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Sent: 5/21/2008 8:47 PM.

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Cc:

Bcc:

Subject: Fw: Lehman comments by Einhorn. *** INTERNAL ONLY ***

----- Original Message -----

From: Gresdo, Stephen J

To: Gresdo, Stephen J; Kendall, Susan; Grieb, Edward; Siffinger, David; Nagpal, Ajay; Callan, Erin; Donini, Gerald; Corcoran, Joseph J; Ramsey, Peter C; Knapp, Barry C; Cunningham, Richard; Felder, Eric; Shah, Ashish C; Gillin Lefever, Ann; Johnston, Eric; Everett, James; Dick, Michael; Abrahamsen, Ryan; Shashoua, Yaron; Vargas, David; Bost, Brian; Schlanger, Eric; Freeman, Roger; Bertrand, Eric; Hammack, Peter; Glionna, Jonathan L (GRI)

Sent: Wed May 21 20:07:33 2008

Subject: Lehman comments by Einhorn. *** INTERNAL ONLY ***

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At the packed (1,000+ people) Ira Sohn Conference, David Einhorn gave a bear-case presentation on Lehman tonite. It had similarities to the presentation he gave 2 months ago at the James Grant Conference, but he added some points from the LEH 10-Q. The premise of the case was that LEH (and all financials) improperly use fair-value accounting to overstate the value of assets. I'd also note, he did not talk about counterparty or liquidity risk (which was rumored earlier during market hours), but he's insistent that Lehman needs to raise more capital. Four points made:

1. Didn't disclose CDO exposure in earnings. However in 10-Q footnote, said had \$6.5 bb in CDOs, 25% of which are BB+ or lower (non-investment grade). However, in 1Q earnings, only took a \$200mm writedown. Given size and quality of CDOs, should have been larger.
2. The Level 3 assets cited on 1Q earnings call differed from the 10-Q's (the Q's were \$4 bb higher). He said Lehman answer was interim transfer of Level 2 to Level 3 (but he has doubts).
3. Wrote up stake in KSK Energy (in India) to help 1Q, but was questionable. Lehman said due to revaluation after a follow-up investment by a third party, but he says this investment never happened.
4. Lehman had \$39 bb of CMBS. In 1Q, the AAA tranche of the CMBX index dropped 10%. However, Lehman only took a 3% writedown, despite some of Lehman's CMBS being worse than AAA. I'd point out he's looking only at gross figures (not net of hedges); and not to mention that it's kind of accepted that the CMBX and ABX indices are somewhat flawed and imperfect proxies for the actual assets.

His conclusion - if Lehman marked assets "correctly" (the CMBS, CDOs, Level 3 assets, KSK stake), there'd be billions of more writedowns, and LEH would have to raise more capital.

Steve

*** INTERNAL ONLY ***
