

THE BUCKINGHAM RESEARCH GROUP

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LEHMAN BROTHERS (LEH)
Rating Agency Risk Too High

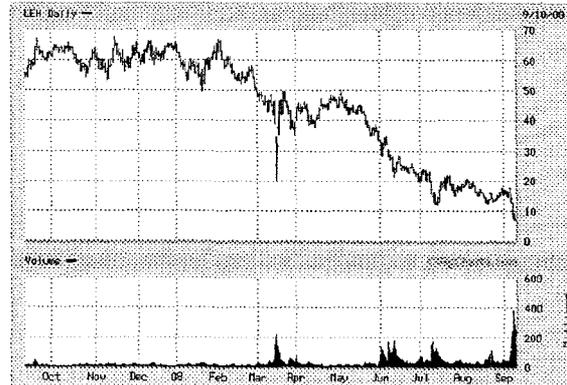
NEUTRAL
September 11, 2008

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- We are downgrading LEH to Neutral from Strong Buy.
- Fundamental analysis dictates that LEH is highly undervalued at \$7 per share, even if they were to raise highly dilutive capital. In fact, we estimate book value of \$23 even if they raised \$2.5bn of common equity.
- However, fundamental analysis gets pushed aside should rating agencies decide to downgrade LEH materially – and Moody's implied as much last night. While we believe LEH's capital and liquidity remains solid, even after the spin out of its commercial real estate entity, it does not appear that the rating agencies are willing to give LEH the time it needs to execute its strategic initiatives. And while we strongly disagree with the rating agencies' stance, perception is reality in this business and a significant downgrade would be very onerous on LEH's trading business.
- That said, we do see tremendous upside in the stock if LEH can maintain a single A rating. However, the uncertainty of whether they can maintain that (particularly in light of Moody's target in the BBB range) leaves us no choice but to move to the sidelines on the stock.
- The risk to the call is that LEH is able to find a strategic partner/buyer, which would bring confidence back to the stock. But given the uncertainties about the willingness of any buyers in this environment, we cannot "hang our hat" on that outcome.

Target	NA
Price (09/10/2008)	\$7.25
52-Week Price Range	\$68-\$8
Shares Out. (mil.)	689.0
Market Capitalization (mil.)	\$4,995.3
Float	669.7
Avg. Daily Vol. (mil.)	32.7
Dividend/Yield	\$0.05/0.7%
Book Value (08/2008)	\$27.29
Debt/Capital (08/2008)	76.7%
2 Yr. Growth Rate	NM
ROE (2008E)	NM



EARNINGS PER SHARE ESTIMATES						
FYE Nov	Q1	Q2	Q3	Q4	Fiscal Yr	FY P/E
2007A	\$1.96A	\$2.21A	\$1.54A	\$1.54A	\$7.25A	1.0x
2008E	\$0.81A	(\$5.14)A	(\$5.92)E	(\$0.52)E	(\$10.75)E	NM
prior	--	--	--	(\$3.67)E	(\$10.75)E	
2009E	--	--	--	--	\$3.10E	2.3x
prior	--	--	--	--	\$3.80E	

Company Description - Growth Drivers - Risks: Lehman Brothers is a securities broker/dealer operating in three principal segments: Capital Markets (67% of revenue); Investment Banking (18% of revenue) and Private Client/Asset Management (15% of revenue). Growth drivers: increased client activity associated with stronger economy and market performance; market share gains; and international expansion. Risk factors: Market, economic, and competitive risks that may cause declining or decelerating growth in managed assets and activity levels in investment banking and trading.

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INVESTMENT SUMMARY

LEH announced yesterday preliminary 3Q08 results and its strategy for dramatically reducing its risky asset exposures. On the earnings front, 3Q08 loss per share is expected to be (\$5.92) per share, well above our estimate of (\$2.75) and consensus of (\$3.35). While core operating revenues and expenses were essentially in line with our forecast, write-downs were much greater than expected, with LEH aggressively writing down residential mortgage assets to 39 cents on the dollar from 59 cents in 2Q08. Including the expected sale of \$4bn in UK residential mortgage assets over the next few weeks, total residential mortgage exposure at LEH fell 47% to \$13.2bn. Leveraged finance exposure also fell 38% sequentially to \$7.1bn. Lastly, commercial real estate (CRE) assets declined to \$32.6bn from \$39.8bn, and LEH expects to spin out the vast majority of these assets to shareholders.

More specifically, the company is setting up a "bad bank" model, spinning out \$25-\$30bn of CRE to shareholders via a publicly traded entity named REI Global that is expected to be completed by 1Q09. LEH expects to capitalize the entity with 20%-25% of equity, implying a capital injection in a range of \$5.0bn-\$7.5bn. To help fund the capital for the new entity, LEH is also selling a 51%-55% stake in its investment management business, which should result in a minimum increase to tangible capital of \$3bn. Of course, this simply reflects the elimination of \$3bn of goodwill related to the divested investment management business. We also expect a relatively healthy gain on top of the goodwill divestiture, which should add additional tangible capital. LEH also cut its annual dividend to \$0.05 per share, saving \$450m in capital annually. Lastly, after significant further reductions in residential mortgage assets during the quarter, LEH announced a further sale of \$4bn of European residential mortgage assets to BlackRock.

Positives

- **Risky assets will be meaningfully reduced.** Including the expected sale of \$4bn in residential non-US mortgages to BlackRock (to be completed within a few weeks), LEH has reduced its exposure to residential mortgages by 47% from 2Q08 to \$13bn. The portfolio is now carried at a weighted average price of 39 cents on the dollar – a very aggressive markdown and down from 59 cents in 2Q08. This aggressive mark should reduce the likelihood of substantial further write-downs. CRE assets were reduced by 18% and are now down to \$32.6bn. With the spin off of REI Global in 1Q09, LEH expects to transfer \$25-\$30bn of this commercial real estate exposure and retain roughly \$5bn in trading inventory. Including the declines in leveraged loans, that would push risky assets (residential, commercial, and leveraged loans) down to approximately \$25bn – the lowest in the group along with Morgan Stanley.
- **Book value is \$27.29.** And this does not include any potential gain (above LEH's cost basis) on the partial sale of its investment management business. Assuming the investment management division (IMD) is valued at roughly \$7-\$8bn (or 11x-12x annualized 1H08 net income), we calculate an after-tax gain of \$1bn or more, which would add another \$1.50 to book value – or increasing book value to \$28.70. The spin off of REI Global is expected to be capitalized with \$7.25-\$10.90 per share of book value (at 20%-25% capital against the assets). **Even assuming the spin off of REI Global is capitalized at the highest amount, that would reduce the book value for the remaining LEH by \$10.90 to \$17.80** (although shareholders would still have the \$11 of book value in REI global).
- **Capital ratios remain solid.** LEH ended 3Q08 with a Tier 1 ratio of 11% and a total capital ratio of 16.5%-17.0% (vs. a regulatory minimum of 10%). This does not include a tangible capital benefit of an estimated \$4bn (\$3bn reduction in goodwill and an estimated \$1bn after-tax gain) related to the sale of a 55% stake in its investment management business. The sale of investment management, as well as the reduction of risk weighted assets associated with the spin off, should keep LEH's Tier 1 ratio relatively flat with the 11% this quarter based on our calculation.

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- **Liquidity risk appears low.** LEH's liquidity pool was \$42bn, down from \$45bn at the end of 2Q08 but includes the paydown of \$4bn of CP during the quarter. LEH also had \$148bn of unencumbered assets at the end of 2Q08 it could potentially use as collateral for additional liquidity. In addition, LEH remains well positioned in a "run on the bank" scenario. For one, LEH was a "net lender" in the repo markets as of 2Q, limiting the risk of not being able to fulfill obligations should lines be pulled. Moreover, greater than 50% of its repo lines are collateralized by highly liquid US Treasury and Agency securities. In addition, LEH does not rely on prime brokerage free credit balances for funding, but simply acts as a pass through for hedge fund clients by placing client cash in money markets. Lastly, LEH has the Fed window as the lender of last resort. So bottom line, run on the bank scenario risk seems very low with respect to LEH.
- **Franchise erosion seems limited so far.** Revenues were generally in line with expectations, reflecting slower activity levels in the industry but not reflecting any significant market share loss. In fact, client activity in fixed income, although down sequentially given the slower market environment, was relatively flat with the 2007 quarterly average. Fixed income trading revenues, excluding write-downs and other marks, were \$1.8bn – materially higher than our forecast.

Risks

- **Despite these positives, there are risks. For one, the spin off of CRE assets is not expected until 1Q09, which leaves risk of additional CRE write-downs in 4Q08 and thus creates some additional uncertainty in the near-term.** Although we believe management was conservative in taking its "marks" this quarter, particularly in residential, we are estimating an additional \$1.5bn in write-downs in 4Q08 to be conservative in light of the still challenging environment.
- **The biggest risk in our view are the rating agencies.** Rating agencies have been on the defensive surrounding the reliability of their ratings on structured finance transactions, bond insurers, etc., and the agencies have become increasingly aggressive in adjusting ratings in order to appear more responsive. Although LEH will remain well capitalized even after the spin out of REI Global in our view, the rating agencies may not be willing to give LEH the time it needs to execute the plan. Moody's yesterday put LEH's A rating on review with "direction uncertain" (but with a clear bias to the downside). Basically, Moody's stated that without a tie-up with a strategic partner (via a capital raise or outright sale), it could downgrade LEH to the triple-B range. S&P was more positive on LEH's moves yesterday, but stated that it will keep LEH on CreditWatch with negative implications.
- **One outcome of the threat of a downgrade could be to force LEH to raise more dilutive capital.** LEH's mix of common vs. preferred could prove to be an issue, with preferred equity as a % of total equity moving to 39% on a pro forma basis (after the spin and the sale of IMD) vs. 32% in 3Q08. We believe the rating agencies typically prefer a mix closer to 35%. To get down to 35% from our estimated 39%, that would entail an additional \$2.5bn of common equity. At current prices, that would be meaningfully dilutive, forcing LEH to add an additional 357m shares. This would push our forecasted 2009 book value down to \$22.80 from \$31.60 (and tangible book value would be \$21.80). This would also push our EPS estimate down to \$2.20 from \$3.10.
- **Franchise erosion.** Another consequence of a downgrade could be more limited trading revenues, as counterparties reduce trading activity with a firm with a lower counterparty rating. A 1-2 notch downgrade would not be completely debilitating, though, since a one notch downgrade would require \$2.6bn in additional collateral to be posted and a two notch downgrade would require an additional \$1.3bn – relatively manageable sums. Also, LEH operated and survived in the mid 1990s with a triple-B rating. That said, a drop to BBB (or lower) would be onerous and could lead to material

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franchise erosion if sustained over the long-term. Facing that choice, we believe LEH would likely opt to raise dilutive capital.

However, it does not appear to us that Moody's is even willing to allow LEH the opportunity to raise capital, implying that LEH has no other option but to find a strategic buyer or be downgraded to at least the BBB range. Although in our view LEH will remain well capitalized even after the spin out of REI Global and the partial sale of the asset management business, the rating agencies do not seem willing to give LEH the time it needs to execute its strategic initiatives. And while we strongly disagree with the rating agencies' stance, perception is reality in this business and a significant downgrade would be very onerous on LEH's trading business, since most counterparties would have to reduce their trading activities with a lower rated firm. While fundamental analysis dictates that LEH is highly undervalued at \$7 per share, given the uncertainty as to what the credit agencies will do and the material impact that a downgrade would have on LEH's business, we believe it is prudent to move to the sidelines and are reducing our rating to Neutral from Strong Buy. That said, we do see tremendous upside in the stock if LEH can maintain a single A rating, and we likely would be quick to upgrade the stock if they could satisfy the rating agencies and maintain a single A rating. The other risk to this Neutral call is the potential for LEH to find a strategic investor our outright sale at a premium. However, given the uncertainties about the willingness of any buyers, we don't believe we can "hang our hat" on such an outcome. All in, we clearly clung to tightly to fundamental valuation and analysis and underestimated the impact of market perception becoming reality.

To reflect the dilution related to the sale of LEH's Investment management business, as well as to reflect lower assumptions in equities trading and investment banking, we are lower our 2009 EPS estimate to \$3.10 from \$3.90. Our 2008 EPS estimate of (\$10.75) remains unchanged, despite the larger than forecast loss. This reflects the fact that we were forecasting a significant balance sheet "clean up" charge in 4Q08 of \$5bn, which we now no longer expect. We reduced our write-down assumption in 4Q08 to \$1.5bn, and therefore raised our 4Q08 EPS estimate to (\$0.52) from (\$3.67).

3Q08 Highlights:

- **Fixed income trading run-rate better than expected.** Total 3Q08 fixed income trading net revenues were a negative \$4.6bn, higher than our forecast of a negative \$1.7bn, with the negative variance attributable to greater than expected net write-downs in LEH's real estate portfolio. During the quarter, LEH aggressively reduced exposure to risky real estate assets, lowering residential mortgage exposure by 47% sequentially and commercial real estate exposure by 18% vs. 2Q. This aggressive reduction in real estate exposure led to higher than expected write-downs, with LEH recording \$5.3bn in gross write-downs in its residential portfolio and \$1.8bn in gross write-downs in its commercial portfolio. However, excluding these write-downs and other non-recurring items (gains from hedging and debt valuation adjustments), LEH's 3Q08 fixed income revenue run rate was approximately \$1.8bn, flat vs. 2Q08 and a solid 50% ahead of our run-rate forecast of \$1.2bn. Driving the strength was solid trading revenues in rates, FX and credit products. Looking ahead, with LEH's residential mortgage portfolio now carried at a very conservative weighted average price of 39 cents on the dollar (down from 59 cents in 2Q08) and the company's commercial portfolio expected to be spun out into separate public company during 1Q09, we expect write-downs in LEH's fixed income business to decline during 4Q and into 2009. And considering that the \$1.8bn run-rate for fixed income trading was achieved in a very challenging environment, we could see fixed income trading revenues start to show improvement in coming quarters as the environment improves and these mark to market issues subside.

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- **Equities trading was weaker than expected.** Equities trading revenues fell 67% YOY and 24% sequentially, with management attributing the decline to weakness in derivatives trading (particularly in international markets) and prime brokerage (reflecting de-leveraging at hedge funds). We also believe that LEH recorded higher losses in its private equity business (although management did not quantify). Looking ahead, we expect LEH to benefit from seasonally higher trading activity during 4Q. In addition, LEH may benefit from improved performance in its private equity portfolio (with publicly trading holdings in LEH's private equity portfolio tracking up in September)
- **Investment banking revenues negatively impacted by weakness in underwriting.** LEH's 3Q08 investment banking revenues decreased 25% sequentially and 21% YOY, driven by weakness in underwriting revenues. Specifically, equity underwriting revenues declined 52% sequentially (down 46% YOY), while debt underwriting was off 23% from 2Q (down 37% YOY). M&A held up better, with revenues declining a modest 4% vs. 2Q (although M&A revenues were off 46% YOY). Looking ahead, while management did not comment on the investment banking pipeline, we expect banking revenues to be seasonally stronger during 4Q (although YOY trends remain weak).
- **Investment management declined 25% sequentially and 21% YOY.** Driving the sequential decline in investment management was slower transactional activity in private investment management and lower fees from LEH's minority investments in alternative managers (LEH recorded a loss of \$60m during 3Q related to investments in alternative managers vs. a gain of \$70m during 2Q). By business, LEH's asset management revenues declined 27% sequentially (down 23% YOY), while private investment management revenues declined 22% (down 18% YOY). Assets under management were down 1% sequentially as net inflows of \$11bn were more than offset by \$15m in market depreciation. Looking ahead, LEH announced that it intends to sell a 55% stake of a subset of its investment management business and will transfer its middle market institutional business and minority stakes in hedge funds to its capital markets segment. Thus, we are adjusting our model to reflect the reduced ownership interest and realignment of businesses.
- **Expenses were basically in-line.** Based on a revenue run rate of \$3.5bn and compensation costs of \$1.95bn, LEH's 3Q08 compensation ratio was approximately 55.7%, ahead of the 52.3% ratio for 1H08 and our forecast of 52%. We suspect that 3Q comp costs include severance charges related to the elimination of 1,500 positions during the quarter (although management did not provide the exact amount). On the non-comp side, expenses were down 11% sequentially, driven by reduced brokerage fees (lower trading volumes) and lower marketing costs. Of note, using run rate estimates, 3Q pre-tax earnings were positive, with 3Q run rate revenues of \$3.5bn above total expenses of \$2.9bn. Looking ahead, we expect a continued focus on expenses (along with further headcount reductions) to keep a lid on expense growth in future quarters. In fact, management noted that they have identified \$250m in annualized non-comp savings, which will be recognized during 4Q and into 2009.
- **LEH's long term capital position remains solid.** LEH ended 3Q08 with a Tier 1 ratio of 11% and a total capital ratio of close to 17% (vs. a regulatory minimum of 10%). This does not include a tangible capital benefit of an estimated \$4bn (\$3bn reduction in goodwill and an estimated \$1bn after-tax gain) related to the sale of a 55% stake in its investment management business. The sale of investment management, as well as the reduction of risk weighted assets associated with the spin off, should keep LEH's Tier 1 ratio flat with the 11% this quarter based on our calculation.

Exhibit 1: Lehman Brothers – Earnings Results and Forecasts FYE-November

(\$ in millions, except share and per share)	YE07	% Chg	1Q08	% Chg	2Q08	% Chg	3Q08	% Chg	4Q08E	% Chg	YE08E	% Chg	YE09E	% Chg
Revenues														
Investment Banking	\$ 3,902	23.5%	\$ 867	2.0%	\$ 858	25.4%	\$ 611	-43.0%	\$ 685	-17.6%	\$ 3,021	-22.5%	\$ 3,300	9.2%
Trading and principal investments	9,198	-6.5%	773	-75.5%	(3,442)	-219.1%	(5,273)	-427.1%	215	-87.9%	(7,727)	-184.0%	6,200	189.2%
Commissions	2,470	17.1%	658	21.0%	639	12.5%	569	-15.6%	700	1.7%	2,566	3.9%	1,700	-33.7%
Asset management/Other	1,740	22.0%	437	10.6%	414	-0.0%	432	-8.5%	405	-11.8%	1,688	-3.0%	500	-70.4%
Net interest income	1,947	68.1%	772	126.4%	863	75.8%	753	58.2%	500	-6.7%	2,993	53.7%	2,700	-9.3%
Net revenues	19,257	9.5%	3,507	-30.5%	(668)	-112.1%	(2,903)	-167.4%	2,505	-40.7%	2,541	-85.3%	14,400	466.7%
Cash expenses														
Compensation and benefits	9,494	8.5%	1,841	-26.0%	2,325	-14.6%	1,950	-8.2%	1,900	-12.2%	8,016	-15.6%	6,822	-14.9%
Brokerage, clearing and exchange fees	859	-36.3%	253	36.4%	252	25.4%	232	-3.6%	240	0.0%	977	13.7%	820	-13.1%
Marketing and business development	378	25.6%	89	6.0%	87	-13.0%	68	-25.3%	80	-22.3%	324	-14.3%	272	-16.0%
Communications and technology	1,145	-17.7%	302	13.5%	309	7.7%	309	9.6%	324	4.2%	1,244	8.6%	1,060	-14.0%
Occupancy and equipment	641	18.9%	185	26.7%	188	23.7%	202	18.8%	190	9.8%	765	19.3%	620	-19.0%
Professional services	465	28.4%	98	0.0%	100	-16.7%	104	-18.8%	110	-8.3%	412	-11.8%	348	-15.5%
Other	280	-28.7%	76	6.6%	158	187.3%	56	-33.3%	60	22.4%	350	34.3%	208	-40.0%
Total non-compensation expenses	3,750	-24.6%	1,003	16.6%	1,094	19.6%	971	-0.8%	1,004	0.8%	4,072	8.6%	3,328	-18.3%
Total cash expenses	13,244	13.4%	2,844	-15.1%	3,419	-5.9%	2,921	-5.9%	2,904	-8.1%	12,088	-8.7%	10,150	-16.0%
Net income before income taxes	6,013	1.8%	663	-61.0%	(4,087)	317.5%	(5,824)	683.3%	(299)	-124.3%	(9,547)	-258.8%	4,250	144.5%
Effective income tax rate	30%		26%		32%		33%		35%		33%		29%	
Provision (benefit) for taxes	1,821	-5.4%	174	-58.5%	(1,313)	-316.7%	(1,897)	-636.6%	(105)	-130.4%	(3,141)	-272.5%	1,232	-139.2%
Net income	\$ 4,192	4.3%	\$ 489	-67.3%	\$(2,774)	-317.9%	\$(3,927)	-642.7%	\$(194)	-121.9%	\$(6,406)	-252.0%	\$ 3,017	-147.1%
Preferred stock dividend requirements	67	1.5%	24		99		165		165		453		380	
Net income available to common	\$ 4,125	4.7%	\$ 465	-58.8%	\$(2,873)	-328.7%	\$(4,092)	-570.3%	\$(359)	-141.3%	\$(6,859)	-266.3%	\$ 2,637	-138.4%
Per-Share Amounts														
Net income, diluted	\$ 7.25	6.5%	\$ 0.81	-58.8%	\$(5.14)	-332.3%	\$(5.92)	-485.0%	\$(0.52)	-133.5%	\$(10.75)	-248.2%	\$ 3.10	-128.8%
Operating earnings, diluted	\$ 7.25	6.5%	\$ 0.81	-58.5%	\$(5.14)	-332.3%	\$(5.92)	-485.0%	\$(0.52)	-133.5%	\$(10.75)	-248.2%	\$ 3.10	-128.5%
Common dividend	\$ 0.60	25.0%	\$ 0.17	13.3%	\$ 0.17	13.3%	\$ 0.17	13.3%	\$ 0.01	-81.7%	\$ 0.52	-12.9%	\$ 0.05	-90.4%
Book value	39.44	16.5%	39.45	12.4%	34.21	-7.9%	27.29	-28.7%	26.76	-32.2%	26.76	-32.2%	31.57	18.0%
Tangible book value	31.68	15.0%	32.00	12.2%	26.79	-11.5%	21.36	-30.0%	20.84	-34.2%	20.84	-34.2%	30.05	44.2%
Avg. shares outstanding (diluted)	568	-1.7%	573	-0.5%	559	-1.5%	691	22.2%	694	23.1%	629	-10.7%	852	35.3%
Avg. shares outstanding (basic)	543	0.0%	552	2.0%	559	5.9%	691	27.9%	694	27.9%	624	-15.0%	692	10.8%
Period end shares outstanding	532	-0.3%	551	3.1%	553	4.2%	589	30.1%	689	29.5%	689	29.5%	684	-0.7%
Return Statistics (Operating)														
Return on assets	0.60%		0.24%		-1.80%		-2.71%		-0.24%		-1.16%		0.44%	
Return on common equity	20.8%		8.6%		-43.9%		-83.8%		-7.4%		-31.7%		12.6%	
Return on tangible common equity	25.7%		10.7%		-70.0%		-106.3%		-9.4%		-42.6%		14.6%	
Productivity Statistics														
Total expenses/net revenue	68.8%		81.1%		611.8%		200.6%		111.5%		475.7%		70.5%	
Compensation and benefits/net revenue	49.3%		52.5%		448.1%		167.2%		49.3%		315.5%		49.3%	
Non-comp expense/net revenue	19.5%		28.6%		263.8%		133.4%		38.5%		160.3%		23.1%	
Pre-tax operating margin	31.2%		18.9%		-511.8%		-100.6%		-11.5%		-375.7%		29.5%	
Employees	28,556	10.1%	28,088	3.7%	26,189	-7.6%	25,935	-9.9%	28,250	-1.1%	28,250	-1.1%	28,750	1.8%
Net revenues per employee (in millions)	\$ 0.67	-0.8%	\$ 0.12	-33.0%	\$(0.03)	-113.1%	\$(0.11)	-174.8%	\$ 0.09	-40.0%	\$ 0.09	-85.7%	\$ 0.50	456.8%
Cash expenses per employee (in million)	\$ 0.46	3.0%	\$ 0.10	-18.1%	\$ 0.13	1.8%	\$ 0.11	4.5%	\$ 0.10	7.1%	\$ 0.43	-7.7%	\$ 0.35	-17.6%
Business line % contribution to revenue														
Equity underwriting	5.3%		6.1%		149.4%		105.5%		7.1%		35.0%		6.9%	
Debt underwriting	8.1%		9.2%		143.1%		107.6%		9.2%		42.1%		8.0%	
Financial advisory	6.9%		9.4%		135.9%		108.0%		10.0%		41.8%		8.0%	
Total investment banking	20.3%		24.7%		428.4%		321.0%		26.3%		118.9%		22.9%	
Equity trading	33.3%		40.2%		190.0%		115.6%		30.7%		128.5%		27.8%	
Fixed income trading	30.4%		7.5%		-345.4%		-58.5%		11.5%		-276.1%		45.8%	
Total trading	63.7%		47.7%		-155.4%		57.1%		42.2%		-147.6%		73.6%	
Private client	6.3%		10.0%		152.7%		109.4%		12.1%		50.8%		0.0%	
Asset management	9.7%		17.6%		174.3%		112.4%		18.2%		76.7%		0.0%	
Total wealth management	16.1%		27.6%		326.9%		221.8%		30.3%		127.5%		0.0%	

Source: Company reports and Buckingham Research estimates

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IMPORTANT DISCLOSURES

ANALYST CERTIFICATION

The above-named analyst hereby certifies that the views expressed in this research report accurately reflect his/her personal views about the subject company and its securities. The analyst also certifies that he/she has not been, does not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation in this report.

Company	Disclosure
Lehman Brothers	

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STRONG BUY – We expect the stock to appreciate 25% or more within the next 6-12 months. There is good visibility and nearer-term earnings or events catalysts are expected.

ACCUMULATE – We expect 15% or more appreciation over the next 6-12 months and the stock is attractively valued; however, near-term catalysts are lacking.

NEUTRAL – The stock's current price reflects our intermediate-term price objectives, and positions may be reduced.

UNDERPERFORM – There appears to be more risk than reward in this stock at current levels. We expect the stock to underperform over the next 6-12 months.

NOT RATED – We are not carrying a rating on this stock for the time being. Rating & estimates under review.

STATEMENT OF RISK: Risks associated with attaining the target set for this stock include, but are not limited to, traditional economic and competitive pressures, effective execution of corporate strategies and stock market volatility. Additionally, the company may be subject to government regulation as well as corporate litigation, patent litigation and expirations.

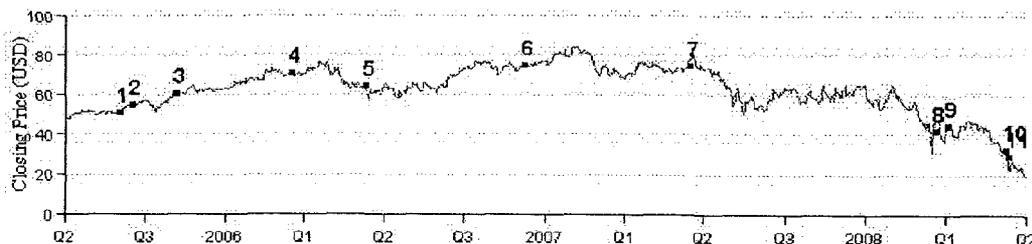
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PRICE CHARTS

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1) 08/30/05 Strong Buy \$130	2) 09/14/05 Strong Buy \$135	3) 11/04/05 Strong Buy \$143	4) 03/15/06 Strong Buy \$180	5) 06/08/06 Strong Buy \$90	6) 12/06/06 Strong Buy \$101	7) 06/12/07 Strong Buy \$108	
8) 03/19/08 Strong Buy \$90	9) 04/01/08 Strong Buy \$83	10) 06/06/08 Strong Buy \$68	11) 06/09/08 Strong Buy \$60				



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