15. NEU cost basis, tax treatment, gain – book/tangible book
16. how much seller financing in spinco & others
17. bad bank option

- reported $5.92 – sold/wrote down $21 bn worth x% reductions, tier 1 of 11%, liquidity pool down a drop w/ balance sheet – core revenues OK considering the environment and Lehman's situation.
- In addition, LEH announced a series of strategic moves to preserve value, ...including a) sale of 55% of IMD, b) spin off of REI and c) divi cut
- While progress on the risk front, timing was not on their side and not everything is done, so plenty of questions remain related to these initiatives as reflected by the stock and CDS prices resting at these depressed/elevated levels
- In our view, while there are tons of things to talk about, most issues either fall under or aren't as relevant that what we see to be the 4 most critical topics of conversation; 1) are the rating agencies & regulators on board, 2) will clients & counterparties stick around, 3) REI and 4) does Lehman need to raise capital

Resi marks are really tight on resi / other abs – bad read through for others
MER – UK mtg at 90cents, lehman mark 69 cents
MER – Alt-A mark is xxx cents, lehman marked to 39 cents
People more skeptical on commercial

Murray, Keith-A

3Q08 Average Carrying Value

Commercial Real Estate	$0.85
Alt-A	$0.39
Subprime / Second Lien	$0.34
UK Residential Mortgages	$0.69
Other ABS CDOs	$0.29
Other US Residential Mortgage	$0.45

100k OK ex thoughts on CRE intrinsic value vs todays value

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Will the Commercial Real Estate Spinoff Happen as Planned?

Lehman's proposed spinoff of the bulk of its commercial real estate assets into a separately traded public company which would not be subject to mark-to-market accounting is expected to close in 1Q09. Under the plan, the new company would be funded with equity capital and debt financing from Lehman, at least at the outset (Lehman is hoping for third party participation). The estimated equity capital (all common) needed to fund the new entity would be 25-30% of the total asset value, so something in the neighborhood of $6-9 billion. This significant amount of equity would take a pretty good chunk of capital out of the "good" Lehman and potentially cause it to raise common equity (more on this below). We think the spinoff structure is interesting and it buys Lehman some time to plan its next move, ~~but given that the $33 billion of commercial real estate will~~ remain on Lehman's books in 4Q, we think there could be some additional negative valuation adjustments (we currently estimate a 5% hit in 4Q) which could lead to another operating loss. Bottom line, while the spinoff avoids a distressed asset sale in the short-term, it is not a perfect solution given the amount of equity that will need to go with the assets and also the considerable time it will take to be completed.

Why not a zero upside

depending on the size of the portfolio buyer

and potentially - preserves any upside

Does Lehman Need to Raise Common Equity?

Yes

Deciphering whether or not Lehman needs to raise additional common equity is a bit tricky given all of the moving parts, but given the market perception (gapping CDS spreads) and rating agencies' concerns we think Lehman will seek an infusion, likely from a strategic partner that would take a significant equity stake in the firm. Interestingly, we think that if Lehman were able to complete the steps of its plan today (meaning the IMD sale and spinoff closed immediately), the firm might be able to avoid raising equity as its capital ratios would be pretty healthy. Unfortunately, given expected mark-to-market hits in commercial real estate in 4Q and another operating loss, coupled with the significant drain of common equity from "good" Lehman post the spinoff, we think the firm will need

Are there buyers w/ BS out there

Pro forma book value chart

- shoulda said months ago, but REI spin is better than firesale & capital raise

Timmy

RH

- no bargaining power / leverage

- shouldn't a buyer be interested at same price?

pump in equity

- CDS something's gotta give

2 notches to BAA

- not about capital

its confidence

need global strategic investor

if go thru w/ plan downgraded

not private equity, SWF

- has big BS partner

MER?