

LEH: Q3 '08 - Another Quarter of Disappointing Results Driven by Writedowns

Target Price Change / Estimate Change in Bold

Ticker	Rating	CUR	10/09/2008 Closing Price	Target Price	YTD Rel. Perf.	EPS			P/E			Yield
						2007A	2008E	2009E	2007A	2008E	2009E	
LEH	M	USD	7.25	22.00	-86.8%	7.26	-12.18	2.48	1.0	NM	2.9	9.4%
OLD				28.00			-4.65	3.72				
SPX			1232.04			85.12	90.01	96.57	14.5	13.7	12.8	2.5%

O – Outperform, M – Market-Perform, U – Underperform

Highlights

- After seeing its shares fall 52% in two days, Lehman was compelled to announce preliminary Q3 '08 earnings results a week before its originally planned release date. Lehman pre-announced a loss of (\$3.90) billion, or (\$5.92) per common share for Q3 2008. Net revenues (total revenues less interest expense) for the quarter were negative (\$2.9) billion.
- **Writedowns** - The company incurred gross mark-to-market write downs on its residential and commercial real estate exposures of \$5.3 billion and \$1.7 billion, respectively. Other write downs in the quarter included \$600 million in other asset-backed assets and \$200 million on the firm's acquisition finance facilities. The write downs were offset by \$800 million in hedging gains and \$1.4 billion valuation gains on Lehman's own debt.
- **Legacy Exposures** - While the firm announced plans to sell or spin-off significant portions of its troubled asset exposures, as of yesterday, these assets had not yet been sold and still remain on Lehman's balance sheet. That said, the firm did succeed in bringing down overall troubled asset exposures over the quarter:
 - Residential Mortgage: The firm decreased its overall residential mortgage exposure by 31% (excluding the proposed \$4.0 billion sale of assets to BlackRock), reducing exposure to subprime and second lien loans by 43%. Unfortunately, \$5.3 billion of the \$7.7 billion nominal reduction in these exposures came from writedowns.
 - Commercial Mortgage: LEH decreased commercial real estate exposure by 24% during the quarter (not including assets within the firm's "real estate held for sale" portfolio), from \$29.4bn to \$24.0bn.
 - Financing Facilities: The firm decreased exposure to both high grade and high yield leveraged loans by 49% and 38%, respectively, during the quarter.
- **Operating Results** - Revenues in each of the firm's operating segments were down on both a sequential and year-over-year basis, highlighting the cyclical slowdown that all of the large-cap brokerage firms will face once the troubles largely concentrated within the credit markets recede.
- **Forecast** - We are lowering our 2008 EPS estimate for LEH to a (\$12.18) loss from a (\$4.65) loss to reflect the poor Q3 results. In addition we are lowering our Q4 EPS estimate for the firm to a (\$1.72) loss, from a 56¢ gain. We are also lowering our 2009E EPS estimate to \$2.48, from \$3.72 on weaker expected equity and fixed income sales and trading results. This implies a 10% ROE for the firm in 2009.

U.S. Brokerage

- As a result of our reduced 2009 earnings forecast, we are reducing our share price target for the firm to \$22, from \$28.
- Despite the upside our price target implies, Bernstein believes that LEH still faces significant challenges looking forward. Its troubled exposures are still high and it faces correlation risk, counterparty risk and roll risk on all the hedges supporting its troubled asset positions. However, investors should recognize that LEH has a talented and very stable management team that has led the company through difficult market environments in the past. We believe that they will do so again. We rate LEH Market-Perform.

Investment Conclusion

Certainly Lehman earnings power has been reduced by the credit crisis of 2007-2008. The firm's large MBS franchise which was responsible for over 20% of fixed income revenues is moribund and investors have backed away from highly structured products which represented 6% to 7% of fixed income revenues.

The Federal Reserve is supporting the funding of four 'surviving' large capitalization brokers, so the sharp decline in LEH's stock to date is an 'equity issue', not a credit or counterparty issue. We do not believe the central bank can allow a broker to fail as this would release an avalanche of unquantifiable systemic risk into the global bond markets and the Federal Reserve clearly does not want this to happen.

Bernstein has been on the record that we believe that LEH will eventually recover and the Federal Reserve is buying time for Lehman and the rest of the securities industry by providing access to the funding window through year end 2008. And Lehman's management has shown that (at least for now) that it is committed to deleveraging and de-risking the firm's balance sheet and strengthening its funding base. But most important, the global capital markets are not shutting down, the factors that drive the growth in global capital flows remain in place, Lehman remains a powerful force in fixed income and institutional equities in North America and the EU and, with time, Lehman will be able to recover. As a result, we believe that LEH will be able to avoid a forced 'shotgun marriage,' like the one Bear Stearns and its stockholders endured.

In the meantime, investors will have a difficult period ahead. The bond "rally" following the BSC failure proved short-lived. Bernstein does not expect a full credit market recovery until at least early 2009. This does not bode well for Lehman which, until the firm's plans to execute on its strategic initiatives, still has one of the largest exposures to the troubled areas of the fixed income markets (sub-prime and Alt-A residential and commercial real estate and leveraged loans). According to fixed income experts, the commercial real estate market is beginning to weaken and Lehman is still highly exposed to both residential and commercial mortgages.

Details

Lehman's Q3 2008 Preliminary Earnings Results

After seeing its shares fall 52% in two days, Lehman was compelled to announce Q3 '08 preliminary earnings results a week before its originally planned release date. Lehman pre-announced a loss of (\$3.9) billion, or (\$5.92) per common share for Q3 2008. Net revenues (total revenues less interest expense) for the quarter were negative (\$2.9) billion. The company incurred mark to market write downs on its residential and commercial real estate exposures of \$5.3 billion and \$1.7 billion, respectively. Other write downs in the quarter included \$600 million in other asset-backed assets and \$200 million on the firm's acquisition finance facilities. The write downs were offset by \$800 million in hedging gains and \$1.4 billion valuation gains on Lehman's own debt (see **Exhibit 1**).

As **Exhibit 2** shows, the firm was able to decrease its exposures to all troubled asset classes. We note the deduction in residential mortgage exposure is not pro-forma for the sale of \$4.0 billion of assets to BlackRock that were announced in yesterday's release.

Exhibit 1

Q3 '08 Write-Downs

\$, billions

	Q3 '08
Residential mortgage-related positions	\$ (5.3)
Commercial mortgage-related positions	(1.7)
Other asset-backed (non-residential)-related positions	(0.6)
Acquisition finance (unfunded & funded)	(0.2)
Gross Writedowns	(7.8)
Hedging Gains	0.8
Net Writedowns	(7.0)
Debt Liabilities measured at fair value	1.4
Total	(5.6)

Source: Company Disclosures, Bernstein Analysis

Exhibit 2

LEH: Q-o-Q Progression in Risk Exposure

Sequential Changes - LEHMAN BROTHERS

\$, millions

	Exposure Levels				Sequential Change		
	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q1 2008	Q2 2008	Q3 2008
Total Residential Mortgage Exposure							
U.S.-based Alt-A/Prime	12,700	14,600	10,200	5,900	15%	-30%	-42%
U.S.-based: Subprime/Second Lien	5,276	4,017	2,800	1,600	-24%	-30%	-43%
Other U.S.-based	2,300	2,100	1,300	1,100	-9%	-38%	-15%
Euro-based	10,200	9,500	9,300	7,600	-7%	-2%	-18%
Asia-based	500	700	700	500	40%	0%	-29%
ABS CDOs	1,100	900	600	500	-18%	-33%	-17%
Sub-Total¹	32,076	31,817	24,900	17,200	-1%	-22%	-31%
Commercial Mortgages							
Whole Loans	26,200	24,881	19,862	15,500	-5%	-20%	-22%
Securities	12,738	11,229	9,528	8,500	-12%	-15%	-11%
Sub-Total	38,938	36,110	29,390	24,000	-7%	-19%	-18%
Total	71,014	67,927	54,290	41,200	-4%	-20%	-24%
Financing Facilities - High Grade & High Yield							
High Grade - Contingent	10,200	7,200	1,700	700	-29%	-76%	-59%
High Grade - Unfunded	-	800	1,100	1,900	N/A	38%	73%
High Grade - Funded	1,700	2,900	3,700	700	71%	28%	-81%
TOTAL High Grade	11,900	10,900	6,500	3,300	-8%	-40%	-49%
High Yield - Contingent	9,700	3,700	400	400	-62%	-89%	0%
High Yield - Unfunded	2,700	2,200	2,100	1,800	-19%	-5%	-14%
High Yield - Funded	11,500	11,900	9,000	4,900	3%	-24%	-46%
TOTAL High Yield	23,900	17,800	11,500	7,100	-26%	-35%	-38%
Real Estate Held for Sale							
TOTAL	12,800	12,900	10,400	8,600	1%	-19%	-17%

¹ Note: Does not include \$4.0 bil reduction in UK residential mortgages related to proposed sale to BlackRock

Source: Company Disclosures, Bernstein Analysis

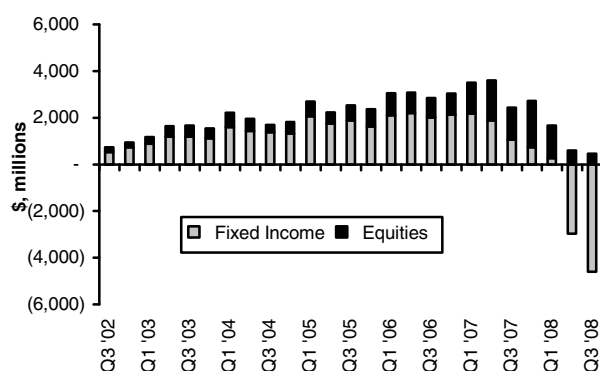
Capital Markets

Lehman reported Q3 2008 total Capital Market revenues of negative \$4.15 billion. The capital markets business was severely hurt by weakness in the Fixed Income business due to mark-to-market writedowns on both residential and commercial real estate exposures.

LEH's Fixed Income Capital Markets booked negative revenues of \$4.60 billion. Over 2003-H1 '07, Lehman had generated about 45% of its firm-wide net revenues from its Fixed income Capital Markets business (see **Exhibit 4**). However, over the last two quarters, LEH's fixed income revenues have wiped out revenue gains in all of Lehman's other businesses (see **Exhibit 3**). These severe losses were somewhat mitigated by strength in the firm's interest rates, foreign exchange and credit product franchises.

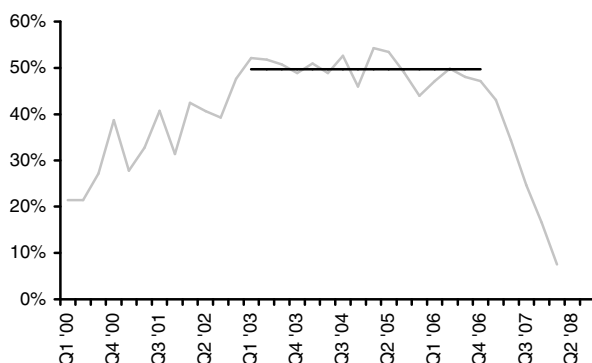
Lehman's Equity Capital Markets business recorded \$454 million of revenues in Q3 2008. Client revenues were down 22% from last quarter. The firm's cash equities and flow activity were strong in the quarter for the U.S. business, but Europe and Asia saw significant declines. Prime brokerage revenues were down driven by continued deleveraging by hedge fund clients. The firm emphasized the drop in prime brokerage was not a result of losing clients, but clients re-balancing positions.

Exhibit 3
Lehman's Capital Market Revenues



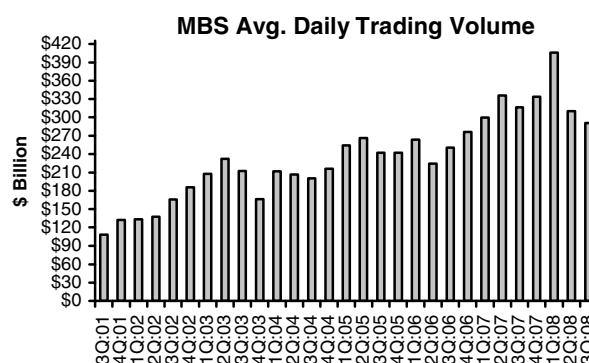
Sources: Corporate Reports, Bernstein Analysis

Exhibit 4
Lehman's Fixed Income S&T Typically Generated 50% of Firm Revenues.



Sources: Corporate Reports, Bernstein Analysis

Exhibit 5
Domestic MBS Avg. Daily Trading Volume



Sources: Federal Reserve Bank of New York, Bernstein Analysis

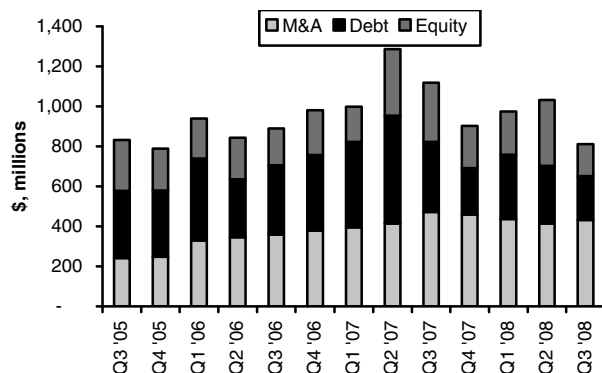
Investment Banking – M&A Holds Up, Underwriting Down

Lehman's Investment Banking Revenues of \$0.61 billion were down 29% from Q2 2008 results and down 43% from Q3 2007 results (see **Exhibit 6**). Given the weakness of the overall environment, we anticipate Lehman's peers (Morgan Stanley & Goldman Sachs) will experience similar weakness in investment banking when they report Q3 '08 results next week.

Lehman Brothers reported Q3 2008 total underwriting revenues of \$380 million, down 39% from the \$618 million reported in Q2 2008 and down 41% from the \$646 million posted in Q3 2007. For the quarter, debt underwriting brought in \$220 million, down 24% sequentially while equity underwriting revenues at \$288 million were down 52% from Q2 2008.

Lehman booked \$231 million in advisory fees in Q3 2008, down 29% from Q2 2008 results and 46% from Q3 2007 levels.

Exhibit 6

Lehman's Investment Banking Revenues

Sources: Corporate Reports, Bernstein Analysis

As we continue to move through 2008, it appears that M&A volumes face significant headwinds as new financial sponsor M&A activity remains moribund. In 2006-H1 '07, financial sponsor-related deals accounted for over 30% of domestic M&A activity and 25% of European activity.

While we expect corporate strategic activity to fare better (as they do not rely as heavily on leveraged financing) and benefit from the substitution effect of fewer financial sponsor deals, we still expect total completed M&A volumes will be down both globally and domestically as the global economic growth continues to decelerate.

Investment Management

Lehman's Investment Management revenues of \$634 million represent a 25% decline from Q2 2008, and down 21% versus Q3 2007.

In its Asset Management division, Lehman's revenues declined 27% to \$360 million, from \$496 million in Q2 '08. Assets under management of \$273 billion were down 1% sequentially with market declines offsetting asset inflows. The revenue decline largely reflects lower revenue contributions from hedge fund investments, which resulted in a \$60 million loss versus a \$70 million gain last quarter. Excluding this impact, revenues would have been down 1% sequentially.

In its Private Investment Management division (its high-net-worth client business), revenues were down 22% sequentially and down 18% from last year's levels to \$274 million

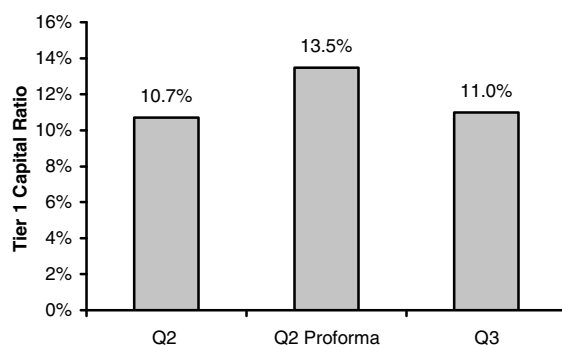
Capital and Balance Sheet Management

During Q3, Lehman Brothers' capital positions (whether it was measured in regulatory capital or equity capital) and leverage ratios deteriorated during the quarter. While a cursory glance at Lehman's earnings release yesterday would lead you to believe that LEH's capital positions and leverage ratios improved during the quarter, that does not account for the \$6bn of equity capital the firm raised at the beginning of the third quarter.

On June 9th (just 9 days into the fiscal third quarter) Lehman raised \$6bn of equity - \$4bn of common equity and \$2bn of mandatory convertible preferreds. As a result, if you examine the pro forma capital and leverage ratios for Q2 2008, you'd find that all of these measures deteriorated for Lehman in Q3 2008.

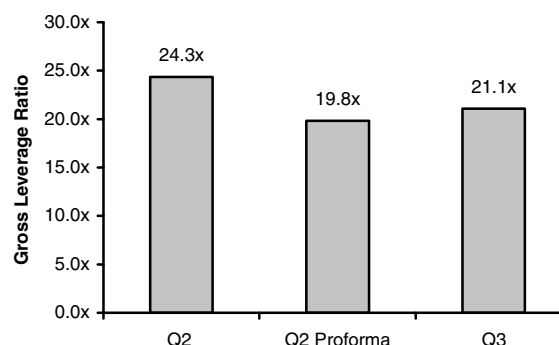
- Lehman's Tier 1 ratio finished the third quarter at 11.0%, up from 10.7% at the end of Q2 2008, but we calculate it is down from 13.5%, pro forma for the \$6bn capital raising effort during the quarter (see **Exhibit 7**).
- Similarly, while Lehman's leverage ratio improved sequentially on a statutory basis in the third quarter (from 24.3x in Q2 2008 to 21.1x in Q3 2008), including the beneficial impact of the early Q3 \$6bn capital raising effort, Lehman's gross leverage ratio would have increased from 19.8x to 21.1x (see **Exhibit 8**).

Exhibit 7
LEH's CSE Tier 1 Ratio



Source: Corporate Reports, Bernstein Analysis

Exhibit 8
LEH's Gross Leverage Ratios



Source: Corporate Reports, Bernstein Analysis

Not surprisingly, S&P placed Lehman on CreditWatch with negative implications two days ago, driven by the "heightened uncertainty about Lehman's ability to raise additional capital." In addition, S&P wrote that there was the "possibility of lowering the rating by more than one notch." If S&P were to cut LEH's credit ratings by two notches, that would put Lehman Brothers at a BBB+ rating. This would prove to be extremely negative for Lehman's fixed income franchise as clients would be more hesitant using Lehman as a trading partner due to counterparty risk. In addition, counterparties would demand additional collateral for any outstanding (and newly written) derivative contracts.

Additionally, Moody's put Lehman's credit rating on review yesterday, but with an uncertain direction. Moody's stated that the uncertainty of direction "reflects the high degree of fluidity in Lehman's current situation." Moody's currently rates Lehman Brothers at A2 (see **Exhibit 9**).

Exhibit 9

Broker Credit Ratings

Credit Ratings - S&P

	2002	2003	2004	2005	2006	H1 '07	H2 '07	H1 '08
GS	A+	A+	A+	A+	AA-	AA-	AA-	AA-
LEH	A	A	A	A+	A+	A+	A+	A
MER	A+	A+	A+	A+	AA-	AA-	A+	A
MS	A+	A+	A+	A+	A+	A+	AA-	A+

Credit Ratings - Moody's

	2002	2003	2004	2005	2006	H1 '07	H2 '07	Current
GS	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3
LEH	A2	A1	A1	A1	A1	A1	A1	A2
MER	Aa3	Aa3	Aa3	Aa3	Aa3	A1	A1	A2
MS	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3	Aa3

Upgrades are shown in boxed cells; Downgrades are shaded in grey

Source: Moody's, S&P, Bloomberg, Bernstein Analysis

Valuation Methodology

We have found that the major brokerage firms' common stocks trade on a price-to-tangible book basis. Bernstein believes that the tangible book value of a securities firm is a "hard number" for these companies reflecting the industry's mark-to-market accounting discipline and the rapid turnover of brokerage firm balance-sheets. By comparison, forecasting the highly cyclical earnings is problematic and therefore price-to-earnings valuation ratios are not accurate or stable.

We derive our price targets based upon a valuation model that takes into account Return on Equity (ROE) versus K_e (the CAPM-based cost of equity), credit rating and a variable that differentiates between the 1999-2000 internet bubble period and all other periods of history. The formula is:

- **Target Price-to-Tangible Book Value = $5.33 + 0.77 * (\text{Conditional Tangible ROE}/K_e) - 0.62 * \text{Credit Ratings} + 0.90 * \text{Internet Dummy Variable}$**

For Lehman Brothers, we expect the firm to report a 10% tangible ROE over the next 4 quarters. Based on our valuation model, this results in a target 0.8x price-to-tangible book value, leading us to our 12-month \$22 share price target.

Bernstein has used price-to-book metrics to value the large capitalization securities firms. Because earnings were difficult to be accurately forecasted and book value was viewed as a hard number, price-to-book was preferred to price-to-earnings.

Historically, the price-to-book valuation of the securities firms has been correlated with ROE/cost of equity, credit ratings and business mix. The various valuations regression equations that Bernstein has developed and used over the past seven years have had R-squared statistics that ranged from .65 to .75.

These valuation regressions are forecasting significant potential stock price appreciation for all the brokers. Unfortunately, with the book value being used for future valuation uncertain, cost of capital increasing, credit ratings at risk and the business mix of these firm's shifting as leverage changes, the results of these valuation regressions should be viewed only as long-term estimates in a 'normalized environment'. Bernstein believes that the US securities industry is in the middle of a U shaped slowdown and will not recover quickly.

Risks

The most significant risk to our 12-month share price targets for Lehman Brothers is related to the uncertainty of the earnings of the firm. The industry is still facing pressures from creditors and counterparties after the forced sale of Bear Stearns to JP Morgan Chase. Leverage is high at the company and the firm has issued more hybrid 'capital' than the major rating agencies will accept as an equity equivalent. Regulators and rating agencies are increasingly vigilant and this is forcing Lehman to decrease leverage despite difficult credit market conditions.

These difficult credit market conditions are also making hedging the RMBS, CMBS and structured product inventory positions of the firm challenging to hedge. The major derivative indices have been used to speculate in these sectors and therefore these tools have become less effective at hedging these exposures. Monoline insurers are no longer providing CDS insurance against these positions and therefore the roll risk associated with holding the positions has increased. Therefore Lehman faces significant and largely unforecastable correlation risk, roll risk and counterparty risk on its hedges.

Adding to these problems is the likelihood that Lehman Brothers is also facing the cyclical decline of an economic slowdown in the USA and in the EU. Bernstein is forecasting a relatively modest decline, with recovery in the USA beginning in Q1 2009 and in the EU in Q3 2009. A more significant downturn or a simultaneous downturn in Europe, Asia and North America would significantly worsen the outlook for the securities firms.

Exhibit 10

LEH's Quarterly Earnings Model

Lehman Brothers

Consolidated Income Statement

(\$ Millions)

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008E	FY 2008E	3Q:08 vs. 3Q:07	3Q:08 vs. 2Q:08
Revenues								
Debt Underwriting	\$ 233	\$ 322	\$ 288	\$ 220	\$ 250	\$ 1,080	-37%	-24%
Equity Underwriting	210	215	330	160	255	960	-46%	-52%
M&A Advisory	388	330	240	231	230	1,031	-46%	-4%
Investment Banking	831	867	858	611	735	3,071	-43%	-29%
Equity Sales & Trading	2,000	1,410	601	454	750	3,215	-67%	-24%
Fixed Income Sales & Trading	727	262	(2,975)	(4,602)	(1,000)	(8,315)	N/A	N/A
Capital Markets	2,727	1,672	(2,374)	(4,148)	(250)	(5,100)	-270%	N/A
Asset Management	533	618	496	360	430	1,904	-23%	-27%
Retail Brokerage	299	350	352	274	289	1,265	-18%	-22%
Investment Management	832	968	848	634	719	3,169	-21%	-25%
Net Revenues	\$ 4,390	\$ 3,507	\$ (668)	\$ (2,903)	\$ 1,204	\$ 1,140	-167%	N/A
Expenses								
Employee Compensation	\$ 2,164	\$ 1,841	\$ 2,325	\$ 1,950	\$ 1,800	\$ 7,916	-8%	-16%
Technology and Communications	311	302	309	309	314	1,234	10%	0%
Occupancy	173	185	188	202	204	779	19%	7%
Professional Services	120	98	100	104	104	406	-19%	4%
Business Development	103	89	87	68	63	307	-25%	-22%
Brokerage and Clearance	240	253	252	232	239	976	4%	-8%
Other	49	76	158	56	55	345	-33%	-65%
Special/Severance Charges	-	-	-	-	-	-	-	-
Non-Comp. Operating Expenses	996	1,003	1,094	971	979	4,047	-1%	-11%
Total Operating Expenses	\$ 3,160	\$ 2,844	\$ 3,419	\$ 2,921	\$ 2,779	\$ 11,963	-6%	-15%
Inc before Tax & Non-recurr Items	\$ 1,230	\$ 663	\$ (4,087)	\$ (5,824)	\$ (1,575)	\$ (10,823)	-583%	43%
Pretax Income	\$ 1,230	\$ 663	\$ (4,087)	\$ (5,824)	\$ (1,575)	\$ (10,823)	-583%	N/A
Income Taxes	344	174	(1,313)	(1,897)	(513)	(3,549)	-697%	N/A
--tax rate	28.0%	26.2%	32.1%	32.6%	32.6%	32.8%		
Net Income	\$ 886	\$ 489	\$ (2,774)	\$ (3,927)	\$ (1,062)	\$ (7,274)	-543%	N/A
Preferred Trust Securities Dividends	-	-	-	-	-	-		
Income (loss) before Accounting Change	886	489	(2,774)	(3,927)	(1,062)	(7,274)	-543%	N/A
Change in Accounting Principle	-	-	-	-	-	-		
Preferred Stock Dividends	(16)	(24)	(99)	(163)	(167)	(453)	859%	N/A
Earnings Applicable to Common Stock	\$ 870	\$ 465	\$ (2,873)	\$ (4,090)	\$ (1,229)	\$ (7,727)	-570%	N/A
Diluted EPS	\$ 1.54	\$ 0.81	\$ (5.14)	\$ (5.92)	\$ (1.72)	\$ (12.18)	-485%	N/A
Average Diluted Shares Outstanding (mil.)	563.7	572.8	559.3	691.2	714.2	634.4	22%	24%
Compensation / Net Revenues	49.3%	52.5%	-348.1%	-67.2%	149.5%	694.4%		
Return on Equity	16.6%	8.6%	-55.9%	-84.5%	-25.9%	-38.4%		
Pre-Tax Margin	28.0%	18.9%	611.8%	200.6%	-130.8%	-949.4%		

Sources: Corporate Reports, Bernstein Analysis

Exhibit 11

LEH's Annual Earnings Model

Lehman Brothers

Consolidated Annual Income Statement

(\$ Millions)

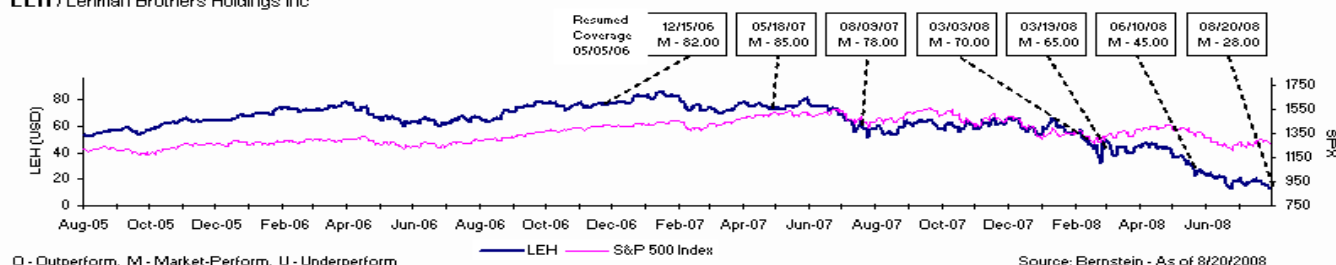
	2004	2005	2006	2007	2008E	2009E	2010E	CAGRs:	
								2007-08E	2008-09E
Revenues									
Debt Underwriting	\$ 1,002	\$ 1,304	\$ 1,425	\$ 1,551	\$ 1,080	\$ 1,068	\$ 1,164	-30%	-1%
Equity Underwriting	560	824	814	1,014	960	925	1,008	-5%	-4%
M&A Advisory	626	766	921	1,337	1,031	962	1,054	-23%	-7%
Investment Banking	2,188	2,894	3,160	3,902	3,071	2,955	3,225	-21%	-4%
Equity Sales & Trading	1,955	2,473	3,559	6,404	3,215	4,100	4,801	-50%	28%
Fixed Income Sales & Trading	5,739	7,334	8,447	5,854	(8,315)	5,000	6,473	-242%	N/A
Capital Markets	7,694	9,807	12,006	12,258	(5,100)	9,100	11,274	-142%	-278%
Asset Management	840	1,026	1,432	1,877	1,904	1,850	2,090	1%	-3%
Retail Brokerage	854	903	985	1,220	1,265	1,215	1,324	4%	-4%
Investment Management	1,694	1,929	2,417	3,097	3,169	3,065	3,414	2%	-3%
Net Revenues	\$ 11,576	\$ 14,630	\$ 17,583	\$ 19,257	\$ 1,140	\$ 15,120	\$ 17,913	-94%	1226%
Expenses									
Employee Compensation	\$ 5,730	\$ 7,213	\$ 8,669	\$ 9,494	\$ 7,916	\$ 7,558	\$ 8,912	-17%	-5%
Technology and Communications	764	834	974	1,146	1,234	1,306	1,386	8%	6%
Occupancy	421	490	539	641	779	857	943	22%	10%
Professional Services	252	282	363	466	406	446	494	-13%	10%
Business Development	211	234	301	378	307	281	316	-19%	-8%
Brokerage and Clearance	453	503	630	859	976	914	955	14%	-6%
Other	208	245	202	260	345	210	216	33%	-39%
Special/Severance Charges	19	0	0	0	0	0	0		
Total Operating Expenses	\$ 8,039	\$ 9,801	\$ 11,678	\$ 13,244	\$ 11,963	\$ 11,571	\$ 13,221	-10%	-3%
Pretax Income	\$ 3,518	\$ 4,829	\$ 5,905	\$ 6,013	\$ (10,823)	\$ 3,548	\$ 4,692	-280%	N/A
Income Taxes	1,125	1,569	1,945	1,821	(3,549)	1,057	1,398	-295%	N/A
Net Income	\$ 2,393	\$ 3,260	\$ 3,960	\$ 4,192	\$ (7,274)	\$ 2,491	\$ 3,294	-274%	N/A
Change in Accounting Principle	-	-	47	-	-	-	-		
Preferred Trust Securities Dividends	(24)	-	-	-	-	-	-		
Preferred Stock Dividends	(71)	(69)	(66)	(67)	(453)	(580)	(420)	576%	28%
Earnings Applicable to Common Stock	2,297	3,191	3,941	4,125	(7,727)	1,911	2,874	-287%	N/A
Diluted EPS	\$ 3.95	\$ 5.43	\$ 6.81	\$ 7.26	\$ (12.18)	\$ 2.48	\$ 3.41	-267.8%	N/A
Pre-Tax Margin	30.4%	33.0%	33.6%	31.2%	-949.4%	23.5%	26.2%	(98,062)	97,287
Return on Equity	17.9%	21.6%	23.4%	20.8%	-38.4%	9.5%	12.4%	(5,919)	4,792
Average Diluted Shares Outstanding (mil.)	581.4	587.2	578.4	568.3	634.4	770.0	843.8	12%	21%
Compensation / Net Revenues	49.5%	49.3%	49.3%	49.3%	694.4%	50.0%	49.8%		

Sources: Corporate Reports, Bernstein Analysis

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