

September 10, 2008

Stock Rating:

PERFORM

12-18 mo. Price Target NA
LEH - NYSE \$7.25

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$67.73-\$6.93
Shares Outstanding 694.4M
Float 524.3M
Market Capitalization \$5,034.4M
Avg. Daily Trading Volume 63,436,308
Dividend/Div Yield \$0.68/9.38%
Fiscal Year Ends Nov
Book Value \$27.29
2008E ROE NM
LT Debt \$157,114.0M
Preferred \$2,993.0M
Common Equity \$21,839M
Convertible Available No

EPS (Net)	Q1	Q2	Q3	Q4	Year	Mult.
2007A	1.96	2.21	1.54	1.54	7.26	1.0x
2008E	0.81A	(5.14)A	(5.92)	0.00	(10.24)	NM
Prior (E)	--	--	(2.70)	0.36	(6.67)	NM
2009E	0.37	0.32	0.23	0.33	1.25	5.8x
Prior (E)	0.42	0.43	0.37	0.47	1.70	4.3x

FINANCIAL INSTITUTIONS/BROKERS

Lehman Brothers Holdings Inc.

LEH Reports 3Q08 EPS Loss of (\$5.92) and Net Write-Down of \$5.6B

SUMMARY

On Wednesday, Lehman Brothers released its 3Q08 earnings one week ahead of schedule to allay investors' concerns of its financial position. LEH reported a net loss of approximately \$3.9 billion or (\$5.92) per common diluted share for 3Q08. Net revenue was negative (\$2.9) billion vs. a negative (\$668) million for 2Q08 vs. \$4.3 billion for 3Q07.

KEY POINTS

- The reported 3Q08 results included \$7.8 billion of gross mark-to-market adjustments (net markdown of \$5.6 billion) offset by \$800 million of hedging gains and \$1.4 billion of debt valuation gains (vs. our estimated \$4 billion). In addition, the company is expected to record a loss of \$760 million on principal investments.
- As of the end of 3Q08, Lehman's total risk exposure to residential mortgages, commercial mortgages, real estate, other asset-backed, and acquisition finance facilities was \$64.8 billion, down from \$89.2 billion a quarter ago. Excluding the \$4 billion pending sale of assets to BlackRock, the total pro forma risk exposure is \$60.8 billion.
- Lehman announced several key initiatives in an effort to mitigate the impact from future write-downs and return the company to profitability. These include 1) a sale of a majority stake in IMD, 2) spin-off of commercial real estate assets, 3) significant reduction in risk exposures, and 4) annual dividend cut to \$0.05 per share.
- Our FY08 EPS est. goes to a loss of \$10.24 vs. our prior loss of \$6.67. We lower our FY09 EPS est. to \$1.25 from a prior est. of \$1.70. We maintain our rating on LEH at Perform. LEH currently trades at 0.3x current BV of \$27.29 and 0.3x our 12-mo. fwd BV of \$28.18.
- We note, LEH currently trades at 0.3x current book value of \$27.29 and 0.3x our 12-month forward book value of \$28.18 (as of 9/9/08 close) but also note that it is extremely difficult to appropriately value the stock today given so many moving parts.

Stock Price Performance



Company Description

Lehman Brothers Holdings, Inc. provides financial services to corporations, governments and municipalities, institutional clients, and individuals worldwide.

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See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

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Summary

Wednesday, Lehman Brothers released its 3Q08 earnings one week ahead of schedule to allay investors' concerns of its financial position. LEH reported a net loss of approximately \$3.9 billion or (\$5.92) per common diluted share for 3Q08. Net revenue was negative (\$2.9) billion vs. a negative (\$668) million for 2Q08 vs. \$4.3 billion for 3Q07.

Key Points

- The reported 3Q08 results included \$7.8 billion of gross mark-to-market adjustments (net markdown of \$5.6 billion) offset by \$800 million of hedging gains and \$1.4 billion of debt valuation gains (vs. our estimated \$4 billion). In addition, the company is expected to record a loss of \$760 million on principal investments.
- As of the end of 3Q08, Lehman's total risk exposure to residential mortgages, commercial mortgages, real estate, other asset-backed, and acquisition finance facilities was \$64.8 billion, down from \$89.2 billion a quarter ago. Excluding the \$4 billion pending sale of assets to BlackRock, the total pro forma risk exposure is \$60.8 billion.
- Lehman announced several key initiatives in an effort to mitigate the impact from future write-downs and return the company to profitability. These include 1) a sale of a majority stake in the investment management division, 2) spin-off of most of the firm's commercial real estate assets, 3) significant reduction in risk exposures, and 4) annual dividend cut to \$0.05 per share.
- Revenues were weak across all businesses. Debt underwriting, equity underwriting, and advisory were all weaker than expected. Investment management revenue was down over 20% YoY with net inflows more than offset by market depreciation. Expenses were down but clearly not enough to offset revenue declines. Although the announced initiatives are a step in the right direction, we believe that Lehman still faces challenges to earnings given a lower capital markets environment for the next several quarters and further write-downs to its risk exposures.
- We are lowering our 4Q08 EPS estimate to flat (\$0.00) from a gain of \$0.36 (vs. consensus loss of \$0.80). Our FY2008 EPS estimate goes to a loss of \$10.24 vs. our prior estimate of a loss of \$6.67 (vs. consensus loss of \$8.24). We lower our FY2009 EPS estimate to \$1.25 from our prior estimate of \$1.70 (vs. consensus \$3.06). We maintain our rating on LEH at Perform. We note, LEH currently trades at 0.3x current book value of \$27.29 and 0.3x our 12-month forward book value of \$28.18 (as of 9/9/08 close) but also note that it is extremely difficult to appropriately value the stock today given so many moving parts.

Investment Thesis

On Wednesday, Lehman Brothers reported a net loss of approximately \$3.9 billion or (\$5.92) per common diluted share for 3Q08 (vs. our estimate of a loss of \$2.70). Net revenue was negative (\$2.9) billion vs. a negative (\$668) million for 2Q08 vs. \$4.3 billion for 3Q07 (vs. our estimate of negative \$28 million).

The reported 3Q08 results included \$7.8 billion of gross mark-to-market adjustments (net markdown of \$5.6 billion) offset by \$800 million of hedging gains and \$1.4 billion of debt valuation gains (vs. our estimated \$4 billion). In addition, the company is expected to record a loss of \$760 million on principal investments.

Lehman disclosed several initiatives:

- Intention to sell a majority stake in the investment management division which includes the asset management, private equity, and wealth management businesses. The majority stake is estimated to be ~55%.
- Significant reduction in residential mortgages (down 47% to \$13.2 billion), commercial real estate (down 18% to \$32.6 billion) and other illiquid assets.
- Spin-off a vast majority of the firm's commercial real estate assets into a new separate public company.
- Annual dividend cut to \$0.05 per share from \$0.68 per share. This will result in an annual savings of \$450 million.

Book value per share is estimated to be \$27.29 in 3Q08, down from \$34.21 reported in 2Q08. Total stockholders' equity was \$28.4 billion. Gross leverage was reduced to 21.1x from 24.3x at the end of 2Q08. Tier 1 ratio was ~11%, up from 10.7%.

Revenues were weak across all businesses. Debt underwriting, equity underwriting, and advisory were all weaker than expected. Investment management revenue was down over 20% YoY with net inflows more than offset by market depreciation. Expenses were down but clearly not enough to offset revenue declines. Although the announced initiatives are a step in the right direction, we believe that Lehman still faces challenges to earnings given a lower capital markets environment for the next several quarters and further potential write-downs to its remaining risk exposures.

Investment Banking reported 3Q08 net revenue of \$611 million, down 43% YoY and down 29% QoQ (vs. our estimate of \$760 million). Capital Markets reported negative net revenue of \$4.1 billion, down from \$2.4 billion at 3Q07 and down from a negative \$2.4 billion at 2Q08 (vs. our estimate of negative \$2.5 billion). Within Capital Markets, Fixed Income reported net revenue was a negative \$4.6 billion (vs. our estimate of negative \$3 billion), down from \$1.1 billion at 3Q07 and down from a negative \$3 billion at 2Q08.

Investment Management reported net revenue of \$634 million, down 21% YoY and 25% QoQ. Total assets under management are expected to be \$273 billion, down from \$277 billion at the end of 2Q08.

On Wednesday, Moody's Investors Service said it may change Lehman Brothers' LEH long-term debt rating, citing concerns about the risk of a rapid impairment of the investment bank's franchise. Moody's also put Lehman's "Prime-1" short-term rating on review for downgrade.

We are lowering our 4Q08 EPS estimate to flat (\$0.00) from a gain of \$0.36 (vs. consensus loss of \$0.80). Our FY2008 EPS estimate goes to a loss of \$10.24 vs. our prior estimate of a loss of \$6.67 (vs. consensus loss of \$8.24). We lower our FY2009 EPS estimate to \$1.25 from our prior estimate of \$1.70 (vs. consensus \$3.06). We maintain our rating on LEH at Perform. We note, LEH currently trades at 0.3x current book value of \$27.29 and 0.3x our 12-month forward book value of \$28.18 (as of 9/9/08 close) but also note that it is extremely difficult to appropriately value the stock today given so many moving parts.

Key Takeaways from 3Q08 Earnings Conference Call

- The company disclosed that it was finalizing a sale of UK residential assets of ~\$4 billion to BlackRock. The BlackRock transaction will be completed after the third quarter and reflected in the fourth quarter. The residential exposure excluding the BlackRock sale has been marked down to levels that imply default and cumulative loss rates well above the fundamental expectations. Residential mortgage related exposures were \$17.2 billion, down 31% QoQ. The pro forma residential mortgage related exposures accounting for the pending sale would be ~\$13.2 billion.
- LEH announced it will spin-off a vast majority of the firm's commercial real estate assets into a new separate public company called Real Estate Investments Global ("REI Global"). REI Global will be an independently managed and traded public company in 1Q09. Roughly \$25 billion to \$30 billion of commercial assets is expected be transferred to REI global. Lehman will capitalize 20% to 25% of the asset value (or \$5 billion to \$7.5 billion) and provide debt financing of 75% to 80% of the total. After the spin-off, the expected remaining commercial real estate position is \$5 billion for Lehman. The assets to be held by REI Global will be accounted for on a hold-to-maturity basis. This will allow REI Global to manage its assets without having to mark-to-market and be forced to sell assets below intrinsic value. According to the company, REI Global will not make any investments in new assets and any excess cash flow will go back to shareholders.
- The company intends to sell a majority stake in the investment management division which includes the asset management, private equity, and wealth management businesses but excludes but excludes middle-market institutional business and minority stakes in third-party hedge fund managers. The majority stake is estimated to be ~55%. The goodwill on the company's books for Neuberger will be eliminated and result in a \$3 billion benefit to Lehman's tangible book value and Tier 1 capital. Management stated that they were "in advanced discussions with a number of potential partners for the IMD business, and expect to announce the details of the transaction in due course."
- During the quarter LEH reduced gross assets by approximately 6%, from \$639 billion to approximately \$600 billion and reduced net assets by approximately 5%, from \$328 billion to approximately \$311 billion. Management expects the company to be well-capitalized with anticipated leverage of 10 to 12 times, and capital to support a \$300 billion net balance sheet.
- Management believes that the "core" company can generate minimum annual revenue of \$13 billion under various revenue scenarios and adjusting for the Investment Management transaction.

Exhibit 1. Leverage and Capital Ratios

Reported	2007Q4	2008Q1	2008Q2	2008Q3
Leverage Ratio	30.7x	31.7x	24.3x	21.1x
Adjusted Leverage Ratio	16.1x	15.4x	12.1x	10.6x
Tier 1 Capital Ratio			10.7%	11.0%

Source: Company Reports and Oppenheimer & Co. Inc.

As of the end of 3Q08, Lehman's gross leverage ratio was 21.1x, down from 24.3x at the end of 2Q08. 3Q08 estimated Tier 1 capital ratio improved to 11%, up from 10.7% from the prior quarter. Tier 1 capital ratio is expected to increase after the IMD transaction with at least a \$3 billion benefit from the elimination of goodwill for Neuberger. Total stockholders' equity was an estimated \$28.4 billion at the end of 3Q08, up from \$26.3 billion from the prior quarter.

Exhibit 2. Lehman Brothers Mark-to-Market Adjustments

Mark to market adjustments
(Unaudited)
Gain/(Loss)
(in billions)

	For the Three Months Ended May 31, 2008		For the Three Months Ended Aug. 31, 2008		Gross loss as % of Beg. Exposures		Hedge Effectiveness
	Gross	Net	Gross	Net			
Residential mortgage-related positions	\$ (2.4)	\$ (2.0)	\$ (5.3)	\$ (4.9)	(21%)		8%
Other asset-backed-related positions	(0.4)	(0.4)	(0.6)	(0.5)	(9%)		17%
Commercial mortgage and real estate-related investments	(0.9)	(1.3)	(1.7)	(1.6)	(4%)		6%
Acquisition finance facilities (funded and unfunded)	(0.3)	(0.4)	(0.2)	-	0%		100%
Subtotal	\$ (4.0)	\$ (4.1)	\$ (7.8)	\$ (7.0)			
Valuation of debt liabilities	0.4	0.4	1.4	1.4			
Total	\$ (3.6)	\$ (3.7)	\$ (6.4)	\$ (5.6)			

Source: Company Reports and Oppenheimer & Co. Inc.

The 3Q08 results include \$5.6 billion of net mark-to-market adjustments (gross \$7.8 billion) after hedging gains and debt valuation gains. This came in higher than our estimated \$4 billion net write-down. The \$5.6 billion of net mark-to-market adjustments is comprised of a \$4.9 billion net markdown for positions related to residential mortgages, \$1.6 billion for commercial mortgages and real estate, and \$0.5 billion for other asset-backed related. Partially offsetting these net write-downs was an \$800 million of hedging gains and \$1.4 billion of debt valuation gains. In addition, the company is expected to record a loss of \$760 million on principal investments.

The gross write-down of \$5.3 billion for residential mortgage related positions is a 21% markdown from beginning exposures. That markdown is more severe than the decline of 15% for the on-the-run ABX-HE AAA and 6% for the ABX-HE BBB- but less severe than the decline of 29% for the ABX-HE AA.

Exhibit 3. Quarter over quarter change for on-the-run ABX-HE Indices

	ABX-HE-A 07-2	ABX-HE-AA 07-2	ABX-HE-AAA 07-2	ABX-HE-BBB 07-2	ABX-HE-BBB- 07-2	ABX-HE-PENAAA 07-2
Fiscal 3Q08 QoQ Chg	-11%	-29%	-15%	-20%	-6%	-17%

Source: Markit Group and Oppenheimer & Co. Inc.

Exhibit 4. Lehman Brothers Residential Mortgage-Related Exposures

Residential mortgage-related
(Unaudited)
(in billions)

	At				Percent Change		
	Nov. 30, 2007	Feb. 29, 2008	May 31, 2008	Aug. 31, 2008	Feb. vs. Nov.	May vs. Feb.	Aug. vs. May
Residential mortgages							
U.S.							
Alt-A/Prime	\$ 12.7	\$ 14.6	\$ 10.2	\$ 5.9	15%	(30%)	(42%)
Subprime/Second Lien	5.3	4.0	2.8	1.6	(25%)	(30%)	(43%)
Other U.S.	2.3	2.1	1.3	1.1	(9%)	(38%)	(15%)
Subtotal	20.3	20.7	14.3	8.6	2%	(31%)	(40%)
U.S.	\$ 20.3	\$ 20.7	\$ 14.3	\$ 8.6	2%	(31%)	(40%)
Europe	10.2	9.5	9.3	7.6	(7%)	(2%)	(18%)
Asia-Pacific	0.5	0.7	0.7	0.5	40%	0%	(29%)
Other asset-backed	1.1	0.9	0.6	0.5	(18%)	(33%)	(17%)
Total	\$ 32.1	\$ 31.8	\$ 24.9	\$ 17.2	¹ (1%)	(22%)	(31%)

¹ Pro forma for the effect of pending asset sales post-third quarter, residential mortgage balance would be approximately \$13.2 billion.
Source: Company Reports and Oppenheimer & Co. Inc.

Residential mortgages had a gross write-down of \$5.3 billion and net write-down of \$4.9 billion for the third quarter (hedge efficiency ~8%). Hedges on residential mortgages were ineffective especially for Alt-As. Write-downs were driven primarily by the U.S. Alt-A/Prime exposures. The company disclosed that it was finalizing a sale of UK residential assets of ~\$4 billion to BlackRock. The BlackRock transaction will be completed after the third quarter and reflected in the fourth quarter. The residential exposure excluding the BlackRock sale has been marked down to levels that imply default and cumulative loss rates well above the fundamental expectations. Residential mortgage related exposures were \$17.2 billion, down 31% QoQ. The pro forma residential mortgage related exposures accounting for the pending sale would be ~\$13.2 billion.

Exhibit 5. Highlighted Residential Mortgage-Related Exposures after BlackRock Transaction

	\$B	Average Mark (%)		Mark Change
		3Q08	2Q08	QoQ
Alt-A exposures	3.7	39	63	(38%)
Subprime/second-lien	1.6	34	55	(38%)
European exposure	3.6	69	83	(17%)
ABS CDO asset	0.5	29	35	(17%)
Other U.S. exposures	0.5	45	48	(6%)

Source: Thomson Streetevents, and Oppenheimer & Co. Inc.

The exhibit above shows highlighted residential mortgage related exposures remaining after the pending sale of assets to BlackRock. Of the disclosed remaining exposures, the Alt-As and subprime/second-lien average marks fell the most, declining by 38% QoQ. Overall, the U.S. residential mortgage inventory had a weighted average price of 39% at the end of 3Q08, down 34% from the beginning of the quarter.

Management noted that LEH was active in trading the residential mortgage markets. The trading activity in these markets gave the firm more confidence in the accuracy of its marks. During the quarter, LEH sold \$5.5 billion and purchased \$3.2 billion of U.S. residential assets.

Exhibit 6. Highlighted Residential Mortgage-Related Exposures after BlackRock Transaction

Commercial mortgage and real estate-related investments
(Unaudited)
(in billions)

	At				Percent Change		
	Nov. 30, 2007	Feb. 29, 2008	May 31, 2008	Aug. 31, 2008	Feb. vs. Nov.	May vs. Feb.	Aug. vs. May
Commercial mortgages							
Whole loans	\$ 26.2	\$ 24.9	\$ 19.9	\$ 15.5	(5%)	(20%)	(22%)
Securities and other	12.7	11.2	9.5	8.5	(12%)	(15%)	(11%)
Subtotal	38.9	36.1	29.4	24.0	(7%)	(19%)	(18%)
Real estate held for sale (1)	\$ 12.8	\$ 12.9	\$ 10.4	\$ 8.6	1%	(19%)	(17%)
Total	\$ 51.7	\$ 49.0	\$ 39.8	\$ 32.6	(5%)	(19%)	(18%)

Source: Company Reports and Oppenheimer & Co. Inc.

Commercial mortgages and real estate-related investments had a gross write-down of \$1.7 billion and net write-down of \$1.6 billion for the third quarter (hedge efficiency ~6%). As of the end of 3Q08, commercial real estate exposure was \$32.6 billion, down 18% QoQ. Of this, whole loans continue make up the largest portion of the position at 48%.

LEH announced it will spin-off a vast majority of the firm's commercial real estate assets into a new separate public company called Real Estate Investments Global ("REI Global"). REI Global will be an independently managed and traded public company in 1Q09.

Roughly \$25 billion to \$30 billion of commercial assets is expected be transferred to REI global. Lehman will capitalize 20% to 25% of the asset value (or \$5 billion to \$7.5 billion) and provide debt financing of 75% to 80% of the total. That implies a capital ratio of 3x to 4x debt to equity. After the spin-off, the expected remaining commercial real estate position is \$5 billion for Lehman. The assets to be held by REI Global will be accounted for on a hold-to-maturity basis. This will allow REI Global to manage its assets without having to mark-to-market and be forced to sell assets below intrinsic value. According to the company, REI Global will not make any investments in new assets and any excess cash flow will go back to shareholders.

Exhibit 7. As of the end of 3Q08, Lehman's total risk exposure was \$64.8 billion

(In billions)	Gross balance as-of:			
	11/30/2007	2/29/2008	5/31/2008	8/29/2008
Residential mortgages				
Securities	\$16.7	\$18.2	\$15.0	\$9.3
Whole loans	\$14.2	\$11.9	\$8.3	\$6.3
Servicing and other	\$1.2	\$1.7	\$1.6	\$1.6
Total residential mortgages	\$32.1	\$31.8	\$24.9	\$17.2
Commercial mortgages				
Whole loans	\$26.2	\$24.9	\$19.9	\$15.5
Securities and other	\$12.7	\$11.2	\$9.5	\$8.5
Total commercial mortgages	\$38.9	\$36.1	\$29.4	\$24.0
Subtotal (Residential and Commercial Mortgages)	\$71.0	\$67.9	\$54.3	\$41.2
Other asset-backed (non-residential)	\$6.2	\$6.5	\$6.5	\$4.6
Real estate-related investments	\$12.8	\$12.9	\$10.4	\$8.6
Acquisition Finance Facilities				
High Grade				
Contingent Commitments	\$10.2	\$7.2	\$1.7	\$0.7
Unfunded Commitments	\$0.0	\$0.8	\$1.1	\$1.9
Funded Loans	\$1.7	\$2.9	\$3.7	\$0.7
Total High Grade	\$11.9	\$10.9	\$6.5	\$3.3
High Yield				
Contingent Commitments	\$9.7	\$3.7	\$0.4	\$0.4
Unfunded Commitments	\$2.7	\$2.2	\$2.1	\$1.8
Funded Loans	\$11.5	\$11.9	\$9.0	\$4.9
Total High Yield	\$23.9	\$17.8	\$11.5	\$7.1
Total Acquisition Finance Facilities	\$35.8	\$28.7	\$18.0	\$10.4
Total	\$125.8	\$116.0	\$89.2	\$64.8

Source: Company Reports and Oppenheimer & Co. Inc.

As of the end of 3Q08, Lehman's total risk exposure to residential mortgages, commercial mortgages, real estate, other asset-backed, and acquisition finance facilities was \$64.8 billion. That is down from \$89.2 billion as of the end of 2Q08 and \$125 billion from the end of 4Q07. Excluding the \$4 billion pending sale of assets to BlackRock, the total pro forma risk exposure is \$60.8.

LEH Overall Expected Results

Exhibit 8. Financial Snapshot of Lehman Brothers 3Q08 Results

Select Financial Data for Lehman Brothers

(\$ in Millions, except per share data, ROE, and where specified otherwise)

Category	3Q08	2Q08	3Q07	QoQ % Chg	YoY % Chg
Consolidated					
Total Net Revenue	(2,903)	(668)	4,308	-335%	-167%
Compensation Expense	1,950	2,325	2,124	-16%	-8%
Non-Compensation Expense	971	1,094	979	-11%	-1%
Net Operating Income	(5,824)	(4,087)	1,205	-43%	-583%
Net Income	(3,927)	(2,774)	887	-42%	-543%
Net Income Applicable to Common Stock	(4,090)	(2,873)	870	-42%	-570%
EPS	(\$5.92)	(\$5.14)	\$1.61	-15%	-468%
ROE	NM	NM	17.1%	NM	NM
Book Value Per Share	\$27.29	\$34.21	\$38.29	-20%	-29%
Business Segments Revenue					
Investment Banking					
Debt Underwriting	220	288	350	-24%	-37%
Equity Underwriting	160	330	296	-52%	-46%
Advisory Services	231	240	425	-4%	-46%
<i>Total Investment Banking</i>	<i>611</i>	<i>858</i>	<i>1,071</i>	<i>-29%</i>	<i>-43%</i>
Capital Markets					
Fixed Income	(4,602)	(2,975)	1,058	-55%	-535%
Equities	454	601	1,377	-24%	-67%
<i>Total Capital Markets</i>	<i>(4,148)</i>	<i>(2,374)</i>	<i>2,435</i>	<i>-75%</i>	<i>-270%</i>
Investment Management					
Asset Management	360	496	468	-27%	-23%
Private Investment Management	274	352	334	-22%	-18%
<i>Total Investment Management</i>	<i>634</i>	<i>848</i>	<i>802</i>	<i>-25%</i>	<i>-21%</i>
Assets Under Management (\$B)	273	277	275	-1%	-1%

Source: Company Reports and Oppenheimer & Co. Inc.

LEH reported 3Q08 EPS a net loss of approximately \$3.9 billion or (\$5.92) per common diluted share for 3Q08 (vs. our estimate of a loss of \$2.70). Net revenue was negative (\$2.9) billion vs. a negative (\$668) million for 2Q08 vs. \$4.3 billion for 3Q07 (vs. our estimate of negative \$28 million).

Compensation expense was \$1.95 billion (vs. our estimate of \$2 billion), down 8% YoY and 16% QoQ. Headcount declined by 1,500 during the third quarter. Non-compensation expense was \$971 million, down 1% YoY and 11% QoQ. Management noted that the company implemented a number of cost-saving initiatives which will generate approximately \$250 million in annualized savings going forward.

Book value per share is estimated to be \$27.29 in 3Q08, down from \$34.21 reported in 2Q08. Total stockholders' equity was \$28.4 billion. Gross leverage was reduced to 21.1x from 24.3x at the end of 2Q08. Tier 1 ratio was ~11%, up from 10.7%.

Business Segments

Investment Banking

Exhibit 9. Investment Banking Snapshot

Category	3Q08	2Q08	3Q07	% QoQ Change	% YoY Change
Investment Banking					
(\$ in Millions)					
Debt Underwriting	\$ 220	\$ 288	\$ 350	(24%)	(37%)
Equity Underwriting	160	330	296	(52%)	(46%)
Advisory Services	231	240	425	(4%)	(46%)
Total Investment Banking	611	858	1,071	(29%)	(43%)
<u>Vs. Industry Growth</u>					
(\$ in Billions)					
Global Debt Underwriting Volume	637	1,018	1,171	(37%)	(46%)
Global Equity Underwriting Volume	199	216	243	(8%)	(18%)
Global M&A Completed Deals Volume	795	898	1,241	(11%)	(36%)

Source: Company reports and Oppenheimer & Co. Inc.

Investment Banking reported 3Q08 net revenue of \$611 million (vs. our estimate of \$760 million), down 43% YoY and down 29% QoQ. Specifically, debt underwriting net revenue fell to \$220 million (vs. our estimate of \$245 million), down 37% YoY and 24% QoQ (vs. industry declines of 46% YoY and 37% QoQ). Equity underwriting net revenue fell to \$160 million (vs. our estimate of \$281 million), down 46% YoY and 52% QoQ (vs. industry decline of 18% YoY and 8% QoQ). Advisory services had revenue of \$231 million (vs. our estimate of \$234 million), down 46% YoY and 4% QoQ (vs. industry decline of 36% YoY and 11% QoQ).

Exhibit 10. In 3Q08, LEH Ranked No. 8 in Global M&A Announced Deals and No. 8 in Global M&A Completed Deals

Global M&A Announced Deals in 3Q08 (June 2008 - August 2008)				Global M&A Completed Deals in 3Q08 (June 2008 - August 2008)			
Pos.	All Advisor Parent	Deal Value \$ at Announcement (m)	No.	Pos.	All Advisor Parent	Deal Value \$ (m)	No.
1	Goldman Sachs	275,509.59	78	1	Goldman Sachs	220,997.30	74
2	Citi	251,949.01	64	2	JPMorgan	213,994.02	96
3	Merrill Lynch	241,161.88	88	3	Merrill Lynch	180,068.97	76
4	JPMorgan	239,390.10	92	4	Morgan Stanley	161,788.36	63
5	Morgan Stanley	186,893.85	76	5	Lazard	146,391.78	45
6	UBS	178,775.59	85	6	UBS	138,831.95	71
7	Deutsche Bank	164,096.55	67	7	Citi	124,803.70	71
8	Lehman Brothers	147,593.12	44	8	Lehman Brothers	121,363.13	40
9	Lazard	111,690.55	51	9	Deutsche Bank	116,701.71	72
10	BNP Paribas	103,180.27	26	10	Credit Suisse	109,509.93	78

Source: Dealogic and Oppenheimer & Co. Inc.

In 3Q08, Lehman placed No. 8 in global M&A announced deals with \$147.6 billion deal volume and 44 deals, according to data from Dealogic. Goldman Sachs led the group with \$275.5 billion in global M&A announced deal volume and 78 deals. In second was Citigroup with \$251.9 billion deal volume and 64 deals and in third was Merrill Lynch with \$241.2 billion deal volume and 88 deals.

In 3Q08, Lehman placed No. 8 in global M&A completed deals with \$121.4 billion deal volume and 40 deals. Goldman Sachs led the group in global M&A completed deals with \$221 billion deal volume and 74 deals. In second was JPMorgan with \$214 billion deal volume and 96 deals and in third was Merrill Lynch with \$180.1 billion deal volume and 76 deals.

Exhibit 11. In 3Q08, LEH Ranked No. 16 in Global Debt Underwriting and No. 7 in Global Equity Underwriting

Global Debt Underwriting in 3Q08 (June 2008 - August 2008)

(Includes only investment grade, high yield, ABS, MBS, and medium term notes)

Pos.	Bookrunner Parents	Deal Value \$ (Proceeds) (m)	No.	%share
1	Deutsche Bank	46,356.29	144	7.22
2	JPMorgan	38,008.46	161	5.92
3	Banc of America	36,728.85	211	5.72
4	Citi	36,074.25	159	5.62
5	RBS	35,863.18	120	5.59
6	Credit Suisse	35,324.80	106	5.50
7	Barclays Capital	32,893.32	187	5.13
8	UBS	29,891.93	94	4.66
9	Merrill Lynch	23,664.16	387	3.69
10	Goldman Sachs	22,777.48	64	3.55

Global Equity Underwriting in 3Q08 (June 2008 - August 2008)

Pos.	Bookrunner	Deal Value (\$m)	No.	%share
1	Merrill Lynch	23,445.40	32	11.76
2	Goldman Sachs	22,201.22	42	11.13
3	Morgan Stanley	16,210.98	34	8.13
4	JPMorgan	13,641.95	44	6.84
5	UBS	12,939.08	41	6.49
6	RBS	12,345.47	13	6.19
7	Lehman Brothers	12,263.36	18	6.15
8	Credit Suisse	11,255.82	36	5.65
9	Citi	8,357.18	34	4.19
10	BNP Paribas	5,357.33	7	2.69

Source: Dealogic and Oppenheimer & Co. Inc.

In 3Q08, Lehman placed No. 16 in global debt underwriting with \$11.1 billion in volume and a 1.7% market share. Deutsche Bank led the group with \$46.4 billion of debt underwriting volume and 7.2% market share. JPMorgan came in second with \$38 billion of debt underwriting volume and 5.9% market share. Bank of America came in third with \$36.7 billion debt underwriting volume and 5.7% market share.

In 3Q08, Lehman placed No. 7 in global equity underwriting with \$12.3 billion in deal volume and 6.2% market share. Merrill Lynch led the group with \$23.4 billion of equity underwriting volume and 11.8% market share. Goldman Sachs came in second with \$22.2 billion of equity underwriting volume and 11.1% market share. Morgan Stanley came in third with \$16.2 billion equity underwriting volume and 8.1% market share.

Capital Markets

Exhibit 12. Capital Markets Snapshot

(\$ in Millions)

Category	3Q08	2Q08	3Q07	% QoQ Change	% YoY Change
Capital Markets					
Fixed Income	(4,602)	(2,975)	1,058	(55%)	(535%)
Equities	454	601	1,377	(24%)	(67%)
Total Capital Markets	(4,148)	(2,374)	2,435	(75%)	(270%)

Source: Company reports and Oppenheimer & Co. Inc.

Capital Markets reported negative net revenue of \$4.1 billion (vs. our estimate of negative \$2.5 billion), down from \$2.4 billion at 3Q07 and down from negative \$2.4 billion at 2Q08. Inclusive of the results were gross negative mark to market adjustments of \$7.8 billion offset by \$800 million of hedging gains and \$1.4 billion of debt valuation gains. The net markdown was \$5.6 billion (vs. our estimated \$4 billion). In addition, the company is expected to record a loss of \$760 million on principal investments.

Fixed Income Capital Market reported net revenue of a negative \$4.6 billion (vs. our estimate of negative \$3 billion), down from \$1.1 billion at 3Q07 and down from negative \$3 billion at 2Q08. Equity Capital Markets reported net revenue of \$454 million, down 67% YoY and 24% QoQ.

Investment Management

Exhibit 13. Investment Management Snapshot

(\$ in Millions)

Category	3Q08	2Q08	3Q07	% QoQ Change	% YoY Change
Investment Management					
Asset Management	360	496	468	(27%)	(23%)
Private Investment Management	274	352	334	(22%)	(18%)
Total Investment Management	\$ 634	\$ 848	\$ 802	(25%)	(21%)
Assets Under Management (\$B)	\$ 273	\$ 277	\$ 275	(1%)	(1%)

Source: Company reports and Oppenheimer & Co. Inc.

Investment Management reported net revenue of \$634 million, down 21% YoY and 25% QoQ. Total assets under management were \$273 billion, down 1% QoQ and 1% YoY. Net inflows of \$11 billion were more than offset by net market depreciation of \$15 billion. Within Investment Management, Asset Management net revenues fell 23% YoY and 27% QoQ to \$360 million. Private Investment Management net revenues fell 18% YoY and 22% QoQ to \$274 million.

Exhibit 14. Composition of assets under management

Composition of Assets Under Management	3Q08	2Q08	3Q07	% QoQ Change	% YoY Change
Equity	98	109	104	(10%)	(6%)
Fixed Income	93	75	72	24%	29%
Money Markets	44	54	69	(19%)	(36%)
Alternative Investments	38	39	30	(3%)	27%
Assets Under Management	273	277	275	(1%)	(1%)

Source: Company reports and Oppenheimer & Co. Inc.

Money market and equity funds had the largest decline in assets on a QoQ basis, declining 19% and 10%, respectively. Fixed income funds increased assets by 24% QoQ and 29% YoY. Alternative investment funds had a decline of 3% in assets from the last quarter.

The company intends to sell a majority stake in the investment management division which includes the asset management, private equity, and wealth management businesses but excludes but excludes middle-market institutional business and minority stakes in third-party hedge fund managers. The majority stake is estimated to be ~55%. The goodwill on the company's books for Neuberger will be eliminated and result in a \$3 billion benefit to Lehman's tangible book value and Tier 1 capital. Management stated that they were "in advanced discussions with a number of potential partners for the IMD business, and expect to announce the details of the transaction in due course."

Earnings

We are lowering our 4Q08 EPS estimate to flat (\$0.00) from a gain of \$0.36 (vs. consensus loss of \$0.80). Our FY2008 EPS estimate goes to a loss of \$10.24 vs. our prior estimate of a loss of \$6.67 (vs. consensus loss of \$8.24). We lower our FY2009 EPS estimate to \$1.25 from our prior estimate of \$1.70 (vs. consensus \$3.06).

We maintain our rating on LEH at Perform. We note, LEH currently trades at 0.3x current book value of \$27.29 and 0.3x our 12-month forward book value of \$28.18 (as of 9/9/08 close) but also note that it is extremely difficult to appropriately value the stock today given so many moving parts.

Exhibit 15. Earnings Estimates

(US\$) Period	Oppenheimer Prior	Oppenheimer Current	Chg	FC Consensus Current	Opco Est. Above (Below) FC
4Q08	0.36	0.00	(100%)	(0.80)	NM
1Q09	0.42	0.37	(12%)	0.69	(46%)
2Q09	0.43	0.32	(26%)	0.70	(55%)
3Q09	0.37	0.23	(37%)	0.62	(62%)
FY2008	(6.67)	(10.24)	(54%)	(8.24)	(24%)
FY2009	1.70	1.25	(27%)	3.06	(59%)

* First Call consensus estimate as-of 9/9/2008

Source: Company reports, First Call (via Reuters), and Oppenheimer & Co. Inc.

Risk Exposures and Write-downs

Exhibit 16. Exposures to Sub-prime Mortgages and ABS CDOs, Commercial Mortgage Related, Alt-As, and Leveraged Finance by Broker

(in million US\$)

Company	As-of	Sub-prime mortgage related and ABS CDO exposures	Gross or Net Exposure	As-of	Commercial Mortgage Related Exposures and/or CMBS	Gross or Net Exposure	As-of	Alt-A	Gross or Net Exposure	As-of	Leveraged Finance	(F)unded, (U)nfunded, or (B)oth	Total
MS	5/31/08	300.0	Net	2008Q2	6,400.0	Net	2008Q2	2,400.0	Net	2008Q2	12,700.0	B	21,800
UBS	6/30/08	6,700.0	Net	2008Q2	8,200.0	Net	2008Q2	6,400.0	Net	2008Q2	6,100.0	B	27,400
MER	7/28/08	5,740.0	Net	2008Q2	8,447.0	Net	2008Q2	5,880.0	Net	2008Q2	7,500.0	B	27,567
GS	5/31/08	1,937.0	Gross	2008Q2	16,572.0	Gross	2008Q2	4,704.0	Gross	2008Q2	22,340.0	B	45,553
LEH	8/31/08	1,600.0	Gross	2008Q3	24,000.0	Gross	2008Q3	5,900.0	Gross	2008Q3	7,100.0	B	38,600
C	6/30/08	22,500.0	Net	2008Q2	19,100.0	Net	2008Q2	16,400.0	Net	2008Q2	24,200.0	B	82,200
JPM	6/30/08	300.0	Net	2008Q2	11,600.0	Net	2008Q2	10,600.0	Net	2008Q2	18,900.0	B	41,400
BAC	6/30/08	5,168.0	Net	2008Q2	9,204.0	Net	2008Q2		Net	2008Q2	10,215.0	B	24,587
WB	6/30/08	1,909.0	Net	2008Q2	756.0	Net	2008Q2		Net	2008Q2	3,766.0	B	6,431
Total		46,154			104,279			52,284			112,821		315,538

1 JPM's \$1.9b gross exposure to subprime and CDO related exposures is off-set by ~\$1.6 billion in hedges (as-of 6/30/2008).

2 Represents UBS' exposures to U.S. commercial real estate market of \$8.2 billion, which includes super senior CMBS CDOs of \$0.7 billion, U.S. CMBS/CMBX trading positions of \$4.6 billion, and U.S. commercial real estate loans of \$2.9 billion. At the end of July, these exposures have been reduced back to levels below those reported at the end of Q1.

3 Represents Lehman Brothers' total gross commercial mortgage inventory.

4 Represents Bank of America's capital markets commercial mortgage related exposure of funded \$8.487B and unfunded \$717M.

5 Represents Lehman Brothers' exposure to U.S. residential mortgages classified as Alt-A or Prime.

6 Represents C's exposure on a fair value basis as-of 2Q08.

7 Represents Citigroup's leverage loans balance as-of the end of 2Q08 (of which \$11.2 billion funded and \$13 billion unfunded)

8 Represents BAC's exposure to CDOs, including \$358m in net exposure to subprime super senior liquidity commitments, \$3,143m other super senior subprime exposure, and \$1,667m in retained securities on CDOs.

9 Represents Goldman Sachs' gross subprime exposure as-of 5/31/2008. The company's total gross residential loan exposure was \$15.238 billion as of 5/31/2008.

10 Represents Lehman Brothers' U.S. subprime/second lien exposure as-of 8/31/2008. The company's total residential mortgage gross exposure was \$17.2 billion as of 8/31/2008.

11 Represents Merrill Lynch's proforma net exposure that includes the sale of \$6.7 billion of U.S. super senior ABS CDOs to affiliate of Lone Star Funds.

Source: Company reports and Oppenheimer & Co. Inc.

Exhibit 17. Write-downs to Risk Exposures

Markdowns on Mortgage Related and Levered Lending Exposures (US\$ in millions)	Reported 3Q07	Reported 4Q07	Reported 1Q08	Reported 2Q08	Reported 3Q08	Total
Bank of America	(1,647)	(5,280)	(2,095)	(972)		(9,994)
Bear Stearns	(700)	(1,900)				(2,600)
Citigroup	(3,800)	(18,100)	(13,036)	(7,200)		(42,136)
Goldman Sachs	(1,500)		(1,000)	(775)		(3,275)
JPMorgan	(1,639)	(1,300)	(2,352)	(1,101)		(6,392)
Lehman Brothers	(700)	(1,500)	(2,100)	(5,000)	(7,000)	(16,300)
Merrill Lynch	(7,900)	(11,500)	(6,600)	(9,700)		(35,700)
Morgan Stanley	(1,420)	(9,400)	0	(1,522)		(12,342)
UBS	(3,799)	(13,700)	(19,200)	(5,100)		(41,799)
Wachovia	(1,300)	(1,700)	(1,973)	(936)		(5,909)
Total	(24,405)	(64,380)	(48,356)	(32,306)	(7,000)	(176,447)

Source: Company reports and Oppenheimer & Co. Inc.

Exhibit 18. Subprime Related Exposures

	MS	UBS	MER	GS	LEH	C	JPM	BAC	WB
	Net 5/31/2008	Net 6/30/2008	Net 7/28/2008	Gross 5/31/2008	Gross 8/31/2008	Net 6/30/2008	Net 6/30/2008	Net 6/30/2008	Net 6/30/2008
Subprime Exposures (US\$ in billions)									
<i>ABS CDO Super Senior Exposure</i>									
ABCP						\$14.4			
High-Grade	\$0.0	\$0.3				\$2.0		\$1.1	\$0.0
Mezzanine	\$1.6	\$3.3				\$1.6		\$0.6	\$0.4
CDO-Squared	\$0.0	\$0.0				\$0.2		\$1.8	\$0.0
Total ABS CDO Super Senior Exposure	\$1.6	\$3.6	\$1.6			\$18.1		\$3.5	\$0.4
<i>Other Retained and Warehouse Exposure</i>									
ABS CDO CDS	(\$0.8)								
ABS CDO Bonds	\$0.7								
CDO Warehouse	\$0.0					\$0.1			
Total Other Exposures (Retained and Warehouse Exposure or Secondary Trading)	(\$0.1)	\$0.1	\$0.2			\$0.1		\$1.7	\$0.0
Subtotal ABS CDO Related Exposure	\$1.5	\$3.7	\$1.8			\$18.2		\$5.2	\$0.4
<i>U.S. Subprime Mortgage Related Exposure</i>									
Subprime Loans	\$0.4		\$1.0			\$2.8			
Subprime Securities			\$2.9			\$1.5			
Subprime Residuals									
Drawn Liquidity Facilities									
Total Rate of Return Swaps	\$0.1								
ABS Bonds	\$1.3								
ABS CDS	(\$3.0)								
Subtotal U.S. Subprime Mortgage Related Exposure	(\$1.2)	\$3.0	\$3.9	\$1.8		\$4.3	\$0.3		\$1.5
Total ABS CDO & Subprime Exposure	\$0.3	\$6.7	\$5.7	\$1.8		\$22.5	\$0.3	\$5.2	\$1.9

Source: Company reports and Oppenheimer & Co. Inc.

Oppenheimer & Co. Inc.
LEHMAN BROTHERS
Income Statement

\$ in Millions, Except Per Share Data

							2007				2008				2009			
	2004A	2005A	2006A	2007A	2008E	2009E	1Q07A	2Q07A	3Q07A	4Q07A	1Q08A	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E
Diluted EPS	\$3.95	\$5.43	\$6.74	\$7.26	(\$10.24)	\$1.25	\$1.96	\$2.21	\$1.54	\$1.54	\$0.81	(\$5.14)	(\$5.92)	\$0.00	\$0.37	\$0.32	\$0.23	\$0.33
Annual EPS growth	-37.7%	37.5%	24.0%	7.7%	-241.1%	-112.2%	12.0%	30.5%	-2.2%	-10.5%	-58.6%	-332.4%	-484.6%	-99.9%	-54.2%	-106.2%	-104.0%	22367.4%
OPERATING RATIOS																		
As a X of Trading and Commissions																		
Interest Income	1.5x	2.0x	2.6x	3.6x			2.6x	3.1x	4.8x	4.7x	6.7x	-2.8x	-1.3x	5.0x	4.7x	4.7x	4.7x	4.7x
As % of Interest Income																		
Interest Expense	88%	93%	96%	95%			96%	95%	96%	94%	92%	89%	88%	89%	90%	90%	90%	90%
As a % of Net Revenues																		
Compensation Expenses	49%	49%	49%	49%	272%	55%	49%	49%	49%	49%	52%	-348%	-67%	60%	55%	55%	55%	53%
Non-Compensation Expenses	20%	18%	17%	19%	141%	31%	17%	17%	23%	23%	29%	-164%	-33%	35%	29%	30%	32%	32%
Operating Margin	21%	22%	23%	22%	-210%	10%	23%	23%	21%	20%	14%	415%	135%	3%	11%	10%	9%	10%
Margin (Net Revenues)	30.4%	33.0%	33.6%	31.2%	-313.0%	14.7%	33.7%	34.1%	28.0%	28.0%	18.9%	611.8%	200.6%	5.0%	16.1%	15.0%	12.6%	15.0%
Tax Rate	32.0%	32.5%	32.9%	30.3%	32.8%	32.5%	32.5%	32.3%	26.4%	28.0%	26.2%	32.1%	32.0%	32.0%	32.5%	32.5%	32.5%	32.5%
Dividend Payout	0%																	
Interest Income + Dividends	11,032	19,043	30,284	41,693			9,089	10,558	10,910	11,136	9,635	7,771	6,064	4,360	4,730	4,475	4,397	4,442
Interest Expense	9,674	17,790	29,126	39,668			8,748	10,067	10,431	10,422	8,863	6,908	5,306	3,880	4,257	4,028	3,958	3,998
Net Interest Income	1,358	1,253	1,158	2,025	2,873	1,805	341	491	479	714	772	863	758	480	473	448	440	444
Principal Transactions	5,741	7,811	9,687	9,120	(7,070)	3,839	2,921	2,889	1,612	1,698	773	(3,442)	(5,273)	872	1,006	952	936	945
NII + Principal Transactions	7,099	9,064	10,845	11,145	(4,197)	5,644	3,262	3,380	2,091	2,412	1,545	(2,579)	(4,515)	1,352	1,479	1,400	1,375	1,389
Revenues:																		
Commissions	1,537	1,728	2,144	2,470	2,336	2,189	540	568	674	688	658	639	569	470	542	513	504	630
Investment Banking	2,188	2,894	3,160	3,902	2,992	2,895	850	1,150	1,071	831	867	858	611	656	747	747	703	699
Asset Management and Other	752	944	1,434	1,740	1,777	2,038	395	414	472	459	437	414	432	494	519	504	502	513
Total Other Revenues	4,477	5,566	6,738	8,112	7,104	7,121	1,785	2,132	2,217	1,978	1,962	1,911	1,612	1,619	1,807	1,764	1,708	1,842
Operating Net Revenue	11,576	14,630	17,583	19,257	2,907	12,765	5,047	5,512	4,308	4,390	3,507	(668)	(2,903)	2,971	3,287	3,163	3,083	3,232
Plus: One Time Gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equals: Net Revenue	11,576	14,630	17,583	19,257	2,907	12,765	5,047	5,512	4,308	4,390	3,507	(668)	(2,903)	2,971	3,287	3,163	3,083	3,232
Other Expenses:																		
Communications	764	834	974	1,146			266	287	282	311	302	309	309					
Occupancy	421	490	539	641			146	152	170	173	185	188	202					
Depreciation	-	-	-	-			-	-	-	-	-	-	-					
Business Development	211	234	301	378			84	100	91	103	89	87	68					
Brokerage Fees	453	503	630	859			194	201	224	240	253	252	232					
Professional Services	252	282	363	466			98	120	128	120	98	100	104					
Other	227	245	202	260			72	55	84	49	76	158	56					
Total Oper. Exp.	2,328	2,588	3,009	3,750	4,108	3,921	860	915	979	996	1,003	1,094	971	1,040	950	950	987	1,034
Reserves	-	-	-	-			-	-	-	-	-	-	-					
Other Charges	-	-	-	-			-	-	-	-	-	-	-					
Total Other Exp.	2,328	2,588	3,009	3,750	4,108	3,921	860	915	979	996	1,003	1,094	971	1,040	950	950	987	1,034
Operating Income b/f comp.	9,248	12,042	14,574	15,507	(1,201)	8,845	4,187	4,597	3,329	3,394	2,504	(1,762)	(3,874)	1,931	2,337	2,213	2,097	2,197
Compensation Exp.	5,730	7,213	8,669	9,494	7,899	6,969	2,488	2,718	2,124	2,164	1,841	2,325	1,950	1,783	1,808	1,740	1,708	1,713
Omnitel Comp. Exp.	-	-	-	-			-	-	-	-	-	-	-					
Severance Expense	-	-	-	-			-	-	-	-	-	-	-					
Total Compensation Expense	5,730	7,213	8,669	9,494	7,899	6,969	2,488	2,718	2,124	2,164	1,841	2,325	1,950	1,783	1,808	1,740	1,708	1,713
Income before Taxes	3,518	4,829	5,905	6,013	(9,099)	1,876	1,699	1,879	1,205	1,230	663	(4,087)	(5,824)	149	529	473	389	485
Provision for Taxes	1,125	1,569	1,945	1,821	(2,988)	610	553	606	318	344	174	(1,313)	(1,897)	48	172	154	126	158
Net Operating Income	2,393	3,260	3,960	4,192	(6,111)	1,266	1,146	1,273	887	886	489	(2,774)	(3,927)	101	357	320	262	327
Margin (net rev.)	20.7%	22.3%	22.5%	21.8%	-210.2%	9.9%	22.7%	23.1%	20.6%	20.2%	13.9%	415.3%	135.3%	3.4%	10.9%	10.1%	8.5%	10.1%

Oppenheimer & Co. Inc.
LEHMAN BROTHERS
Income Statement

\$ in Millions, Except Per Share Data

							2007				2008				2009			
	2004A	2005A	2006A	2007A	2008E	2009E	1Q07A	2Q07A	3Q07A	4Q07A	1Q08A	2Q08	3Q08	4Q08E	1Q09E	2Q09E	3Q09E	4Q09E
Diluted EPS	\$3.95	\$5.43	\$6.74	\$7.26	(\$10.24)	\$1.25	\$1.96	\$2.21	\$1.54	\$1.54	\$0.81	(\$5.14)	(\$5.92)	\$0.00	\$0.37	\$0.32	\$0.23	\$0.33
Annual EPS growth	-37.7%	37.5%	24.0%	7.7%	-241.1%	-112.2%	12.0%	30.5%	-2.2%	-10.5%	-58.6%	-332.4%	-484.6%	-99.9%	-54.2%	-106.2%	-104.0%	22367.4%
Pre-tax Margin	30.4%	33.0%	33.6%	31.2%	-313.0%	14.7%	33.7%	34.1%	28.0%	28.0%	18.9%	611.8%	200.6%	5.0%	16.1%	15.0%	12.6%	15.0%
Preferred Dividend Net To Shareholders													(163) (4,090)					
Avg. Basic Shares O/S	549.2	556.4	542.9	540.5	623.3	691.2	540.9	538.2	540.4	542.6	551.5	559.3	691.2	691.2	691.2	691.2	691.2	691.2
Avg. Diluted Shares O/S	581.2	587.2	578.4	568.3	628.6	691.2	575.4	568.1	565.8	563.7	572.8	559.3	691.2	691.2	691.2	691.2	691.2	691.2
Ending Book Value	\$24.66	\$28.75	\$33.87	\$39.45	\$27.28	\$28.49	\$35.15	\$37.15	\$38.29	\$39.45	\$39.45	\$34.21	\$27.29	\$27.28	\$27.64	\$27.95	\$28.18	\$28.49
Avg. Book Value	\$23.86	\$26.71	\$31.31	\$36.66	\$33.37	\$27.89	\$34.51	\$36.15	\$37.72	\$38.87	\$39.45	\$36.83	\$30.75	\$27.29	\$27.46	\$27.80	\$28.06	\$28.34
Tangible Book											\$32.45	\$27.06	\$23.20	\$22.38	\$22.74	\$23.05	\$23.28	\$23.59
Dividend	\$0.64	\$0.40	\$0.48	\$0.60	\$0.52	\$0.04	\$0.15	\$0.15	\$0.15	\$0.15	\$0.17	\$0.17	\$0.17	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01
ROE B/f Spec. Div.	17.1%	20.6%	21.7%	20.0%	-29.0%	6.4%	24.4%	25.8%	17.1%	16.6%	8.7%	-53.6%	-73.4%	2.0%	7.5%	6.5%	5.2%	6.6%
ROE Calc. aft. Spec. Div.	16.6%	20.4%	21.5%	19.8%	-30.7%	4.5%	23.1%	24.3%	16.2%	15.9%	8.3%	-55.4%	-76.3%	0.0%	5.5%	4.5%	3.3%	4.7%

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Morgan Stanley (MS - NYSE, 38.92, PERFORM)

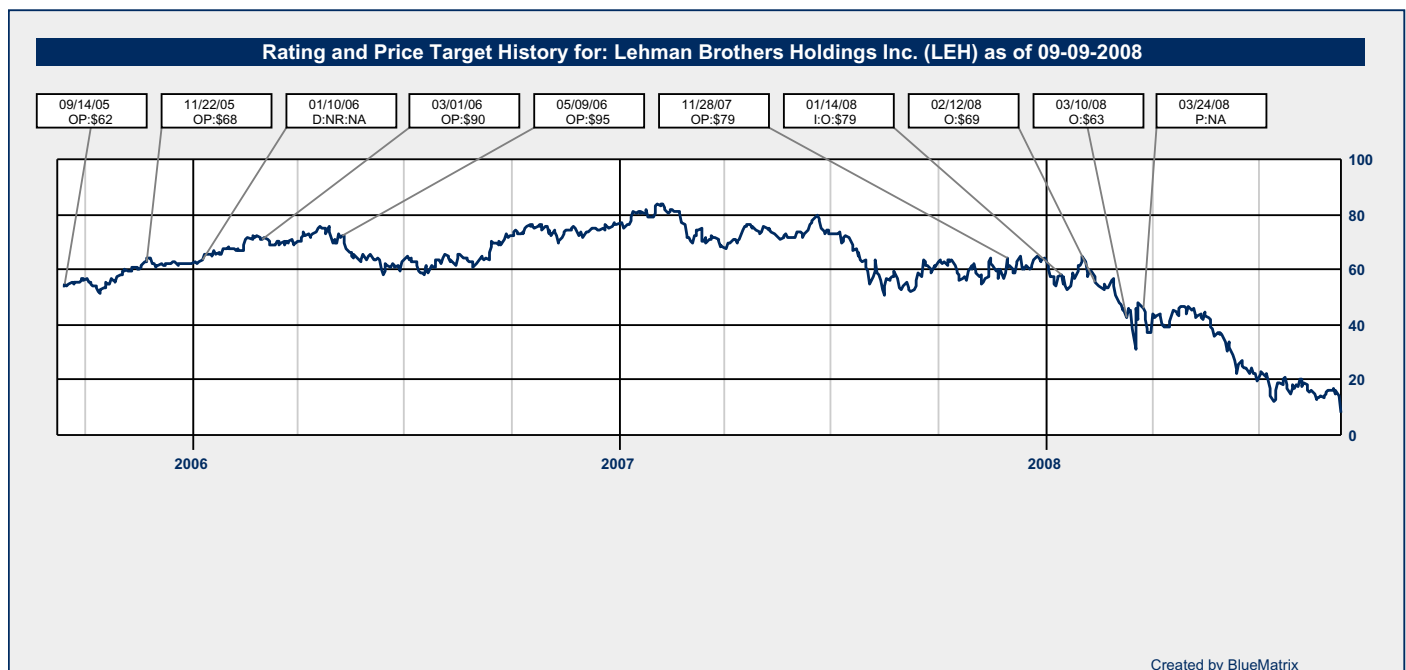
UBS AG (UBS - NYSE, 20.78, UNDERPERFORM)

Bank of America (BAC - NYSE, 32.40, PERFORM)

Citigroup Inc. (C - NYSE, 18.68, UNDERPERFORM)

JP Morgan Chase & Company (JPM - NYSE, 39.40, PERFORM)

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Distribution of Ratings/IB Services Firmwide				
Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	343	47.64	138	40.23
PERFORM [P]	347	48.19	114	32.85
UNDERPERFORM [U]	30	4.17	7	23.33

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