SANDLER O'NEILL + PARTNERS

+ Company Note

Lehman Brothers Holdings Inc.

BROKER/DEALER

NYSE: LEH - $32.29

RATING: HOLD

12-Month Price Target: $34.00

June 9, 2008

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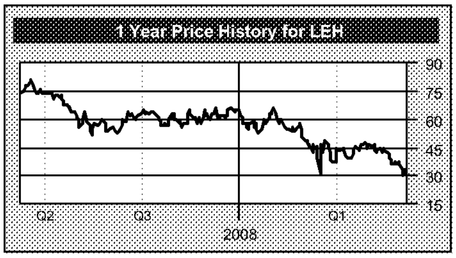
MARKET DATA

Market Cap.	$17.8 Bil.
Price/Book	82%
Price/Tang. Book	101%
52-Week High	$82.05
52-Week Low	$20.25
3-Mo. Avg. Daily Volume	35,414,624
Dividend Yield	1.49%
Total Assets	$786.0 Bil.
* As of	02/29/2008
ROE	8.60%
Shares Outstanding (Mil)	551.4
Annual Dividend	$0.48
Institutional Ownership	63.8%
Insider Ownership	4.0%



Lehman Brothers was founded in 1850 as a commodity trading and brokerage operation. The company primarily provides financial services to its institutional, corporate, government, and high-net-worth individual clients. The company and its affiliates provide a full array of capital market products and advisory services on a worldwide basis through three business segments: Investment Banking, Capital Markets, and Investment Management. Corporate headquarters are in New York City, and the company has over 28,000 employees. LEH generated net income of $4.2 billion on revenue of $19.3 billion in its fiscal year ended November 30, 2007.

Pre-announces Expected Loss and Capital Raise

EPS

	Feb	May	Aug	Nov	Year	Growth	Est. Change	P/E
2007A	$1.96	$2.21	$1.54	$1.54	$7.26	6.6%	—	4.4x
2008E	$0.81A	($0.26)	$0.88	$1.21	$2.77	NM	—	11.7x
2009E	$1.63	$1.51	$1.35	$1.41	$5.90	—	—	5.5x

- Before the open this morning, LEH pre-announced a 2Q08 loss of $5.14 per share. This compares with estimated losses of $0.26 and $0.22 for us and consensus, respectively.
- The significant excess red ink versus our expectations was primarily driven by larger than expected losses on residential and commercial mortgage related positions and higher compensation expenses. Gross mark-to-market losses of $3.6 billion exceeded our $1.9 billion estimate. Compensation expense totaled $2.3 billion, 5% above its four-quarter average.
- We estimate that pro forma book value and tangible book value are approximately $34 and $29.50, respectively. Our estimates assume conversion of the $4 billion raised in April and include the expected $6 billion offering that the company announced today.
- It is hard to see the positives in a $2.9 billion loss and a $6 billion, dilutive capital raise. The modest silver lining is that LEH was able to reduce gross assets by $130 billion, including large reductions in mortgage related (15%-20%) and leveraged loan (35%) exposures.
- Key topics for the conference call include: Why are this quarter's mark-downs so much larger than in previous quarters? How much confidence can investors have in currently reported book value?
- Management will host a conference call to discuss the pre-announcement at 10:00 AM ET. The dial in is 1-888-942-9651, and the pass code is 9876082. Full 2Q08 results will be announced before the open on Monday 6/19/08. Our price target and earnings estimates are under review.

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Results Versus Our Expectations

($in millions)

	2Q08A	2Q08E	A-E ($)	A-E%
Revenues by Segment:				
Investment Banking				
Advisory (M&A)	$240	$248	(8)	-3%
Equity underwriting	330	237	94	40%
Debt underwriting	288	274	14	5%
Total Inv. Banking Revenue	**$858**	**$758**	**100**	**13%**
Capital Markets				
Equity	$601	$987	(386)	-39%
Fixed Income	-2975	-300	(2,675)	NM
Total Cap. Mkts Revenue	**-$2,374**	**$687**	**(3,061)**	**-446%**
Client Services				
Private Client	$352	$361	(9)	-2%
Asset Management	496	503	(7)	-1%
Total Client Services Revenue	**$848**	**$863**	**(15)**	**-2%**
Total Revenues	**-$668**	**$2,308**	**(2,976)**	**NM**
Non-Interest Expenses				
Compensation and benefits	$2,325	$1,385	940	68%
Total Non-Comp. Expenses	$1,094	$982	112	11%
Total Non-Interest Expenses	**$3,419**	**$2,367**	**1,052**	**44%**
Income before taxes and dividends	**-$4,087**	**-$58**	**(4,029)**	**NM**
Pretax Margin	NM	-2.5%		
Provision for Income taxes	-$1,313	-$16	(1,297)	NM
Income tax rate	32.1%	28.0%		
Net Earnings Applicable to Common	-$2,873	-$142	(2,731)	NM
EPS (Diluted)	**-$5.14**	**-$0.26**	**-$4.88**	**NM**
Average Diluted Shares	559	552	7	1%

Source: Company Reports and Sandler O'Neill estimates

APPENDIX

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Jeff Harte

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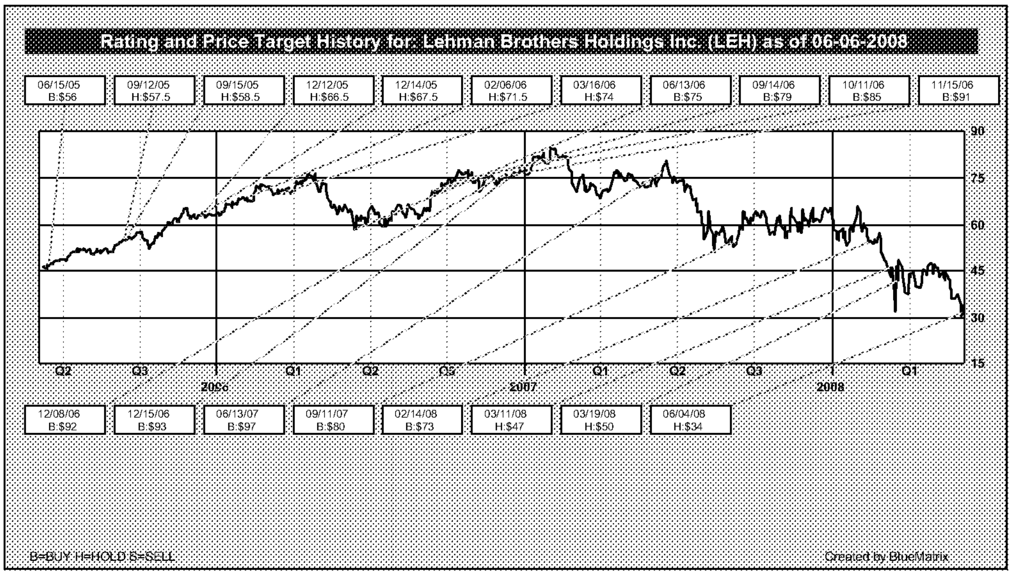

Price Target

Our twelve month price-target is $34.

Valuation Methodology

Our price target is based on LEH's current tangible book value of $34 which we believe is appropriate given our expectations for a loss in the period, and is prudent until more disclosure is available.

Risk Factors

The primary risk to our price target arises from the possibility of a global economic recession. Additional risks include the potential for continued mark-downs on LEH's financial assets, above-average exposure to significant declines in fixed income capital markets activity, and liquidity risk given the firm's use of repurchase agreements for short-term funding.

Distribution of Ratings/IB Services Firmwide

Sandler O'Neill + Partners

			IB Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [B]	50	23.81	19	38.00
HOLD [H]	136	64.76	33	24.26
SELL [S]	24	11.43	4	16.67

Our Ratings System
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BUY - In the opinion of our analyst, a stock rated BUY is materially undervalued and represents an attractive investment candidate. The analyst expects the stock to appreciate by more than 10% within the next 12 months.
HOLD - In the opinion of our analyst, a stock rated HOLD is either fairly valued or modestly undervalued. The analyst expects the stock to appreciate between 0% and 10% within the next 12 months.
SELL - In the opinion of our analyst, a stock rated SELL is overvalued and could decline in value within the next 12 months. The potential price decline could be of any magnitude and is quantified by the analyst's price target.

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UBS

Global Equity Research

Americas

Investment Services

UBS Investment Research

First Read: Lehman Brothers

12-month rating	Neutral *Unchanged*
12m price target	US$42.00 *Unchanged*
Price	US$32.29

RIC: LEH.N BBG: LEH US

9 June 2008

Pre-Announcement & $6 Bn Capital Raise

■ **Pre-Announcement & Capital Raise Larger Than Expected**

LEH announced a loss of $5.14/share, or $2.8 bn & also announced a $6 bn capital raise - $4 bn common, $2 bn mandatory converts. We see the raise as 25+% dilutive and both were larger than even recent expectations.

■ **If There Is a Silver Lining…**

Stock is still trading below the new, lower book of $34, leverage is down a lot (and even more post capital raise), liquidity & capital ratios likely look OK, illiquid positions are down 15%-20% (more in June) & capital raise likely eases Bear-like liquidity/franchise concerns. FYI, IB and asst mgmt held up OK, and non-comp expenses fell from 1Q.

■ **But Is The Short Story Over? We Think It's Mostly Played Out**

Timing & magnitude put credibility in question & some will likely remain skeptical on adequacy of marks (not enough), remaining exposures (still big as 80% still remain) and opacity of a few key exposures (like where Archstone or Alt-A are marked). We think some would have preferred a strategic buyer too. Comp was up 26% from 1Q? (odd unless mostly severance).

■ **Remain Neutral: Book is $34 pre-capital raise, but will people trust it?**

Book $34 post the losses (from $39.45), and we think a little lower post capital raise. 10 am conf call today at 888-942-9651 code "9876082" & LEH moved up earnings to June 16th i/o the 19th - be back post call to address estimates and our price target (which is based on 1.0x our forward book estimate).

Highlights (US$m)	11/06	11/07	11/08E	11/09E	11/10E
Revenues	17,583	19,257	14,729	18,493	20,752
Pre-tax profits	5,605	5,713	2,378	5,052	6,017
Net income	3,641	3,825	1,390	3,243	3,900
EPS (UBS, US$)	6.81	7.25	2.70	5.70	6.75
Net DPS (UBS, US$)	0.48	0.60	0.68	0.76	0.84

Profitability & Valuation	5-yr hist av.	11/07	11/08E	11/09E	11/10E
ROE %	-	20.1	7.1	11.6	12.4
P/Op x	11.1	9.7	12.0	5.7	4.8
P/BVPS x	1.7	1.8	0.8	0.7	0.6
PE (UBS) x	11.1	9.7	12.0	5.7	4.8
Net dividend yield %	0.6	0.9	2.1	2.4	2.6

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US$32.29 on 06 Jun 2008 19:37 EDT

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Trading data

52-wk range	US$81.30-30.61
Market cap.	US$18.5bn
Shares o/s	573m (COM)
Free float	97%
Avg. daily volume ('000)	7,587
Avg. daily value (US$m)	308.2

Balance sheet data 11/08E

Shareholders' equity	US$29.8bn
P/BVPS x	0.8
Tier one capital ratio	-

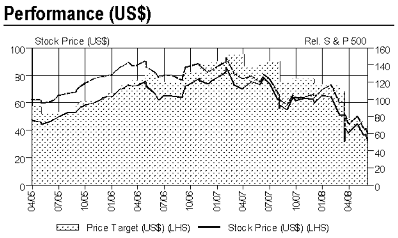
Forecast returns

Forecast price appreciation	+30.1%
Forecast dividend yield	2.2%
Forecast stock return	+32.3%
Market return assumption	7.4%
Forecast excess return	+24.9%

EPS (UBS, US$)

	11/08E		11/07
	UBS	Cons.	Actual
Q1	0.81	0.81	1.96
Q2E	(0.75)	(0.22)	2.21
Q3E	1.21	0.97	1.54
Q4E	1.43	1.28	1.54
11/08E	2.70	*2.97*	
11/09E	5.70	*5.75*	

Performance (US$)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2.

■ Lehman Brothers

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■ Statement of Risk

Risks at Lehman Brothers include a weighted business mix toward fixed income and trading and the company's above-average use of equity-based compensation incentives. Additionally, economic and geopolitical factors, regulatory and litigation issues, interest rates and Fed policy, as well as market fluctuations and activity levels in the capital markets may materially affect operating results.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	Buy	59%	38%
Neutral	Hold/Neutral	34%	35%
Sell	Sell	7%	26%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	Buy	less than 1%	67%
Sell	Sell	less than 1%	25%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2008.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
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Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Lehman Brothers[2, 4, 6a, 6b, 7, 16, 22]	LEH.N	Neutral	N/A	US$32.29	06 Jun 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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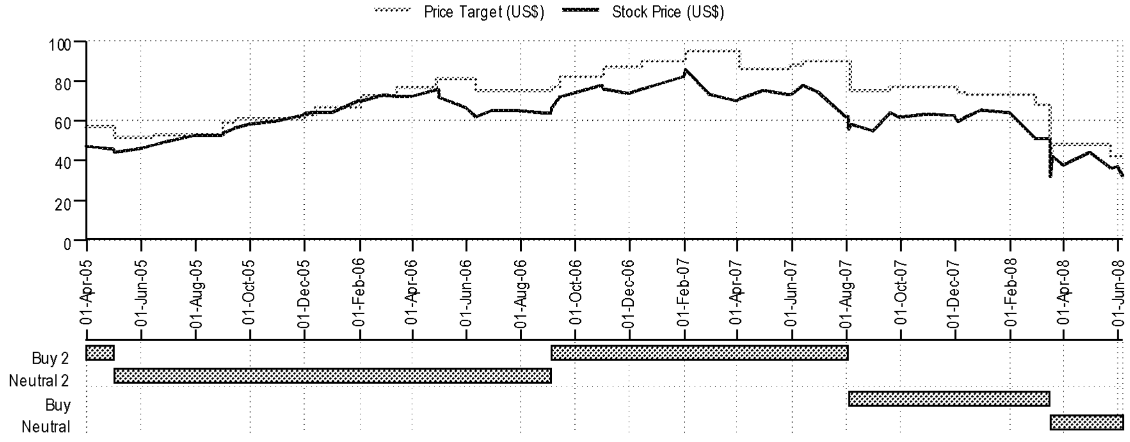
Lehman Brothers (US$)



Source: UBS; as of 06 Jun 2008

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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Bank of America Equity Research HEADS UP!

June 9, 2008

Lehman Brothers Holdings Inc. (LEH)
Rating: Neutral, Price: $32.29, 12-Month Target: $43.00, Market Cap.: $18.5 BB
Michael Hecht, CFA, 646.855.1065, michael.hecht@bofasecurities.com
Scott Buck, 646.855.5439, scott.buck@bofasecurities.com

Wider-Than-Expected Q2 Loss and Capital Raise, But Question Marks Remain

☑ **Bottom Line:** LEH this morning pre-announced a wider than expected loss of $2.8B (or $5.14 per share) vs. our expectation of a loss of $276 million (or $0.50 per share). Total net losses on troubled positions were $3.7B, about $1.2B more-than-expected & only half the downside to our number. The other half of downside comes from higher-than-expected comp expense of $2.3B which is 2x our estimate & up $484mm vs. a qtr ago despite the dramatic drop in revs. Even excl. marks, revs of ~$3B are off 46% vs. a year ago vs. only a 14% reduction in comp expense. We also note that q2 results once again benefited from a $400 mm gain on Lehman's own debt (~$0.50 per share). Book value ended q2 at ~$34.21 per share, down 13% from $39.46, & tangible book ends q2 at ~$27 down vs. $32.13 at q1'08. LEH is also raising $6B of equity capital incl. $4B of common & $2B of mandatory convertible preferred which at first glance will be at least 30% dilutive to EPS. While LEH reduced gross leverage from 32x to 25x, increased their liquidity pool from $34B to $45B, and drove reductions across most troubled asset classes (and reduced total assets by $130B, or 17%), we await more details on total remaining troubled assets in aggregate as well as a L-III or illiquid asset update to help answer the question of whether $6B in incremental capital raise is sufficient.

☑ **Business Segments:**

- **I-Banking:** Revenues of $858 million were higher than our forecast of $789mm but down 0.1% q/q (down 25.4% y/y) led by the slowdown in advisory, down 27.3% q/q while equity underwriting saw a sequential increase of 53.5% and flat versus a year ago.
- **Capital Markets:** Capital markets is expected to report a loss of $2.4B in q2 vs. $1.7B in Q1'08 and $3.6B a year ago. Fixed income revenue loss of $3.0B on mark to market losses. Client activity remained strong in q2 in commodities, municipals & securitized products while credit, interest rate and financing were down sequentially. Equity capital markets is expected to report net revs of $0.6B during the quarter, down both sequentially and year over year.
- **Investment Mgmt:** LEH had investment mgmt revenues of $496mm, a 7.8% increase over a year ago and but down 19.7% sequentially. Private investment mgmt had net revenues of $352mm, up 0.1% q/q and up 14.3% yr/yr. The firm expects to report assets under management of $277B inline with the prior quarter and up roughly 5.3% from a year ago. Lehman did not disclose flow trends during the quarter in today's release.
- **Exposure Reduction:** At the end of the quarter the firm had taken $3.7B of mark to market losses in fixed income inventories including $2.0B on residential mortgage related positions and an additional $0.4B on acquisition finance (both funded and unfunded). Marks were partially offset by $0.4B benefit to the debt liabilities of the firm at fair value.

☑ **Expenses:**

- Comp expense came in at ~$2.3B in q2 vs. $1.8B in Q1'08 and $3.6B a year ago. Non-comp expense came in at $1.1B vs. $1.0B in q1 and $915mm a year ago. The tax rate is expected to be 32% compared to 26.5% in Q1'08 and 32.3% a year ago.

☑ **Details to follow post conference call** this morning at 10:00am ET. Dial-in: 1-888-942-9651 or from outside the U.S., 210-234-0083. Pass code is 9876082.

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Volatility		Ratings		
		Buy	Neutral	Sell
Low	0%-25%	11%+	10.9%-0.1%	0% or worse
Medium	25%-35%	15%+	14.9%-(2.9)%	(3)% or worse
High	35%-55%	20%+	19.9%-(6.9)%	(7)% or worse
Extreme	55%+	32%+	31.9%-(14.9)%	(15)% or worse

Source for volatility: Bloomberg.

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Buy	267	47	Buy	152	57
Hold	294	51	Hold	165	56
Sell	13	2	Sell	8	62

Finance Sector

Coverage Universe	Companies	Pct.	Investment Banking Clients	Companies	Pct.**
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Hold	85	63	Hold	49	58
Sell	4	3	Sell	3	75

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Lehman Brothers Holdings Inc. (LEH)

Target Price, Valuation Method, Risk Factors

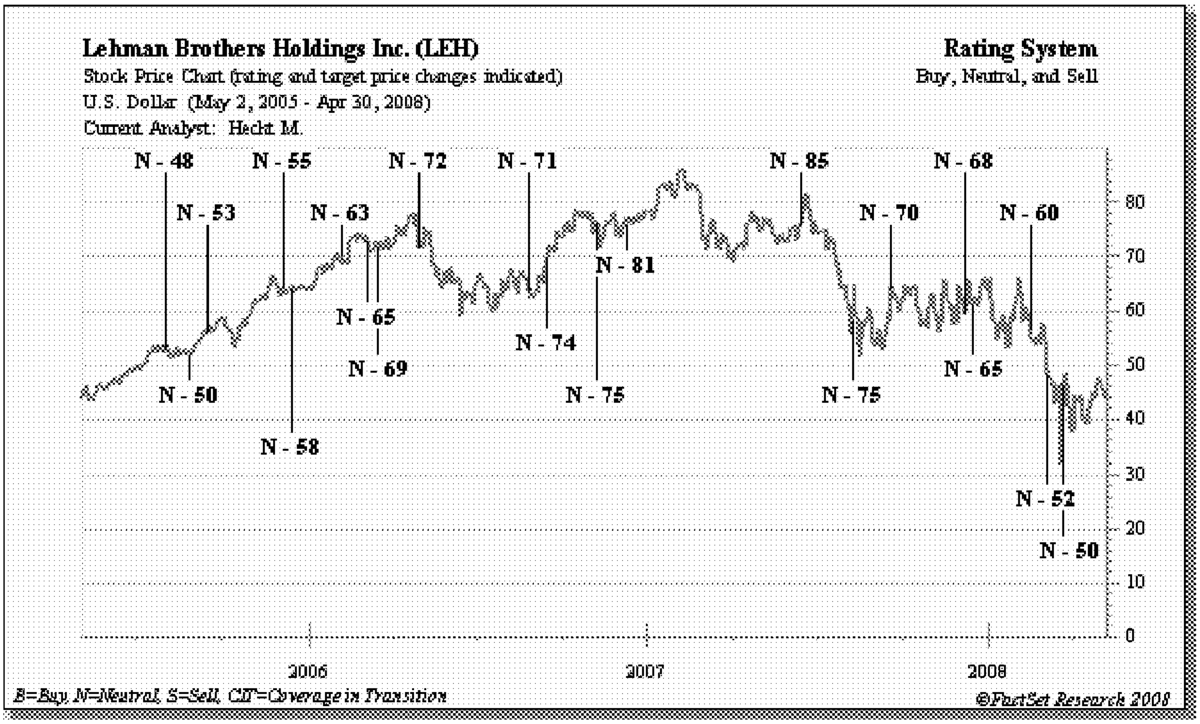
Target Price:	$43.00
Valuation Method Used To Reach Target Price:	Residual income model derived $43 target price equates to price/book of 1.1x our 12-month BV estimate.

Risk Factors:

1 Highly levered to the direction of the capital markets

2 The financial services industry is heavily regulated, and undergoing an intense period of regulatory scrutiny which could ultimately impact firms' prospective business practices

3 Litigation risk remains an issue from both a financial and headline risk perspective. Large class actions related to IPO Allocation issues and research/investment banking conflicts have yet to be resolved.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Stock Price Chart (rating and target price changes indicated)
U.S. Dollar (May 2, 2005 - Apr 30, 2008)
Current Analyst: Hecht M.
Rating System
Buy, Neutral, and Sell
N - 48
N - 53
N - 50
N - 55
N - 58
N - 63
N - 65
N - 69
N - 72
N - 71
N - 74
N - 81
N - 75
N - 85
N - 75
N - 70
N - 68
N - 65
N - 60
N - 52
N - 50
80
70
60
50
40
30
20
10
0
2006
2007
2008
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Bank of America

June 9, 2008

COMMENT

Lehman Brothers Holdings Inc. (LEH) $32.29

Negative News – Estimates Under Review

LEH to raise $6 billion of capital, preannounces 2Q2008 results

News

This morning, Lehman Brothers announced preliminary 2Q2008 results as well as its intention to raise $6 billion of capital through a combination of common equity and a mandatory convertible preferred. For 2Q2008, the company reported a loss of $5.41 vs. our and the consensus loss estimate of $0.20. After today's results, book value per share declines to about $34 from $39 (does not take into account the planned capital raise).

Analysis

Today's results were far worse than anyone had anticipated. Results were plagued by continued write-downs and ineffective hedges. Overall, gross write-downs totaled $4.0 bn and net write-downs were $4.1 bn, suggesting a negative benefit from hedging activity. In addition, the firm aggressively de-leveraged in the quarter as total balance sheet assets declined by $130 bn and net assets declined by about $60 bn, bringing gross leverage to 25.0x from 31.7x and net leverage to 12.5x from 15.4x. This broad based selling likely exacerbated the write-downs the firm took this quarter. As part of its de-leveraging, Lehman reduced RMBS and CMBS exposure by 15-20%, leveraged loans by 35% and high yield by 20%. While Lehman is clearly not out of the woods just yet, we believe today's announced capital raise will reduce investors' fears and help promote a better liquidation of assets should LEH want to continue to reduce its leverage. Nonetheless, the capital raise will be highly dilutive to shareholders (level of dilution will depend of the mix of common and preferred).

Implications

We anticipate the stock's initial reaction will be negative given the size of the loss and the book value deterioration. However, we would expect the stock to move higher throughout the day as we believe you will see some investors covering their short positions. The firm is hosting a conference call at 10AM EST. Our estimates and price target are under review.

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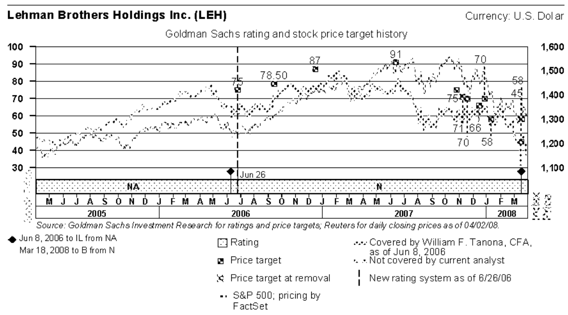

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