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Sent: 8/25/2008 11:09 AM.

To: Freidheim, Scott J [Freidheim@lehman.com]; Corp Comms US [corpcommsUS@lehman.com].

Cc: .

Bcc: .

Subject: WSJ Deal Journal: Lehman, the Tooth Fairy and the Revenge of the Short-Sellers .

All,

The below WSJ Deal Journal story was just published. An email about Lehman Brothers from an unnamed hedge fund manager has been circulating to various institutions from (full text of email in story below) and led to the below story by Heidi Moore on WSJ Deal Journal.

Lehman, the Tooth Fairy and the Revenge of the Short-Sellers
<<http://blogs.wsj.com/deals/2008/08/25/lehman-the-tooth-fairy-and-the-revenge-of-the-short-sellers/>>

WSJ Deal Journal

Posted by Heidi N. Moore

August 25, 2008, 10:56 am

Lehman Brothers Holdings received another blow this morning when a potential suitor-Korea Development Bank-received a rap on the knuckles from South Korea's chief financial regulator.

"In principle, taking over a global investment bank can become an opportunity to raise the capability of the [Korean] investment banking business," Jun-Kwang Woo, the head of the country's Financial Services Commission, told the Financial Times

<http://www.ft.com/cms/s/0/ca816bd6-727f-11dd-983b-0000779fd18c.html?nick_check=1> . "But at the same time, as the risks are also big, KDB should take a cautious approach....We welcome any efforts led by the private sector to go global, but it may not be proper for state-owned financial institutions to lead the role and take on excessive burdens," he added.

To review: KDB is out. Barclays is looking for an asset-manager, not a whole investment bank. J.P. Morgan Chase is digesting Bear Stearns. It seems the potential terrestrial bidders are bowing out. Is it time to go extraterrestrial? How about the Tooth Fairy?

Well, a satiric email among fund managers suggests just that. The email (reproduced below) actually takes a swipe at many of the prominent names and storylines from the credit crunch. It takes a swipe at Lehman CEO Dick Fuld's silence of the past month-interpreting it as time allegedly spent wishing on a star. The hero-or at least the martyr-is short-seller David Einhorn, who, in this comical world, "suggested that the Tooth Fairy does not exist and that wishing upon a star is not a wholly reliable price discovery mechanism." Short-sellers, the email suggests, will be sent to re-education camps by the SEC.

Revenge of the short-sellers? Probably. One manufactured quote attributed to SEC Chairman Christopher Cox hits close to home: "Vicious rumors attacking the Tooth Fairy will not be tolerated. Our entire financial system and indeed the American way of life depend on the Tooth Fairy and wishing upon a star." From the beginning of the credit crunch, market experts have blamed fear for everything from the failure to sell asset-backed securities to the fall of Bear Stearns. The ban on naked short-selling, though it allegedly missed its mark

<<http://blogs.wsj.com/deals/2008/08/13/the-great-short-selling-ban-debate/>> technically, provided a psychological security blanket that kept many financial stocks aloft.

Of course, if rumors can't be sent through emails, revenge certainly can, and the credit crunch has provided an abundance of fuel for such snarky missives. Earlier this summer, you might remember, people

sympathetic to bond insurer MBIA mocked the efforts of short-seller Bill Ackman

<<http://blogs.wsj.com/deals/2008/02/12/bill-ackmans-poison-pen-pal/>> in a letter you can read here

<<http://online.wsj.com/public/resources/documents/RELeeletter.pdf>> .

Below, the Tooth Fairy email in its entirety.

Breaking News: Lehman To Be Acquired by Tooth Fairy

The market responded with enthusiasm to reports that the Tooth Fairy has agreed to acquire Lehman. The purchase price has not yet been determined and will be set by Dick Fuld wishing upon a star, clicking his heels three times, and being transported back to that magical place where Lehman still sells for over \$70 per share.

In related news, Lehman has agreed to sell all of its level III capital, including CDOs, ABSs, pet rocks, baseball cards, slightly used condoms, and credit default swaps written by MBIA and Ambac. Lehman's level III capital will be acquired for 150% of its face value by

Tinkerbell, who will carry it off to Neverland to be fed to a crocodile.

Lehman is financing 90% of the acquisition at an interest rate that has not been announced; Tinkerbell's up-front payment consists of a handful of pixie dust, three crickets, and a bullfrog. Analyst Dick Bove estimates that the bullfrog could eventually be transformed into three princes and a pumpkin coach. The deal gives Lehman no recourse to any of Tinkerbell's assets other than the Level III capital. If Tinkerbell defaults, Lehman's successor entity will stick its hand down the crocodile's throat and attempt to get it to regurgitate. The firm's historical value-at-risk analysis shows that sticking your hand down a crocodile's throat is completely safe.

Treasury Secretary Hank Paulson issued a statement: "I am delighted that SWFs (Sovereign Wealth Fairies) continue to express confidence in the terrific values represented by American financial institutions. As I have been saying since August of 2007, this shows that the crisis is now over."

Meanwhile, the SEC has announced an investigation of mean, evil, bad short-seller David Einhorn. While out for a beer with a friend, Einhorn reportedly suggested that the Tooth Fairy does not exist and that wishing upon a star is not a wholly reliable price discovery mechanism. Christopher Cox, chairman of the SEC, said, "Vicious rumors attacking the Tooth Fairy will not be tolerated. Our entire financial system and indeed the American way of life depend on the Tooth Fairy and wishing upon a star. How else could one value level III capital appropriately?" The SEC is reportedly planning to set up re-education camps for short-sellers.

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