From: Richards, Geoff [CMB-FIN] [gr11656@imcnam.ssmb.com]
Sent: Thursday, May 29, 2008 6:15 PM
To: Mauerstein, Michael [CMB-GBKG]
Subject: RE: Lehman -- No Smoking Guns

Exactly.

Talk soon.

-----Original Message-----
From: Mauerstein, Michael [CMB-GBKG]
Sent: Thursday, May 29, 2008 5:50 PM
To: Richards, Geoff [CMB-FIN]
Subject: Re: Lehman -- No Smoking Guns

Thanks. This has made the rounds at 388-390. Their shares were up today with the FI sector. Hope we have no disruption when they announce Q2 in June. Enough already.

Michael Mauerstein
Managing Director
Financial Institutions - Broker Dealers
388 Greenwich - 24 Floor
212 816-3431

----- Original Message -----
From: Richards, Geoff [CMB-FIN]
To: Trohan, John [CMB-FIN]; Verdeschi, Michael [CCC-CFO]; Mozer, Peter A [CCC-CFO]; Martinelli, Joseph [CMB-FIN]; Weinberg, Marc A [CCC-CFO]; Raichelson, Maurice [CCC-CFO]; Mauerstein, Michael [CMB-GBKG]; Mellina, Thomas [CMB-FICC]
Sent: Thu May 29 17:12:58 2008
Subject: Lehman -- No Smoking Guns

Just in case you missed this one earlier today..........

Corporate Bond Research

Fundamental Credit

Lehman Brothers Holdings Inc. (LEH)

No Smoking Guns

Ø Lehman CDS widened 80bp in trading over the past week, reflecting a variety of developments: several equity analysts have cut their Q2 earnings estimates for the firm, a hedge fund manager raised questions about the firm's accounting practices and capital adequacy, and some investors became worried about the possibility of a funding squeeze. Lehman CDS trade at 247bp (midday midpoint), 50bp behind Merrill Lynch, after rallying from the wides of 290-305 yesterday.

Ø Lehman may have a weak second quarter, based on its CFO's comments that its hedging did not work well in Q2 08. However, we are maintaining our Hold on the Lehman 6.875s of 2018 because Lehman's liquidity is good and concerns about another Bear Stearns-type funding squeeze are overblown, in our opinion. We would be surprised if Lehman's accounting practices were overly aggressive, particularly because brokers are under close scrutiny from investors, regulators and rating agencies.

Ø We are not becoming more aggressive on our investment view of Lehman as yet because 2Q 08 results are likely to be subpar compared with peers'. Our equity research colleagues forecast Lehman's earnings at only $26 million, reflecting hedging inefficiencies and difficult market conditions. However, they also expect its earnings to rebound to about $750 million in each of the next two quarters. We do not think that Lehman's major franchises have been impaired.

Ø Lehman has large exposures to commercial real estate mortgages and CMBS ($36 billion) and Alt-A mortgages ($15 billion), and write-downs on those exposures are possible. However, Lehman is "on track" to reduce its commercial mortgage/CMBS exposure by $5 billion in Q2. Lehman's exposure to subprime mortgages is $4 billion, which we consider manageable, and the company has described its involvement in subprime CDOs as "very limited."

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