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Subject: This is why we are down 5% in last hour --- ES' quote below --- Changed on TOP stories to "Disagreement over Valuation"

Lehman's Korea Deal Caught Up in Disagreement Over Valuation
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By Bomi Lim and Josh Fineman

Sept. 2 (Bloomberg) -- Lehman Brothers Holdings Inc., under pressure to raise cash before reporting third-quarter financial results, hasn't yet struck a deal to sell a stake to Korea Development Bank because the two sides disagree on how much the U.S. firm is worth, KDB's chief executive officer said.

Negotiations have been "difficult because of differences over price," Korea Development Bank CEO Min Euoo Sung said today.

Lehman CEO Richard Fuld is racing to raise capital and sell devalued real-estate assets before reporting results in two weeks. Analysts surveyed by Bloomberg predict a loss of about \$1.62 billion and say the New York-based firm may be forced to write down roughly \$3.25 billion of assets. Lehman shares have plunged 75 percent this year.

If Fuld doesn't raise funds soon, "he will not be at the company," said Richard Bove, an analyst at Ladenburg, Thalmann & Co. in Lutz, Florida. "He simply has to take the medicine of selling a huge chunk of the company to a partner who's going to buy in at an extraordinary low price."

Korea Development is seeking to team up with local banks to buy a stake in Lehman, Min told Yonhap news agency in comments that were confirmed by a spokesman, who declined to be identified, citing company policy.

Lehman spokesman Mark Lane declined to comment.

Lehman shares rose 48 cents, or 3 percent, to \$16.57 in New York Stock Exchange composite trading at 12:57 p.m.

Default Swaps

Credit-default swaps on Lehman, which protect buyers in the event of a default, fell 34 basis points to 302 basis points, the lowest level since Aug. 14, according to London-based CMA Datavision.

Lehman is shedding mortgage assets, raising capital and is poised to eliminate as many as 1,000 jobs, or about 4 percent of its workforce, in the fourth round of cuts at the firm this year, people familiar with the matter said last week. The headcount reductions may be announced when Lehman reports results this month, according to the people.

Goldman Sachs Group Inc. analyst William Tanona is forecasting \$10 billion of writedowns for Lehman, Morgan Stanley, JPMorgan Chase & Co. and Citigroup Inc. in the third quarter. The year-old global credit crunch has so far produced more than \$500 billion of losses at the world's biggest banks and securities firms.

Fuld, 62, may set up a company funded by outside investors to purchase some of Lehman's mortgage assets, people familiar with the plan said last month.

Other Targets

Lehman has renewed talks with Korea Development about a capital injection of as much as \$6 billion, the Sunday Telegraph reported Aug. 31, without saying where it got the information.

Korea Development may team with a domestic lender, probably Woori Finance Holdings Co. or Hana Financial Group Inc., to buy a stake, Dong-a Ilbo reported today, citing financial officials that it didn't identify.

Lee Jung Dae, a spokesman for Seoul-based Hana, said the company has no plans to join a bid for a stake in Lehman. Woori spokesman Lee Won Chuel said his firm hasn't received any offer from Korea Development or any other party to join a transaction.

"I don't think KDB will secure enough local partners when there are other M&A targets in the home banking sector," said Shim Jae Duk, who oversees the equivalent of \$800 million as head of equities at Hyundai Wise Asset Management Co. in Seoul.

No Application Yet

Korea Development hired bankers from Perella Weinberg Partners to advise on the talks, which might be concluded this week, according to the Telegraph report. Lehman executives, including Fuld, discussed structures through which the Korean bank may buy as much as 25 percent of Lehman, the Telegraph said.

A government official, speaking on condition of anonymity because he isn't allowed to publicly discuss the matter, said yesterday the financial regulator has yet to receive an application from the bank for permission to invest in Lehman.

Min is accelerating the Seoul-based bank's transformation into an international investment bank and corporate lender. The global credit market turmoil provides "a good opportunity for investments," Min said in July.

State-run Korea Development, set up to fund reconstruction and industrial development after the 1950-53 Korean War, is scheduled to become privatized by 2012.

At the end of 2007, KDB had 146.9 trillion won (\$138 billion) of assets and 21.7 trillion won of shareholder equity, according to the company's Web site. KDB's 2007 net income of 2.52 trillion won, or \$2.37 billion, is just over half of Lehman's \$4.2 billion of full-year profit.

Asian Money

The global banking crisis triggered by the U.S. subprime mortgage collapse has led sovereign funds in Asia to buy U.S. assets. Temasek Holdings Pte, Singapore's \$130 billion sovereign wealth fund, plans to boost its investment in Merrill Lynch & Co. to between 13 percent and 14 percent from 9.4 percent.

Government of Singapore Investments Corp. or GIC, the bigger of the city state's two sovereign funds, invested about \$18 billion in UBS AG and Citigroup Inc. in the past year.

China Investment Corp., the nation's \$200 billion wealth fund started last year, has invested \$8 billion in Blackstone Group LP and Morgan Stanley. South Korea's Korea Investment Corp. put \$2 billion into Merrill Lynch this year.

Not every deal has been successful. China's government in January rejected a plan to allow state-owned China Development Bank to invest in Citigroup because of concerns about more financial-industry losses, a person with knowledge of the decision said at the time.

Regulator Warning

Jun Kwang Woo, chairman of South Korea's Financial Services Commission, on Aug. 25 warned of risks of buying overseas banks, saying it wasn't appropriate for state-run banks like Korea Development to lead such efforts.

The perceived risk of owning Korea Development's debt was little changed today, as measured by the bank's credit default swaps, which traded at 181 basis points compared with 183 yesterday, according to data compiled by Bloomberg.

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