underwriter of the 7.50% Notes offering.

38. Defendant BBVA Securities Inc. ("BBVA") is a security broker/dealer which provides securities brokerage and research services. BBVA is based in New York, New York. BBVA was an underwriter of the 6.875% Notes offering, the 6.75% Notes offering, the 7% Notes offering and the 5.625% Notes offering.

39. Defendant BNY Capital Markets, Inc. ("BNY") is a boutique investment banking firm that offers corporate finance advisory services and fixed-income securities. BNY is a subsidiary of The Bank of New York Mellon Corporation. BNY was an underwriter of the 6.875% Notes offering and the 6.75% Notes offering.

40. Defendant Citigroup Global Markets Inc. ("CGMI") is a large integrated financial services institution that through subsidiaries and divisions provides commercial and investment banking services, commercial loans to corporate entities, and acts as underwriter in the sale of corporate securities. CGMI was an underwriter of the 6.875% Notes offering, the 6.75% Notes offering, the 5.625% Notes offering and the 7% Notes offering.

41. Defendant RBC Capital Markets Corporation ("RBC Capital") offers corporate and investment banking services to corporations, governments, and institutions. The firm's services include public and private placement of debt and equity securities, strategic alliances, mergers and acquisitions advice, corporate finance, equity and debt underwriting, and structured and project finance. RBC Capital is based in Toronto, Canada. RBC Capital was an underwriter of 6.875% Notes offering.

42. Defendant Greenwich Capital Markets, Inc. ("Greenwich"), now-known as RBS Securities, Inc., is the Royal Bank of Scotland Group's U.S. investment bank/broker-dealer that specializes in fixed income arbitrage and other fixed income strategies. Greenwich is based in Stamford, Connecticut. Greenwich was an underwriter of the 6.875% Notes offering.

43. Defendant SunTrust Capital Markets, Inc. ("SunTrust") is a full-service investment banking and capital markets company that provides capital raising, strategic advisory, risk management, and investment solutions to corporate clients across the nation. SunTrust was an underwriter of the 6.875% Notes offering, the 7% Notes offering and the 5.625% Notes offering.

44. Defendant ABN AMRO Inc. ("ABN") provides investment advice and related services regarding securities, fixed income, and futures products. ABN provides its services to financial institutions, corporations, governments, fiduciaries, individual investors, professional investors, and securities and commodities dealers. ABN operates as a subsidiary of ABN AMRO Bank N.V. ABN was an underwriter of the 6.75% Notes offering.

45. Defendant ANZ Securities, Inc. ("ANZ") is a boutique investment banking firm that offers financial advisory services. The firm provides merger and acquisition, trade finance, export finance, structured finance, corporate banking, currency options, and structured credit derivatives. ANZ operates as a subsidiary of ANZ Bank based in Melbourne, Australia. ANZ is headquartered in New York, New York. ANZ was an underwriter of the 6.75% Notes offering and the 7% Notes offering.

46. Defendant CIBC World Markets Corp. ("CIBC") is the investment banking subsidiary of the Canadian Imperial Bank of Commerce. The firm operates as an investment bank both in the domestic and international equity and debt capital markets. CIBC is headquartered in Toronto, Ontario. CIBC was an underwriter of the 6.75% Notes offering.

47. Defendant HSBC Securities (USA) Inc. ("HSBC") is an investment banking firm that provides financial advisory services. The firm's services include mergers and acquisitions, capital raising, privatization, and strategic advice. HSBC operates as a subsidiary of HSBC Investments (North America) Inc. HSBC was an underwriter of the 6.75% Notes offering and the 6.50% Notes offering.

48. Defendant HVB Capital Markets, Inc. ("HVB") is a securities broker/dealer. HVB was an underwriter of the 6.75% Notes offering and the 6.50% Notes offering.

49. Defendant Caja de Ahorros y Monte de Piedad de Madrid ("Caja Madrid") operates as a savings bank in Spain. It primarily offers products and services in banking, insurance, and asset

management and brokerage sectors. Caja Madrid provides an array of products and services, including guarantees, credit lines, loans, leasing products, bill discounting, mutual funds, factoring, customized financing, financial advice, and foreign trade operations. Caja Madrid was an underwriter of the 6.50% Notes offering.

50. Defendant National Australia Capital Markets, LLC ("NACM") is a securities broker/dealer. NACM was an underwriter of the 6.50% Notes offering.

51. Defendant Santander Investment Securities Inc. ("Santander") is a securities and money management firm that offers full securities brokerage services, including retail and institutional sales, trading, investment banking, asset management and research. Santander is the U.S. retail securities broker-dealer arm of Grupo Santander, the largest financial group in Spain and Latin America. Santander was an underwriter of the 6.50% Notes offering.

52. Defendant BNP Paribas S.A. ("BNP") is a France-based bank group with operations throughout the world. BNP was an underwriter of the 5.625% Notes offering.

53. Defendant ING Financial Markets LLC ("ING") offers investment banking and corporate financial services. ING is based in New York, New York and operates as a subsidiary of ING Groep NV. ING was an underwriter of the 5.625% Notes offering.

54. Defendant Mellon Financial Markets, LLC ("Mellon") is an investment banking and full-service securities dealer firm specializing in public finance, asset-backed finance and institutional sales, servicing hundreds of institutional client. Mellon was an underwriter of the 5.625% Notes offering and the 7% Notes offering.

55. Defendant M.R. Beal & Company ("MR Beal") is a full-service investment banking firm, which includes public finance, corporate debt and equity, fixed-income sales and trading, and financial advisory services. MR Beal was an underwriter of the 5.625% Notes offering.

56. Defendant Natexis Bleichroeder Inc. ("Natexis") provides securities brokerage, equity trading, and research services to individuals, corporations, and institutional investors. Natexis offers corporate finance services, including mergers and acquisitions, divestitures, and investment advice. Natexis is headquartered in New York, New York. Natexis was an underwriter of the 5.625% Notes offering.