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Subject: A few articles from Bloomberg on LEH.

Representative of the tone of the market

#### 1) Business Week

Lehman: Independent for How Long?

The diversified investment bank does not have the requisite strength or size for the current environment. But suitors are holding back-for now by Ben Levisohn <../././bios/Ben\_Levisohn.htm>

Lehman Brothers (LEH

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=LEH>> ) appears to have averted a Bear Stearns

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?capId=90337>> -like financial crisis with plans to raise \$6 billion. But the storied investment bank, now the smallest of the major Wall Street firms, may ultimately face the same fate: the end of its independence.

Takeover rumors have dogged Lehman ever since the bank went public in 1994. A few months after the IPO, Lehman's stock tanked, prompting speculation that insurance company Travelers (TRV

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=TRV>> ) would swoop in at the sale price. Investors were betting on much the same for Lehman in 1998 after the collapse of hedge fund Long Term Capital sparked a bankruptcy scare. Yet Lehman always emerged intact. "Somehow these guys never die," says Roy Smith, a professor at New York University's Stern School of Business.

Foreign Suitor?

This time around the outcome could be different. Over the past decade, Lehman CEO Richard Fuld

<<http://investing.businessweek.com/businessweek/research/stocks/people/person.asp?personId=548100&symbol=LEH>> pushed aggressively to remake the onetime bond shop into a diversified financial institution. By some measures, it worked. In 2007, fixed income accounted for 31% of revenues, compared with 66% in 1998.

But the business model of Lehman-which now dabbles in everything from bond trading to equity underwriting to M&A, and dominates none-simply doesn't work in an environment that requires either strength or size.

Lehman doesn't have a distinct specialty like boutique advisory firm Lazard (LAZ

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=LAZ>> ). Nor does it have the heft and scale of big, commercial banks like JPMorgan Chase (JPM

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=JPM>> ) and Bank of America (BAC

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=BAC>> ) that are market leaders in a number of areas. "It's hard to see where Lehman fits in," says CreditSights

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?capId=7802127>> analyst David Hendler. "Lehman needs a bigger-balance-sheet bank that can use its skill set."

The question remains, though, which financial company would step up as a potential suitor for Lehman, whose stock price is currently trading at a five-year low

<[http://www.businessweek.com/investor/content/jun2008/pi2008063\\_267448.htm](http://www.businessweek.com/investor/content/jun2008/pi2008063_267448.htm)> (BusinessWeek.com, 6/4/08). JPMorgan Chase and Bank of America have the financial muscle

<[http://www.businessweek.com/magazine/content/08\\_24/b4088000161976.htm](http://www.businessweek.com/magazine/content/08_24/b4088000161976.htm)>

(BusinessWeek, 6/4/08), but the two are still busy digesting recent acquisitions. And another subprime survivor, Wells Fargo (WFC <<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=WFC>> ), doesn't want to get into the investment banking game. That leaves a foreign player such as Britain's HSBC (HBC <<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=HBC>> ) or Barclays (BCS <<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=BCS>> ). Although both have their own set of headaches <[http://www.businessweek.com/globalbiz/content/may2008/gb20080513\\_229719.htm](http://www.businessweek.com/globalbiz/content/may2008/gb20080513_229719.htm)> (BusinessWeek.com, 5/13/08) from the credit crunch, the two are looking to expand in the U.S.

#### Rocky History

Still, absorbing Lehman would be a yeoman's task. Unlike Bear Stearns, which has a couple of strong assets in its clearinghouse and prime brokerage business, Lehman has few standouts. The once-proud, fixed income business, which has had three heads in the past three years, remains in shambles after moving aggressively into risky subprime securities. Adding to its woes, top bond executive Rick Rieder left in May to start a hedge fund.

Meanwhile, Lehman pales next to Morgan Stanley (MS

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=MS>> ) and Goldman Sachs (GS

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=GS>> ) in mergers and acquisitions, where it ranks in the middle of the pack. "They don't have a long-standing history in investment banking to thrive in this environment," says Hendler.

Then, of course, the bank has a history of rocky marriages. When

American Express (AXP

<<http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?symbol=AXP>> ) purchased Lehman back in 1984, it was a poor fit almost immediately. The freewheeling style of Lehman's legendary bond traders didn't mix well with the staid atmosphere of its corporate parent.

Executives clashed on everything from pay packages to critical decisions like asset sales. The two finally divorced a decade later.

Despite the difficulties inherent in an acquisition, Lehman's days as an independent firm may be numbered. Says analyst Chris Whalen of Institutional Risk Analytics: "Lehman is next. When you have a pack of dinosaurs, the slowest gets picked off."

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#### 2) Bloomberg Column

Lehman's Greatest Value Lies in Lessons Learned: Jonathan Weil  
2008-06-11 03:35 (New York)

Commentary by Jonathan Weil

June 11 (Bloomberg) – Just because Wall Street is terrible at learning from its mistakes, that doesn't mean the rest of us have to be.

While it's too late to save any Lehman Brothers Holdings Inc. stockholders from the 58 percent drop in the company's share price this year, there are many lessons to be gleaned. At least those are worth something, unlike so many of the mortgage-backed securities now on banks' balance sheets.

Lehman reported a \$2.8 billion quarterly loss on June 9, the same day it said it had raised \$6 billion in fresh capital.

Investors seemed surprised, judging by the stock's 15 percent decline since then. They shouldn't have been.

Wall Street stock analysts were predicting a much smaller loss. Yet Lehman's market capitalization, at \$19.2 billion, is

now almost \$7 billion less than the company's \$26 billion book value, or assets minus liabilities. That suggests the market believes Lehman hasn't fully cleaned up its balance sheet and that the worst is still to come, management's assurances notwithstanding.

Whatever the case, let's focus on what we can take away from this mess.

Lesson No. 1: When a company attacks short-sellers, run. You didn't need to know much about Lehman's financial statements to see it was in trouble. All you had to know was that the fourth-largest U.S. investment bank was jousting in the press with a fund manager named David Einhorn, who had bet against Lehman's stock and told a bunch of other investors (and journalists) why.

Good management teams embrace criticisms, address them, and move on. Lehman attacked the messenger. "Mr. Einhorn cherry-picks certain specific items from our 10-Q and takes them out of context and distorts them to relay a false impression of the firm's financial condition, which suits him because of his short position in our stock," Lehman said last month.

The smart read on that line, it's now obvious, was that there were cherries to be picked. And for a guy whose compensation last year was \$34.4 million, you'd think Lehman's chief executive officer, Richard Fuld, would have known better. This is the same strategy once embraced by stock-market flameouts like Overstock.com Inc., MBIA Inc., Biovail Corp. and, yes, Enron Corp. Now you can add Lehman's name to that list.

Lesson No. 2: There's no such thing as an economic hedge. Linda Richman, the chronically "verklemt" host of Coffee Talk on "Saturday Night Live," would have loved this one. "Economic hedges are neither economic nor hedges. Discuss," she might say, if only Mike Myers hadn't left the show.

Lots of banks have downplayed their writedowns by stressing net figures that include gains on so-called economic hedges, or as Lehman calls them, "economic risk mitigation strategies." In fact, the only thing these terms tell you is that the company made some bets that don't qualify as bona fide hedges under the accounting rules. The words mean nothing, because there is no uniform standard.

Witness Lehman's second-quarter results. The company said its gross writedowns were \$3.6 billion. Including hedges, its writedowns were \$3.7 billion. In other words, some of the hedges, uh, misbehaved. How's that for managing risk?

Lesson No. 3: Don't eat the Level 3 mystery meat. As I noted in an April 23 column, Lehman would have shown a loss for the quarter ended Feb. 29, were it not for \$695 million of non-cash gains on \$9.4 billion of corporate equities that it classified as Level 3 assets. The designation, which I like to call mark-to-make-believe, means the values included estimates that couldn't be observed in the marketplace. Lehman didn't disclose the names of the company or companies where these gains appeared. Meanwhile, the Standard & Poor's 500 Index fell 10 percent during the same period. If you had concluded this was a tip-off that Lehman's earnings power was declining, you were correct.

Lesson No. 4: Gains on declining debt values mean something. The Financial Accounting Standards Board has taken a lot of flack over new rules that let companies book earnings based on

declines in their own creditworthiness. And there's much to be criticized, namely the wide latitude the rulemakers gave companies to pick and choose which balance-sheet items they want to measure at fair value, and which ones they don't.

That said, from the start of fiscal 2007 through Feb. 29 of this year, Lehman posted \$1.9 billion in gains from writing down the value of its own debt. It reported \$3.3 billion in net asset writedowns during the same period.

Now look at Citigroup Inc. Since Jan. 1, 2007, it has booked \$1.7 billion in gains on its own debt. Yet its asset writedowns were \$37.3 billion.

While there's no way for outsiders to know what the right proportion at a given company should be, there's a message in those gains: When the fair value of a company's debt slips, the market is telling you the company's assets must be deteriorating, too. And if you had guessed from the ratio at Lehman that its asset values had further to fall, you wound up with the right answer.

Lesson No. 5: Beware CEOs saying "the worst is behind us." Fuld uttered those words at Lehman's annual shareholder meeting in April. (What was he thinking?!?) It wasn't then. And he doesn't know any better than you do now. Some folks just have to learn things the hard way.

(Jonathan Weil is a Bloomberg News columnist. The opinions expressed are his own.)

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