

September 17, 2009

Mr. Bryan Marsal
Individually and as
Chief Restructuring Officer
Lehman Brothers Holdings, Inc.
Chief Executive Officer
LBREP II/SunCal Fund Member LLC
Lehman SunCal Real Estate Fund, LLC
Lehman Sun Cal Real Estate Holdings LLC
600 Lexington Avenue, 6th Floor
New York, NY 10022

RE: Your Failure to Demolish the 90+ Blighted Buildings and Abate Fire Hazards
at the Former Oak Knoll Navy Hospital Property, Oakland, California ("Oak Knoll")

Dear Mr. Marsal,

Sequoyah Hills/Oak Knoll Neighborhood Association, on behalf of its roughly 400 residence constituency, is writing to you in your individual capacity and as decision maker and manager for Lehman Brothers Holdings, Inc. and its bankrupt subsidiaries (collectively "LBHI") which are Chapter 11 Debtors in bankruptcy in Case 08-13555 in the U.S. Bankruptcy Court Southern District of New York, a discretionary decision making role which you assumed effective September 15, 2008, pursuant to the court's order at Docket No. 2278.

In your decision making capacity with regard to LBHI, we remind you that under **28 U.S.C. 959(b)**, you, as the manager of the debtors, have an express obligation to comply with California law concerning the capitalization of business entities and maintenance of those business entities' properties in a safe condition:

"a trustee, receiver or manager appointed in any case pending in any court of the United States, including a debtor in possession, shall manage and operate the property in his possession as such trustee, receiver or manager according to the requirements of the valid laws of the State in which such property is situated, in the same manner that the owner or possessor thereof would be bound to do if in possession thereof."

We are also writing to you individually and in your self-appointed capacity as the chief executive officer of the grotesquely undercapitalized not-bankrupt LBREP II/SunCal Fund Member LLC, Lehman SunCal Real Estate Fund, LLC, Lehman Sun Cal Real Estate Holdings LLC and perhaps others (collectively the "Oak Knoll Parent Companies"), which are controlled by you. The Oak Knoll Parent Companies are the not-bankrupt parent companies of SunCal Oak Knoll, LLC, a grotesquely undercapitalized, Delaware limited liability company in which the Oak Knoll Parent Companies and LBHI placed fee title to the Oak Knoll property, described below, after acquiring the property for \$100.5 Million knowing, at that time, its worsening physical condition, as described below. As a direct result of the Oak Knoll Parent Companies' failure to properly capitalize their subsidiary, SunCal Oak Knoll, LLC is now an involuntary debtor in the

U.S. Bankruptcy court for the Central District of California, Case No. 8:08-bk-17588 (the "Nominal Property Owner").

We refer you to the Uniform Fraudulent Transfer Act, among other principles of law and equity, which proscribes operation of businesses which are undercapitalized in comparison with the debts and obligations undertaken or incurred, or likely to be incurred, by the entities conducting businesses, and in particular the California Uniform Fraudulent Transfer Act and California's extensive body of case law on alter ego and veil piercing which are applicable to ALL business entities doing business or owning entities doing business in California.

As to the grotesquely undercapitalized Oak Knoll Parent Companies, we need not remind you that as their decision maker, you personally have the continuing obligation, under California law, to insure that those companies operate their assets, including Oak Knoll, in compliance with the duties set forth in California statutes, ordinances, regulations and case law, i.e. not keep the companies' assets in such a dangerous condition as to present the risk of damage to life and property to neighbors.

Also, as we are sure you are aware, upon acquiring ownership and control of Oak Knoll, the Oak Knoll Parent Companies and LBHI failed to provide sufficient capital, at any level of the Oak Knoll organizational structure, to permit those entities or the Nominal Property Owner to discharge their collective, lawful obligations to abate and prevent nuisances and dangerous conditions at Oak Knoll, including but not limited to demolishing the 90 or so blighted and abandoned World War II era buildings on the Oak Knoll property, and removing of the demolition debris, so that the Oak Knoll property would exist in a safe manner not presenting a source of massive fire danger to neighboring properties and their occupants.

As we are also sure you are aware, the East San Francisco Bay Area in particular, as well as California generally, is in the throes of an ever worsening historically unprecedented drought, increasing fire danger arising out of unattended tree covered lands such as Oak Knoll, which was a heavily treed golf course prior to its acquisition by the Navy in the World War II era. If you have not bothered to visit the Oak Knoll property, we can tell you that it is covered with fire fuel, both in terms of the abandoned buildings as well as the abandoned, continuously drying landscape. We attach, for your information, a copy of a story about the 1991 Oakland Firestorm, to give you further notice of the risk you, personally, are creating in the exercise of your discretion in control of the Oak Knoll Parent Companies, LBHI and the mortgage lender on the Oak Knoll property.

As we are sure you are aware, prior to and continuing after LBHI's first bankruptcy filing, both the not-bankrupt Oak Knoll Parent Companies and LBHI, as their cash flow situation apparently worsened, failed and refused to provide funding to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, or to maintain Oak Knoll's landscape in a manner which minimizes fire danger, and failed and refused to take those actions directly.

In addition, we are aware that in the exercise of your discretion, you failed and refused to have the not-bankrupt Oak Knoll Parent Companies provide the Chapter 11 trustee for the Nominal Property Owner sufficient funding to demolish the blighted buildings on the Oak Knoll property

and remove the demolition debris, or to maintain its landscape in a manner which minimizes fire danger.

As we are sure you are aware, the first mortgage holder on the Oak Knoll property, not-bankrupt Lehman ALI, Inc., is commonly managed by you with the Oak Knoll Parent Companies and LBHI to such an extent that Lehman ALI, Inc. would, under California case law, be considered an alter ego of the Oak Knoll Parent Companies. In addition to your failure and refusal to do the fire hazard abatement work on the Oak Knoll property, in your self-appointed role as chief executive officer of Lehman ALI, Inc. you failed and refused to cause Lehman ALI, Inc., which has a multi-million dollar monthly income, to lend sufficient funds to the Oak Knoll Parent Companies or the Chapter 11 trustee of the Nominal Property Owner to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, or to maintain its landscape in a manner which minimizes fire danger.

As a result of your personal defiance of both California and Federal law, with respect to the duty to maintain Oak Knoll in a fire safe manner, i.e. demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger, the City of Oakland issued the attached order, which is self explanatory. You and the companies you manage and control defied, failed and refused to comply with the City's order by the date required by that order.

We are also aware, as are you, as is shown in the attached Wall Street Journal article, that in your management of LBHI and its many not-bankruptcy subsidiaries including Lehman ALI, Inc., you are using both the bankruptcy debtor's cash (recently reported by the New York Post to be \$6 Billion at present) and the not-bankrupt Lehman subsidiary entities' cash, to discharge the property owner's obligations on projects you or your agents personally select. In contrast, it is a matter of public record that Oak Knoll Parent Companies are in a protracted conflict with the minority, not-managing partner in LBREP II/SunCal Fund Member LLC (i.e. in the third tier of ownership above the Nominal Property Owner) and that you and your agents use that dispute as a pretext and excuse for failing to discharge your obligations, and those of the Oak Knoll Parent Companies, LBHI and Lehman ALI, Inc. under California law, as described above. We presume that you have seen the smarmy letter written by one of your agents or employees, found in the Nominal Property Owner's bankruptcy court file, stating that Oak Knoll Parent Companies which you control, and no one else, is in complete control of all decision making for the Nominal Property Owner. We also presume that you are aware that the attorney time sheets for LBHI's and the Oak Knoll Parent Companies' California lawyer are a public record in the LBHI bankruptcy court file, and that they show an absolute failure on you, your company's, the Oak Knoll Parent Companies', Lehman ALI's and LBHI's part to negotiate in good faith with the bankruptcy trustee for the Nominal Property Owner, or his attorney, let alone comply with the legal obligations you and the entities you control have to properly capitalize the Nominal Property Owner, to provide funds to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger.

We remind you that the 1991 Oakland Fire Storm caused \$35 Billion in property damage (i.e. without calculation of any punitive damages) and that it was classified as a 107 alarm fire. We

are now squarely in California's fire season, and drought conditions increasing the intensity of urban wildfires have exponentially increased as a result of the historic drought.

In short, should a disastrous fire or fire storm occur in Oakland, emanating from the Oak Knoll property or exacerbated by its negligently maintained, unlawful state, there will be a plethora of evidence to permit a jury to conclude that you personally, let alone Alvarez & Marsal's employees, the Oak Knoll Parent Companies, and Lehman ALI spitefully, discriminatorily, willfully and intentionally permitted the fire safety risks on the Oak Knoll property to exist and continue, despite the ability to abate them with funds not controlled by the U.S. Bankruptcy Court for the Southern District of New York, leading to an inevitable finding that you personally, among those others, were the proximate cause of the inevitable damage to life and property. In California, those facts would entitle injured parties to seek not only actual damages but punitive and exemplary damages against you personally.

AS A CONSEQUENCE, this letter is:

(1) A demand to you, Bryan Marsal personally, as the person exercising discretionary decision making over the Oak Knoll Parent Companies, Lehman ALI, Inc. and LBHI, to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger, or provide the Chapter 11 trustee for Oak Knoll all necessary funding to do the same, and that you, personally, otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing cause of another such catastrophic fire.

(2) Put you, Bryan Marsal personally, on notice that the residents in the Sequoyah Hills/Oak Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold you personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in Oakland.

(3) A demand to the owners, officers and employees of Alvarez & Marsal, acting as your agents, as the persons exercising discretionary decision making over the Oak Knoll Parent Companies, Lehman ALI, Inc. and LBHI, that they demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and maintain its landscape in a manner which minimizes fire danger, or provide the Chapter 11 trustee for the Nominal Property Owner all necessary funding to do the same, and that Alvarez & Marsal's owners, officers and employees otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing cause of another such catastrophic fire.

(4) Put Alvarez & Marsal and its owners, officers and employees on notice that the residents in the Sequoyah Hills/Oak Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold them personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in

Oakland.

(5) A demand to Oak Knoll Parent Companies, as alter egos of the Nominal Property Owner and each other, and their managers, to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger, or provide the Chapter 11 trustee for the Nominal Property owner all necessary funding to do the same, and that the Oak Knoll Parent Companies otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing case of another such catastrophic fire.

(6) Put the Oak Knoll Parent Companies, as alter egos of the Nominal Property Owner and each other, and their managers, on notice that the residents in the Sequoyah Hills/Oak Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold them personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in Oakland.

(7) A demand to the member/owners and managers of Lehman Sun Cal Real Estate Holdings LLC and their parent companies and members, as alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger or provide the Chapter 11 trustee for the Nominal Property owner all necessary funding to do the same, and that the owners of Lehman Sun Cal Real Estate Holdings LLC otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing case of another such catastrophic fire.

(8) Put the member/owners and managers of Lehman Sun Cal Real Estate Holdings LLC and their parent companies and members, as alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, on notice that the residents in the Sequoyah Hills/Oak Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold them personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in Oakland.

(9) A demand to Lehman ALI, Inc. and its shareholders, as alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger or provide the Chapter 11 trustee for the Nominal Property owner all necessary funding to do the same, and that Lehman ALI, Inc. and its shareholders otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing case of another such catastrophic fire.

(10) Put Lehman ALI, Inc. and its shareholders, as alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, on notice that the residents in the Sequoyah Hills/Oak

Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold them personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in Oakland.

(11) A demand to the holders of any interests in the mortgage loans encumbering the Oak Knoll property for whom Lehman ALI, Inc. acts as agent, who by the conduct of Lehman ALI, Inc. have become alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, to demolish the blighted buildings on the Oak Knoll property and remove the demolition debris, and to maintain its landscape in a manner which minimizes fire danger or provide the Chapter 11 trustee for the Nominal Property owner all necessary funding to do the same, and that those mortgage interest holders otherwise take all other necessary and prudent steps to prevent the Oak Knoll property's condition from being the proximate cause of another catastrophic fire in Oakland or a contributing case of another such catastrophic fire.

(12) Put the holders of any interests in the mortgage loans encumbering the Oak Knoll property for whom Lehman ALI, Inc. acts as agent, who by the conduct of Lehman ALI, Inc. have become alter egos of the Nominal Property Owner and the Oak Knoll Parent Companies, on notice that the residents in the Sequoyah Hills/Oak Knoll Neighborhood Association community, the owners of the properties in the Sequoyah Hills/Oak Knoll area, their property casualty insurers, and other victims of any fire affecting that area, will hold them personally liable, should the Oak Knoll property's condition be the proximate cause or a contributing cause of another catastrophic fire in Oakland.

Obviously, Mr. Marsal, your personal response to this letter, as well prompt action by you, is expected and required, but neither a denial of any liability on your part or on the part of any others named in this letter will suffice to release or absolve you or them of the duties arising under California tort, property and police powers regulatory laws described above.

Sincerely,

Sequoyah Hills/Oak Knoll Neighborhood Association

By: _____

Donald J. Mitchell
Sequoyah Hills/Oak Knoll Neighborhood Association
4415 St. Andrews Road
Oakland, CA 94605

encs. City Notice, Story on 1991 Oakland Firestorm
2009 Wall Street Journal Article on Spending by
Bryan Marsal et al in various capacities