From: Whitestone, Randall B <randall.whitestone@lehman.com>
Sent: Tuesday, September 2, 2008 6:52 PM (GMT)
To: Corp Comms US <corpcommsUS@lehman.com>; Freidheim, Scott J <Freidheim@lehman.com>; Butler, Shaun K <sbutler@lehman.com>; Rudofker, Beth <brudofke@lehman.com>; Ruth Pachman <ruth-pachman@kekst.com>; Dawn Dover <dawn-dover@kekst.com>; Kimberly Kriger <kimberly-kriger@kekst.com>; John Patteson <john-patteson@kekst.com>
Subject: Fortune.com: What Price Lehman Brothers?
Attach: bug.gif

What price Lehman Brothers?

A KOREAN BANK WANTS TO INVEST IN THE TROUBLED U.S. BROKER. THE QUESTION NOW IS HOW LOW THE PRICE MIGHT GO.

By Roddy Boyd, writer
September 2, 2008: 2:19 PM EDT

NEW YORK (Fortune) -- One of the most compelling dramas in New York's theater district this summer hinges on Lehman Brothers' courtship of a Korean bank.

Just a week after early enthusiasm over the reported talks dissipated, the head of Korea Development Bank, Min Euoo Sung, confirmed Monday that the state-owned institution was holding talks about investing in the troubled investment bank.

That's good news for Lehman (LEH, Fortune 500), because management has been scouring the world for a partner that can help bolster the firm's equity base, which is straining under the weight of almost $65 billion of commercial and residential real estate securities and loans.

Given that Lehman is understood to be nearly desperate for fresh cash from a new partner, though, the question is what kind of terms the KDB might be able to score.

The market values for most of its mortgage-related assets, especially the commercial real estate paper, have been dropping steadily. In turn, this has fueled speculation of yet another quarter of writedowns for the firm, with estimates putting a likely charge anywhere from $2.8 billion to $4 billion. Over the past year, Lehman has taken some $6 billion in writedowns.

At varying points in recent weeks, Lehman's management has sought to sell a stake in the profitable Neuberger Berman money management unit. Alternatively, management has sought a direct equity investment and, according to the *Wall Street Journal*, is contemplating a spinoff to shareholders of its real estate portfolio, though it's not clear how such a deal would be financed.

Shareholder relief

Lehman shareholders, who have seen their investment drop 75% this year, were granted a temporary reprieve on news of the talks with the Korean bank. In midday trading Tuesday, shares were changing hands at $16.70, up about 3.5%. At one point early last week the stock dropped below $14 as rumors about impending writedowns gained strength.

Published reports, while vague, state that KDB (possibly in conjunction with other Korean banks) would take as much as a 25% stake in the company for $6 billion. Lehman's current stock market capitalization is just $11.6 billion, meaning that KDB would be paying more than double the current market rate for Lehman equity.

That seems too good to be true, given the likelihood of near-term pain in Lehman's future combined with its management's proclivity for risky deployment of its balance sheet (examples: the $13.5 billion 2007 buyout of real estate investment trust Archstone-Smith, a large owner of apartments, and a disastrous foray into Southern California real estate development with Sun-Cal.).

There do appear to be hurdles in Korea that must be surmounted for an investment of this scope to take place. According to a report in the *New York Times*, Jun Kwang-woo, head of the country's Financial Services Commission, expressed doubts last month that public-sector funds should assume a lead role in such a venture. Another report did note, however, that the FSC would keep a neutral stance on the matter until they saw the terms of any transaction.

A Lehman spokesman declined comment. But the firm's perceived eagerness to do a deal before mid-September, when it's due to unveil its latest round of dour earnings news, could mean that a deal with KDB will give Fuld another chance to resuscitate Lehman - but at the cost of another hit to current shareholders. ◙