From: Lauckhardt, Shelby [shelby.lauckhardt@lehman.com]. Sent:9/10/2008 4:01 AM.
To: Fuld, Dick [lbexec1@lehman.com].
Cc: Judd, Angela E [angela.judd@lehman.com].
Bcc: .
Subject: Fw: Heads up - press coverage overnight (10 Sept 08).

----- Original Message -----
From: Russell, Matthew
To: Bhattal, Jasjit; Donini, Gerald; Gelband, Michael; Goldfarb, David; Judd, Angela E; Kirk, Alex; Lauckhardt, Shelby; Lessing, Stephen M; Lowitt, Ian T; McDade, Bart; McGee III, Hugh E; Russo, Thomas A; Walker, George H; Banchetti, Riccardo; Meissner, Christian; Felder, Eric; Lee, Hyung S; Gorman, Les
Cc: Corporate Communications - Global; Kendall, Susan; Butler, Shaun K; Freidheim, Scott J; Quismorio, James
Sent: Wed Sep 10 02:34:48 2008
Subject: Heads up - press coverage overnight (10 Sept 08)

Articles included below.

Headlines

1. WSJ Lehman Faces Mounting Pressure -- stock Drops 45% as Capital-Raising Talks Falter; Firm Discusses Sale of Assets
By SUSANNE CRAIG, RANDALL SMITH, SERENA NG and MATTHEW KARNITSCHNIG, WSJ.com, September 10, 2008

2. Fed Loans May Give Lehman Breathing Room Bear Stearns Lacked
By Scott Lanman and Steve Matthews, Bloomberg, 2008-09-10

3. Lehman's Fuld Faces Pressure to Deliver a Deal After Stock Drop
By Yalman Onaran, Bloomberg, 2008-09-10 04:01:01.70 GMT

4. Wall St.'s Fears on Lehman Bros. Batter Markets
By JENNY ANDERSON and BEN WHITE, New York Times, 9/10/08

5. Lehman talks ended - S.Korea govt official
Reuters. Kim Yeon-hee

6. Fitch Places Lehman Brothers on Rating Watch Negative
Businesswire

7. Equities suffer as Lehman falls 45%
By Francesco Guerrera in London and Michael Mackenzie and,Greg Farrell in New York (online version)

8. Lehman shares fall 40% on fears about its ability to raise capital
Francesco Guerrera in London and Michael Mackenzie and,Greg Farrell in New York (hard copy

Asia edition)

Articles

1. Lehman Faces Mounting Pressure -- stock Drops 45% as Capital-Raising Talks Falter; Firm Discusses Sale of Assets
By SUSANNE CRAIG, RANDALL SMITH, SERENA NG and MATTHEW KARNITSCHNIG, WSJ.com, September 10, 2008

Lehman Brothers Holdings Inc. came under mounting pressure Tuesday after hopes faded for an investment deal with a Korean bank, helping to trigger a 45% fall in the firm's shares.

Lehman's troubles mark the latest installment in the worst financial-system crunch in decades, coming just two days after the U.S. government announced its plan to take over the two giants of the mortgage business. U.S. stocks fell Tuesday, giving back gains that had greeted the weekend bailout of Fannie Mae and Freddie Mac.

The drop in Lehman shares highlights the continuing nervousness in markets as the company attempts to raise fresh capital to offset sharp declines in the value of its assets. Shares of Lehman, which is heavily exposed to troubled real-estate investments, have been under pressure for months and were down about 80% this year before Tuesday's drop. Investors have been frustrated as Lehman has taken months to pull together a plan to raise capital to absorb expected losses.

On Tuesday, credit-rating services Standard & Poor's and Fitch Ratings placed their ratings on Lehman on review for downgrades. S&P cited uncertainty about the firm's ability to raise capital, "based on the precipitous decline in its share price in previous days." If downgraded, Lehman may be required to post billions of dollars in collateral to its trading partners on derivative contracts and other agreements.

In an attempt to assuage investors, Lehman said late Tuesday that before markets open Wednesday, it will offer a preview of its third-quarter earnings and announce "key strategic initiatives."

The people familiar with the firm said Lehman plans to announce it is in talks with money manager BlackRock Inc. to sell a package of primarily British residential real-estate assets. Also, Lehman is expected to announce a separate plan to spin off some commercial real-estate assets into a new company, referred to internally at Lehman as SpinCo. The remaining portion of the firm, shorn of much of its distressed real-estate assets, is being called CleanCo, these people say.

Lehman has been shopping for investors to buy a piece of its investment-management unit, which includes the profitable asset-manager Neuberger Berman. Three private-equity firms are in the running for this division, with bids due late Friday night. People familiar with the company say this piece could bring in about $5 billion.

The 158-year-old financial firm was trading normally with counterparties on Tuesday. Rival Wall Street firm Goldman Sachs Group Inc. said it was doing business with the firm.

Lehman, one of four big independent firms remaining after the near collapse of Bear Stearns

Cos. in March, declined to comment.

The firm's situation differs markedly from that of Bear Stearns, which was taken over earlier this year after it ran into a liquidity crisis. Unlike Bear Stearns, Lehman has access to new Federal Reserve facilities that can provide short-term funding when the markets won't, in addition to the ability to exchange illiquid assets for safer securities such as Treasurys.

That makes a sudden run on an investment bank less likely than it was a few months ago. The facilities for dealers weren't in place when Bear Stearns faced its crisis. The Fed does not disclose which institutions are using these facilities.

Deal Falters

Lehman's declines came after the Korea Development Bank, which has been in talks with Lehman about a capital infusion, said Tuesday it had closed the door on a possible deal. Discussions between Lehman and KDB ended in early August, according to a person familiar with the talks. But persistent rumors that a deal was still possible continued to bolster the firm's stock.

The share decline helped drag down the rest of the market, which had rallied strongly on Monday after the bailout of Fannie and Freddie. Financial stocks tumbled more than 6%, including a 10% decline for Lehman rival Merrill Lynch & Co. and a 14% drop for Wachovia Corp., which is also struggling under the weight of bad mortgage loans.

By 4 p.m. Tuesday, the Dow Jones Industrial Average had shed 280 points, nearly wiping out the 289-point gain from Monday's session. Lehman shares last swapped hands at $7.79 each, their lowest level in 10 years.

The severe stock drop showed how skittish investors remain about Lehman, a bond-focused firm that moved aggressively into the commercial real-estate market and leveraged loans over the past few years, and often produced record profits between 2004 and 2007.

As the value of those investments has unraveled, Lehman has scrambled to raise capital to absorb the ensuing losses. Lehman's market capitalization stood Tuesday at $6 billion, down from $37.2 billion at the start of 2008. It has lost $4 billion in market capitalization in the past two days alone.

"It is a chicken-and-egg issue," said Tanya Azarchs, an analyst at S&P. When Lehman looks as if it's having trouble raising capital, shares fall. When shares fall, raising capital by selling shares gets harder. "Regardless of whether the rumor is true or not, in a way it becomes self-fulfilling."

Markets expect that continued losses on residential and commercial mortgage securities will force Lehman to seek still more capital than the $12 billion it has raised already this year. The firm's capital, or its shareholders equity -- about $32 billion -- is the cushion that protects creditors from any losses on its roughly $640 billion in assets.

Analysts are predicting the firm will lose as much as $4.6 billion and faces several billion dollars in write-downs on its real-estate portfolio.

Bonds issued by Lehman also lost value Tuesday, pushing some of their interest yields to more than eight percentage points above those of comparable Treasury securities. Debt investors "are understandably worried that the Federal Reserve and the Treasury Department don't have an unlimited appetite for bailout transactions," Kathleen Shanley, an analyst at Gimme Credit, said in a note on Tuesday afternoon.

In the market for credit-default swaps, where traders buy and sell private contracts that act like insurance against debt defaults, the annual cost of protecting $10 million of Lehman debt from default over five years jumped to $520,000 on Tuesday afternoon, versus $325,000 on Monday, according to data from Phoenix Partners Group. The higher cost indicates investors see a growing risk that the firm could default on its obligations.

In March, the cost of protection on Lehman's debt briefly hit a high of $580,000. Contracts on Bear Stearns's debt had peaked at around $820,000 before the investment bank was taken over by J.P. Morgan Chase & Co.

Lehman's preferred shares also tumbled to new lows, a development that could hamper the company's ability to raise additional capital by issuing more of these hybrid stock-debt securities. One issue -- Lehman Series J preferred shares -- fell more than 24% on Tuesday to $9.15, down from their issuance price of around $25. Lehman pays a fixed annual dividend of 7.95% on these shares, and their current prices reflect a yield of 16.6%, according to PreferredsOnline, a database for U.S. preferred securities. That means that to attract outside investors to new preferred shares, Lehman would have to pay prohibitively expensive annual rates of 16% or more.

Rating on Review

S&P, in placing its single-A rating on Lehman on review for a downgrade, said it might end up affirming the ratings but could also downgrade them by more than one notch. Lehman's short-term credit ratings could also be cut, which could affect its ability to tap money-market funds for cash in the short-term debt and overnight repurchase agreement markets.

Adding to the turmoil: The firm, which has 24,000 employees, cut 1,000 to 1,500 jobs Tuesday, its fourth round of layoffs this year. As employees cleared out their desks, colleagues stayed glued to television screens, watching Lehman's share decline. Outside the company's headquarters in midtown Manhattan, one employee, who declined to be named, said: "The market is biased against us."

Over the weekend, Lehman executives grew heartened by the government's rescue of Fannie and Freddie. They expected the plan to soothe the markets, particularly the battered financial sector.

Investors appeared agitated about Lehman, however, which for months has been loath to provide details about how it would find new capital. By failing to announce a solution before now, Lehman has backed itself into a corner.

In theory, the steep drop in its market value should make Lehman a more attractive takeover target. A more likely scenario may be for Lehman to continue to muddle through, using access to the Fed's discount window to fulfill its counterparty obligations.

"Clearly the company does not believe that it has a serious balance-sheet problem and it simply refuses to take what it believes are fire-sale prices for its key assets," Richard Bove of Ladenburg

Thalmann & Co. said before Tuesday's stock drop. "Buyers seem to believe that Lehman is overvaluing its assets and refuse to hit the bid."

--David Reilly, Gregory Zuckerman, Jenny Strasburg, Aaron Lucchetti and Annelena Lobb contributed to this article

2. Fed Loans May Give Lehman Breathing Room Bear Stearns Lacked
By Scott Lanman and Steve Matthews, Bloomberg, 2008-09-10

Sept. 10 (Bloomberg) -- Access to Federal Reserve loans means Lehman Brothers Holdings Inc., which lost half its value the past two days, may have breathing room that Bear Stearns Cos. lacked before its abrupt collapse.
The program instituted in the aftermath of the Bear Stearns debacle, the Primary Dealer Credit Facility, could be used for funding while officials, regulators and executives find alternative sources of cash, Fed watchers said.
``The PDCF could be used to keep Lehman operating until a broader solution was found,'' said Brian Sack, a former Fed research manager who's now senior economist at Macroeconomic Advisers LLC in Washington. ``The challenge is figuring out what the broader solution is.''
Lehman, plunging on concern it lacks sufficient capital, can borrow overnight from the central bank, with escalating costs if it keeps using the program. Because it's a stopgap, speculation may mount that the government will again intervene to prevent a large financial company from failing, after the Bear Stearns rescue and takeovers of Fannie Mae and Freddie Mac.
``Given what was done with Freddie and Fannie and Bear Stearns, it's hard to distinguish why Lehman is not too big to fail as well,'' said Robert Eisenbeis, chief monetary economist at Cumberland Advisors, and a former research director at the Atlanta Fed. ``My guess is that everyone will blink again and Lehman too will be saved. We are in for a rough ride.''

Talking to Officials

The Fed is getting updates on Lehman's capital and leverage positions from its examiners, who have been reviewing the company's finances and those of other major investment banks since the formation of the PDCF in March. Treasury officials are ``in regular contact with market participants,'' spokeswoman Jennifer Zuccarelli said.
Lehman will announce ``strategic initiatives'' and third- quarter results at 7:30 a.m. in New York, the company said late yesterday. Fed spokeswoman Michelle Smith in Washington declined to comment.
New York-based Lehman, the fourth-biggest U.S. securities firm, tumbled 45 percent yesterday in New York trading after talks about a capital infusion from Korea Development Bank ended. The shares have lost 88 percent this year.
The cost of buying protection against default on Lehman debt surged 1.5 percentage points to 4.75 percentage points, credit-default swaps showed, according to broker Phoenix Partners Group.

No Repeat

Chairman Ben S. Bernanke said he wanted to avoid an episode similar to the Bear Stearns rescue in March, when the central bank agreed to lend $29 billion to secure the investment bank's takeover by JPMorgan Chase & Co. That was part of an agreement crafted in part by New York Fed President Timothy Geithner, after consultations with Treasury Secretary Henry Paulson.

``The financing we did for Bear Stearns is a one-time event,'' Bernanke said in April. ``It's never happened before and I hope it never happens again.''
The PDCF offers the 19 primary dealers that trade Treasuries with the New York Fed access to direct loans at the same rate as commercial banks, now 2.25 percent. Dealers can submit collateral including Treasuries and asset-backed debt, corporate bonds and municipal bonds with investment grades.
For seven of the past nine weeks there has been no borrowing from the PDCF, with average weekly balances of $3 million and $9 million for the other two. The Fed releases its weekly borrowing statistics each Thursday at 4:30 p.m. New York time.
In July, the Fed extended the PDCF through Jan. 30 because of ``continued fragile circumstances in financial markets.'' It was originally set to end as soon as this month.

`Help a Lot'

The PDCF ``should help a lot'' for Lehman, former Fed Governor Lyle Gramley said. If Bear Stearns had had access to the funding, it's ``conceivable'' the firm might not have been pushed into its acquisition by JPMorgan, said Gramley, now senior economic adviser at Stanford Group Co. in Washington.
Both Bear Stearns and Lehman suffered from the collapse of the mortgage-backed securities market in the wake of a record surge of delinquencies on U.S. home loans. The crisis then spread to other markets, including for some types of student- loan and municipal debt.
Lehman is trying to raise capital and dump devalued real- estate assets after $8.2 billion in writedowns and credit losses in the past year.
For the Fed, the Bear Stearns and PDCF lending marked the first extension of credit to nonbanks since the Great Depression, using emergency authority in ``unusual and exigent circumstances.''

Fed Discontent

Any Fed rescue of Lehman may deepen criticism among some current and former central bankers about the danger of moral hazard -- where firms take on more risk in anticipation of government aid if their bets go wrong. Richmond Fed President Jeffrey Lacker and his Philadelphia counterpart Charles Plosser both raised those concerns in June.
``The Fed has shown a willingness to lend liberally,'' said Gerald O'Driscoll, a former vice president of the Dallas Fed and now a scholar at the Cato Institute in Washington. The Bear Stearns lending ``left markets unsure what the Fed would do in the future. Each time you do it, you reinforce the view that it will be done again,'' he said.

3. Lehman's Fuld Faces Pressure to Deliver a Deal After Stock Drop
By Yalman Onaran, Bloomberg, 2008-09-10 04:01:01.70 GMT

Sept. 10 (Bloomberg) -- Lehman Brothers Holdings Inc.'s Richard Fuld, the longest-serving chief executive on Wall Street, is under increasing pressure to seal an agreement for a capital infusion and unload hard-to-sell mortgage investments after the company's stock suffered a record decline yesterday.
Lehman, the fourth-largest U.S. securities firm, issued a statement late yesterday, saying it will report third-quarter financial results today at about 7:30 a.m. in New York, a week earlier than planned. The investment bank also promised to disclose ``key strategic initiatives.''
``Time is of essence to Lehman,'' said Sean Egan, president of Egan-Jones Ratings Co. in Haverford, Pennsylvania ``It's all about momentum, which has been against them, and Fuld needs to reverse it before it snowballs into an avalanche that buries his firm.''
Lehman, which has lost 88 percent of its stock-market value this year, fell 45 percent in New

York trading yesterday after talks with Korea Development Bank about a capital infusion ended. The Korean bank is one of several companies that Lehman has been in discussions with in recent weeks, a person familiar with the negotiations said, declining to name the other potential bidders.
The New York-based bank was also continuing talks with private-equity firms including Kohlberg Kravis Roberts & Co. and Carlyle Group about selling its asset-management business, which includes fund manager Neuberger Berman, the person said before Lehman released its statement yesterday.
Nomura Holdings Inc., Japan's biggest investment bank, may bid for a stake in Lehman, the Yomiuri newspaper cited Nomura President Kenichi Watanabe as saying last week. Michiyori Fujiwara, a Tokyo-based Nomura spokesman, declined to comment.

Devalued Assets

Lehman has been trying to raise capital and shed devalued real-estate assets that contributed to the firm's $2.8 billion loss last quarter and saddled the company with $8.2 billion in writedowns and credit losses in the past year. Analysts including Merrill Lynch & Co.'s Guy Moszkowski predict Lehman will report more writedowns and losses today.
Once the biggest U.S. underwriter of mortgage-backed securities, Lehman was stuck with the assets after two Bear Stearns Cos. hedge funds that invested in the instruments collapsed in July 2007, causing the market to freeze.
The ensuing credit contraction ultimately led to the takeover of Bear Stearns, once the fifth-biggest U.S. securities firm, by JPMorgan Chase & Co. in March for $10 a share in a deal backed by the U.S. Federal Reserve. Banks and brokerages worldwide have been forced to book more than $500 billion of writedowns and credit losses since the crisis began, and have cut more than 110,000 jobs.

`Lifelines'

Lehman, which employs about 26,000, is planning to cut about 1,000 jobs this month, people familiar with the matter said on Aug. 28. The firm has already shrunk its payroll by about 6,400, or 22 percent, in the past 12 months.
``Lehman still has `lifelines' to reach for in order to avert the very scenario that brought Bear Stearns down,'' said Isabel Schauerte, an analyst at research firm Celent. ``First and foremost among these is the sale of its asset management unit.''
U.S. regulators are likely pressing Fuld, 62, to make a deal to prevent the collapse of his firm, Egan said. Federal Reserve spokeswoman Michele Smith declined to comment. The Treasury is ``in regular contact with market participants,''
spokeswoman Jennifer Zuccarelli said. The Securities and Exchange Commission is also monitoring, an SEC spokesman said.
``The U.S. government cannot let Lehman fail because the systemic ripples would be too big,'' said James Hyde, a banking analyst at London-based European Credit Management Ltd., which oversees $27 billion for clients and doesn't own Lehman debt.

`Willing Counterparty'

Goldman Sachs Group Inc., Morgan Stanley and Merrill Lynch, the three biggest U.S. securities firms, said yesterday after the close of regular trading in New York that they weren't backing away from their smaller rival.
``Goldman Sachs is a willing counterparty to Lehman Brothers across all our businesses,'' said Michael DuVally, a spokesman for Goldman. Spokespeople for Morgan Stanley and Merrill said

their firms continue to trade with Lehman.
Citigroup Inc., the biggest U.S. bank by assets, UBS AG and Credit Suisse Group AG, the two largest Swiss banks, and BlackRock Inc., the biggest publicly traded U.S. fund manager, said they too continue to do business as usual with the firm.
Lehman has about $65 billion in mortgage-related assets that are losing value with the collapse of the real-estate market. Most of the portfolio, about $40 billion, is tied to commercial real estate holdings, which Lehman may spin off into a new company dubbed ``Spinco,'' people familiar with the matter said before the firm's statement yesterday.

S&P Outlook

Fuld, who was paid about $40 million last year when the firm posted record earnings, has resisted selling assets at fire-sale prices because he's focused on the size and global reach of his firm, said Richard Bove, an analyst at Ladenburg Thalmann & Co.
Lehman is the worst performer on the 11-company Amex Securities Broker/Dealer Index this year, and yesterday's share decline may force Fuld's hand, Bove said.
``Pressure needed to be brought in, and the stock price did that,'' Bove said. ``If he doesn't move immediately, the decision is going to move beyond him to the government.''
Standard & Poor's said yesterday it may lower its A1 long- term rating on Lehman because the ``precipitous decline'' in the share price creates uncertainty about the firm's ability to raise additional capital. S&P said Lehman's liquidity is ``sound,'' noting the firm has the ability to borrow from the Fed through a lending facility the central bank put in place for brokerages after the demise of Bear Stearns.

Disasters Averted

Lehman's second-quarter loss of $2.8 billion was its first as a publicly traded company, prompting Fuld and President Bart McDade to say they will forgo bonuses for the year. Analysts surveyed by Bloomberg expect the firm to report a $2.2 billion third-quarter loss.
Founded in 1850 by three Jewish immigrants from Germany, Lehman has managed to avert previous potential disasters and is now among the handful of U.S. financial firms that have endured for more than a century.
Lehman has been on the verge of collapse at least four times: in 1929, when the stock market crashed; in 1973, when the firm lost $6.7 million betting on interest rates; in 1984, when internal dissension led to a takeover by American Express Co.; and in 1994, when newly independent Lehman faced a capital shortage.
Fuld started working at Lehman in 1969 after getting his bachelor's degree from University of Colorado. He rose through the ranks to become head of trading by the time the firm was sold to American Express, and, after a decade, he convinced the credit-card firm to spin Lehman off as a separate public company. He has been CEO since, and he remains one of the firm's largest individual investors, with about 3.4 million shares, according to regulatory filings.

4. Wall St.'s Fears on Lehman Bros. Batter Markets
By JENNY ANDERSON and BEN WHITE, New York Times, 9/10/08

Only days after the Bush administration assumed control of the nation's two largest mortgage finance companies, Wall Street was gripped by fears that another big financial institution, the investment bank Lehman Brothers, might founder — and that this time, the government might not come to the rescue.

Waves of selling wiped out nearly half of Lehman's value in the stock market on Tuesday, leaving the firm, one of the nation's oldest and largest investment banks, in an all-out fight for survival.

The plunge fanned worries about the troubles plaguing the broader financial industry and sent the Standard & Poor's 500-stock index tumbling 3.4 percent. The decline more than wiped out the market's rally on Monday, when stocks surged after the weekend rescue of Fannie Mae and Freddie Mac, the government-chartered mortgage giants.

Lehman's future as an independent firm now seems more uncertain than ever, and many analysts fear that the bank is running out of time and options.

Confronting gaping losses stemming from the credit crisis, the once-proud firm is racing to secure a financial lifeline, possibly including the sale of its prized money management division or an investment from an outside investor.

Lehman, which has about 24,700 employees around the world, is expected to announce a big quarterly loss on Wednesday morning, and the bank is expected to discuss its plans at that time.

Lehman has survived for 157 years, through wars, the Depression and the vagaries of the markets, but got into trouble by buying and financing commercial and residential real estate, including subprime mortgages.

On Wall Street, there is a growing sense that Lehman may have to solve its problems on its own, without drastic help from the government, which in March brokered the rescue of another Wall Street bank, Bear Stearns.

"Some may worry that Treasury has taken on so much taxpayer burden they don't have any remaining capacity more to take on the burdens of Lehman," said David Trone, an analyst at Fox-Pitt Kelton.

Authorities helped arrange and finance the sale of Bear because they feared that the collapse of that firm might cascade through the financial system.

But unlike Bear Stearns, which seemed to crater overnight, Lehman's fortunes have been dimming for months. Since February 2007, its stock price has plunged 91 percent, wiping out $40 billion in shareholder value.

On Monday, as other financial shares surged after the government takeover of Fannie Mae and Freddie Mac, Lehman's shares sank. Adding to that sell-off was concern that an investment in Lehman by a government-owned bank in Korea would fall through after Korean regulators threw cold water on the idea.

Standard & Poor's, the ratings agency, warned on Tuesday that it might cut one of Lehman's primary credit ratings, citing concern about the firm's ability to raise capital.

Even as Lehman's stock price plunged anew on Tuesday, however, some questioned whether the government could let a global financial institution like Lehman fail.

Vincent R. Reinhart, a top former Fed official who has repeatedly criticized the shotgun takeover of Bear Stearns by JPMorgan Chase, said it would be very difficult for the Federal Reserve to let Lehman collapse.

“The plain fact about financial crises is that policy makers are unwilling to test the resilience of markets,” said Mr. Reinhart, now a senior fellow at the American Enterprise Institute.

Financial institutions have been closely measuring their exposure to Lehman. On Tuesday, commercial and investment banks said they continued to do business with Lehman, and hedge funds did not appear to be pulling their accounts with the firm, events that helped precipitate the fall of Bear Stearns.

Since March, Lehman has been in a fight for its life, as some investors, including prominent short-sellers betting against the bank’s stock, questioned how the firm was valuing some of its assets. Lehman lost $2.8 billion in the second quarter and was forced to raise $6 billion in new capital. But investors were not placated, and the firm was compelled to explore more extreme measures.

For months, it has tried to raise capital, sell its asset management division and examined spinning off of its commercial mortgage assets into a new company.

Richard S. Fuld Jr., Lehman’s hard-charging chief executive, has replaced virtually every major division head, including the firm’s president and chief financial officer.

During that time he has replaced the global head of fixed income — the division from which most of Lehman’s problems have arisen — twice.

But with every measure taken, Lehman’s stock price has fallen further.

“Clearly the company does not believe that it has a serious balance sheet problem, and it simply refuses to take what it believes are fire sale prices for its key assets,” said Richard X. Bove, an analyst at Ladenburg Thalmann.

While the bank has talked to many prospective investors, its most serious discussions appeared to be with Korea Development Bank, a state-run institution that is moving toward privatization. But on Monday, K.D.B.’s top regulator cast further doubt on prospects of an investment in Lehman.

“It should take a cautious approach toward taking over Lehman, at a time when its privatization is not accomplished, and given the current conditions in domestic and foreign financial markets,” said Jun Kwang Woo, chairman of the Financial Services Commission.

“The focus now should be on stabilizing the Korean markets,” Jun told lawmakers.

He said it would be “inappropriate for a state-owned company to pursue such an acquisition at this time.”

To some observers, Mr. Fuld has waited too long to take the major steps needed to shore up Lehman. A market veteran with almost four decades of experience, he seemed more optimistic than many of his peers that the market had gone too far and would come back, a strong case against selling. Bids for the company’s investment management division are due on Friday.

“It is certainly the case that had Lehman seen this problem evolving as it has, then they could have and should have done something many, many months ago,” said Joseph A. Grundfest, professor of law and businesses at Stanford.

Waiting has proved to be a dangerous gamble. Sovereign wealth funds, once eager to invest in troubled financial companies, have been burned by losses. American investors who bought shares of Lehman in June when it raised $6 billion have also lost billions.

“He is dealing as if he has a whole deck of cards, when he has none,” said one banker who has had recent dealings with Lehman, representing a potential foreign buyer.

Unlike Bear Stearns, which effectively collapsed when customers fled for the exits and the firm could not finance itself, Lehman Brothers has more sources of long-term financing and like other broker-dealers, access to emergency financing from the Federal Reserve. Mr. Fuld said that the existence of that lending facility should take any question of Lehman facing a liquidity crisis “off the table.”

But with the stock price in free fall and the cost of buying protection against Lehman defaulting on its bonds skyrocketing, far surpassing the levels reached when Bear went under, it is clear Lehman is not immune to the kind of panic that can put a financial institution, which depends on confidence, at risk.

“No bank or broker can withstand a strong panic by customers, clients or counterparties,” said Mr. Trone. “Even the best liquidity profile gets you only so far,” though he said that the existence of the emergency lending facility means that Lehman will have more flexibility and time than Bear did.

Turmoil at the firm has led some to question whether Mr. Fuld should remain at the helm.

“He’s been getting a lot of extra credit and good will based on his reputation and disposition as an honorable leader and as a smart, likable guy, but that’s not enough right now,” said Jeffrey A. Sonnenfeld, associate dean of the Yale School of Management.

Edmund L. Andrews contributed reporting from Washington.

5. UPDATE 1-KDB, Lehman talks ended - S.Korea govt official
314 words
10 September 2008
08:52
Reuters News <javascript:void(0)>
English
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(Adds background)
SEOUL, Sept 10 (Reuters) - State-run Korea Development Bank has ended talks with Lehman Brothers <javascript:void(0);> over a possible investment in the U.S. bank due to lack of progress, a government official briefed on the matter said on Wednesday.
"No more talks are under way on a deal between the two sides," the official told Reuters by telephone, asking not to be named before any public announcement is made.
Lehman, a casualty of the U.S. subprime mortgage crisis, is under pressure to raise capital ahead of its quarterly earnings announcement due later on Wednesday. The Wall Street investment bank's shares sank as much as 46 percent on Tuesday on growing concern it won't be able to raise the capital it needs to survive the credit crisis.

Asked specifically why the negotiations had broken down, the Korean official said: "Their talks had not developed to a serious level. There have been several investors who have been in discussions with Lehman other than us."
The official added Lehman had made some suggestions to KDB, but did not say whether the proposals were acceptable.
He gave no direct answer when asked whether the talks had broken down irretrievably.
A media report said last week that Japan's Nomura Holdings Inc <javascript:void(0);> was considering acquiring a stake in Lehman.
On Friday, Reuters reported that Blackstone Group LP and Kohlberg Kravis Roberts & Co <javascript:void(0);> are each looking to buy parts of Lehman's real estate and asset management units, citing sources familiar with the situation.
Lehman had already taken $7 billion in credit-related write-downs and losses since the start of the global credit crisis. (Additional reporting by Marie-France Han) (Reporting by Kim Yeon-hee; Editing by Keiron Henderson & Ian Geoghegan)

6. Fitch Places Lehman Brothers on Rating Watch Negative
2008-09-09 23:33:01.200 GMT

NEW YORK & CHICAGO--(BUSINESS WIRE)--September 09, 2008 Fitch Ratings has placed the long- and short-term Issuer Default Ratings (IDRs) of Lehman Brothers Holdings Inc. (Lehman; NYSE: LEH) and its subsidiaries on Rating Watch Negative. A complete list of ratings follows below.

The Rating Watch Negative designation is in light of heightened pressures that have adversely limited, in Fitch's view, Lehman's financial flexibility, most acutely, its ability to raise capital. Capital raises over the past twelve months have offset operating losses, however, the costs of the most recent raises are considered steep relative to its historic valuation and reputation. In the likely event that additional capital is required -- due to more writedowns, valuation adjustments and/or trading losses -- the cost could be prohibitively expensive given investors' decreasing appetite for financial institutions exposure.

Core operating profitability is expected to be challenged in 2H08.
Trading volumes may contract for both institutional and retail investors. In addition, the lack of a securitization market may also result in lower revenues compared to historical results. Additional losses emanating from high risk exposures are expected to occur, although the magnitude may be tempered by asset reductions and successful asset sales around existing marks.

Rating downgrades could be more than one notch and could occur in the near-term. Foremost rating considerations include: ongoing losses in commercial and residential mortgage-related assets, no reduction of less liquid assets (relative to total assets), increasing leverage, diminishing common capital and impairment to reputation or other factors that limit LEH's ability to exercise the power of its franchise. Fitch will maintain on open dialogue with management, and assess ongoing performance with the expectation of resolving the Rating Watch Negative designation within the next 90 days.

7. Equities suffer as Lehman falls 45%
By Francesco Guerrera in London and Michael Mackenzie and,Greg Farrell in New York
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US stocks suffered their worst fall of the year as a 45 per cent drop in Lehman Brothers shares renewed fears about the health of the global financial system.

The S&P 500 fell 3.4 per cent, reversing the 2.1 per cent gain on Monday that greeted the US government's takeover of mortgage financiers Fannie Mae and Freddie Mac over the weekend.
US Treasuries rallied as investors sought the safety of government debt, reckoning that the weakening US housing market would slow economic growth.
Crude oil futures in New York fell $3.96 to $102.38 a barrel as investors bet that economic sluggishness would reduce the demand for energy.
Lehman said late yesterday that it would unveil "key strategic initiatives for the firm" today when it announces its third-quarter earnings. It originally had scheduled the earnings report for September 18, but moved it forward to calm investors.
Lehman led the market lower on worries it would be unable to raise capital to bolster its balance sheet before reporting third-quarter earnings. Its shares fell $6.36 to $7.79, giving it a market value of $5.4bn - a fraction of its book value.
Standard & Poor's warned it might downgrade Lehman's single-A credit rating, saying it was reviewing the bank's rating because of "heightened uncertainty about Lehman's ability to raise additional capital, based on the precipitous decline in its share price in recent days".
Lehman is expected to have suffered billions of dollars in credit-related writedowns in the third quarter. For months, it has been looking at ways to raise capital.
The options have included selling a stake to an investor, selling all or part of its well-regarded asset management unit and spinning off its commercial real estate assets into a "bad bank" structure that could be partly funded by outside investors.
Lehman's shares fell after a newswire report cited an unnamed Korean government official as saying that Korea Development Bank, a state-run lender, had decided not to invest in Lehman.
Korea's financial watchdog later denied the report, but bankers close to the situation said Lehman was unlikely to clinch a deal to sell a large stake to KDB before reporting third-quarter results. The two sides have been at loggerheads over the price to be paid for the stake, with KDB balking at the valuation demanded by Dick Fuld, Lehman's chief executive, according to people close to the talks.
Lehman declined to comment, but people close to the situation said that even if the KDB deal did not materialise, the bank had other options to raise capital.
Among other financial stocks, Washington Mutual fell 19.9 per cent, AIG 19.3 per cent and Wachovia 14.5 per cent.
Additional reporting by Jung-a Song in Seoul
Lex, Page 12 Lehman worries, Page 24 www.ft.com/lehmanbrothers

8. Lehman shares fall 40% on fears about its ability to raise capital
Francesco Guerrera in London and Michael Mackenzie and,Greg Farrell in New York

Shares in Lehman Brothers fell as much as 40 per cent yesterday amid growing worries that the investment bank would be unable to raise fresh capital to bolster its balance sheet before it reports third quarter earnings.

The plunge in Lehman Brothers shares underlined investors' on-going fears over the health of the global financial system and helped reverse the market rally on Monday that followed the US government's takeover of mortgage financiers Fannie Mae and Freddie Mac.

The S&P 500, which rose 2.1 per cent on Monday, was down 1.5% at midday in New York.
Lehman shares fell to $8.50 - their lowest level since October 1998 - before recovering slightly.
They were down $5.25, or 37 per cent, to $8.87 at midday. At that price, it is valued at $6.2bn, a fraction of its book value.

The fall in Lehman's shares was sparked by a Dow Jones newswire report citing an unnamed

Korean government official as saying that Korea Development Bank, a state-controlled lender, had decided against investing in Lehman.

Korea's financial watchdog later denied the report, but bankers close to the situation said Lehman was unlikely to clinch a deal to sell a large stake to KDB before it reports its third quarter results later this week or next.

The two sides have been at loggerheads over the price to be paid for the stake, with KDB balking at the valuation demanded by Dick Fuld, Lehman chief executive, according to people close to the talks.

Lehman is expected to have suffered billions of dollars in credit-related writedowns in the third quarter and has for months been looking at ways to raise capital to shore up its finances.
Lehman declined to comment, but people close to the situation said that even if the KDB deal did not materialise, the bank had other options to raise capital.

Lehman has been considering the sale of all or part of its asset management unit and the spinoff of its commercial real estate assets into a so-called bad bank structure that could be partly funded by outside investors. A sale of a large stake to another Asian investors is also possible.
Analysts said that, in spite of concerns over its capital, Lehman was unlikely to be hit by the capital flight that killed Bear Stearns.

Regards

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