

From: Sullivan, Tim [IBD] [tisulliv@lehman.com].

Sent: 8/22/2008 12:47 PM.

To: McGee III, Hugh E [hmcgee@lehman.com]; Shafir, Mark G [mark.shafir@lehman.com]; Whitman, Brad [bwhitman@lehman.com]; Weiss, Jeffrey L [jweiss@lehman.com]; Wieseneck, Larry [lwiesene@lehman.com].

Cc:

Bcc:

Subject: Revised KDB Story.

Note new quotes from ES and unnamed gov't source

Lehman shares leap on buyout talk

By Sam Mamudi, MarketWatch

Last update: 12:29 p.m. EDT Aug. 22, 2008
NEW YORK (MarketWatch) -- Lehman Bros. shares rose more than 14% in morning trading Friday after a Korean bank in talks with the troubled Wall Street firm was quoted as saying that it is considering an outright acquisition.

Lehman shares traded as high as \$15.50 after the opening bell and at midday were up about 9.5% at \$15.00, or about \$1.25 each. The shares (LEH) are down almost 80% this year. Reuters reported Friday that Korea Development Bank said Lehman is one of its options for acquisition.

"We are studying a number of options and are open to all possibilities, which could include (buying) Lehman," a KDB spokesman told the news service.

Korean newspaper Chosun Ilbo reported that Lehman executives initially sounded out sovereign wealth fund Korea Investment Corp. in June.

After those talks failed, Lehman sought KDB, whose chief Min Euoo-Sung was head of Lehman's Seoul branch until earlier this year, the newspaper said.

That effort also fell through, the newspaper reported.

"After a review of its account book, we found that its insolvency was serious. Then if insolvency becomes more serious, we would have to pour additional funds," it quoted a senior government official as saying.

"But we concluded that it was too risky for KDB to take the deal."

However, the newspaper also quoted Min, who said: "It is normal that several negotiations and ruptures occur before a takeover deal is successfully completed. In the current circumstances, we can't put all our cards on the table."

Agence-France Presse said Friday that KDB had refused to confirm the newspaper report.

The Financial Times reported Thursday that Lehman discussed the sale of a 50% stake with KDB or China's Citic Securities, but failed to reach agreement because both companies felt the asking price was too high. Reuters said that Citic (HK:998: news, chart, profile) denied such talks had taken place.

Rating bump helps

Also Thursday, Ladenburg Thalmann & Co. analyst Richard Bove raised his rating on Lehman to buy, saying it was a candidate for a hostile takeover. See full story

On Friday morning, Bove said on CNBC's "Squawk Box" that pressure on

Lehman CEO Richard Fuld would grow dramatically if he can't find a buyer for some of the bank's business in the coming week.

Bove said he was looking for a \$20 per share acquisition price.

Lehman's share price has plummeted this year due to write-downs caused by the credit crisis and recent talk that it may sell its investment management arm, which includes Neuberger Berman.

J. P. Morgan analysts said Tuesday that Lehman's third-quarter write-downs could reach \$4 billion. See full story

Amid the tanking financials sector, Lehman and Bear Stearns took the biggest hits in the fallout from the mortgage crisis. Ever since Bear's demise in March, the market has been looking at Lehman as the next

victim -- it has suffered write-downs and losses totaling \$7 billion in the past year, according to Reuters.

The Wall Street Journal reported earlier this week that the Federal Reserve called Credit Suisse Group last month on the back of rumors that Credit Suisse had pulled a credit line from Lehman.

In June, Lehman reported a second-quarter loss of \$2.8 billion, an announcement that was shortly followed by the departures of Chief Financial Officer Erin Callan and Chief Operating Officer Joseph Gregory.

Tim Sullivan
Investment Banking Division
Lehman Brothers
Office: 212.526.5731
Mobile: 917.270.1577
Fax: 646.834.0338
tisulliv@lehman.com