



# Lehman Brothers (LEH)

## Dealing with the Problem

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### COMPANY & MARKET DATA

Rating Status	Buy
Price	\$15.50
Price Target, Excl Dividends YE08	\$20.00
52 Week Range	\$12.00 - \$67.73
Market Capitalization (mm)	\$8,866
Assets (mm)	\$639,432
Fully Diluted Shares Outstanding (mm)	572
Average Daily Trading Volume (000)	44,810
Book Value per Share	\$34.48
Tangible Book Value per Share	\$27.14
Dividend (FY08E)/Yield	\$0.68 4.4%

### ESTIMATES

	FY2007A	FY2008E	FY2009E	FY2010E
Revenue/Share	\$33.82	\$12.21	\$23.76	\$26.24
February EPS	\$1.96	\$0.81	\$0.44	\$0.65
May EPS	\$2.21	(\$5.14)	\$0.50	\$0.65
August EPS	\$1.54	(\$2.32)	\$0.46	\$0.58
November EPS	\$1.54	\$0.31	\$0.54	\$0.72
<b>EPS</b>	<b>\$7.26</b>	<b>(\$6.33)</b>	<b>\$1.93</b>	<b>\$2.60</b>
Prior EPS	\$7.26	(\$6.33)	\$1.93	\$2.60
<i>Consensus EPS</i>		<i>(\$6.09)</i>	<i>\$3.29</i>	<i>\$4.05</i>

### RATIOS

P/R	0.46x	1.27x	0.65x	0.59x
P/E	2.13x	N.M.	8.0x	6.0x

Price/Book	0.45x
Price/Tangible Book	0.57x

Projected Growth Rate	N.M.
P.E./Growth	N.M.
Annualized Current ROE	N.M.
Annualized Current ROA	N.M.
Common Equity/Assets	3.73%
Tangible Common Equity/Assets	3.08%



Source: Trade Station

### Highlights

- Lehman Brothers reputedly is about to lay off 1,500 sales people and traders. This announcement is expected to be the first in a series that may be made in the next 10 days as Lehman comes to grip with its problems.
- The company is facing a large number of very unhappy investors and employees. The reason for the upset is that the company may have been too slow to recognize the problems on its balance sheet. Management may have believed that by simply waiting and "toughing it out" it would be able to deal with its current challenges.
- The sharp decline in its stock price and, what I believe is, the real likelihood of a hostile takeover may now be forcing management to deal with its problems. These problems are three fold in nature.
- First, it is believed that Lehman must more aggressively write down its commercial real estate holdings; its residual holdings in residential real estate offerings; and its hedge fund investments.
- Second, the firm must bring in capital to offset the write downs no matter how dilutive. Third, it must re-establish its relationship with key employees who feel that their incomes have been hurt because they were willing to take Lehman stock rather than cash for their bonuses.
- This requires decisive action. The presumed layoff is believed to be the first step toward addressing these issues. More announcements are expected soon.
- I repeat, that if Lehman does not take these actions it is likely that an outsider will do this for the firm through a hostile takeover. There are at least three types of firms who could buy and restructure Lehmann: private equity funds, banks, and investment banking firms.
- This saga is not likely to continue much longer. Since I believe the result will be a positive one, the stock is being recommended for purchase despite its dismal third fiscal quarter (ends August 31) expectations. Lehman continues to be one of the most attractive firms in the business.

Disclosures and Analyst Certifications can be found in Appendix A.

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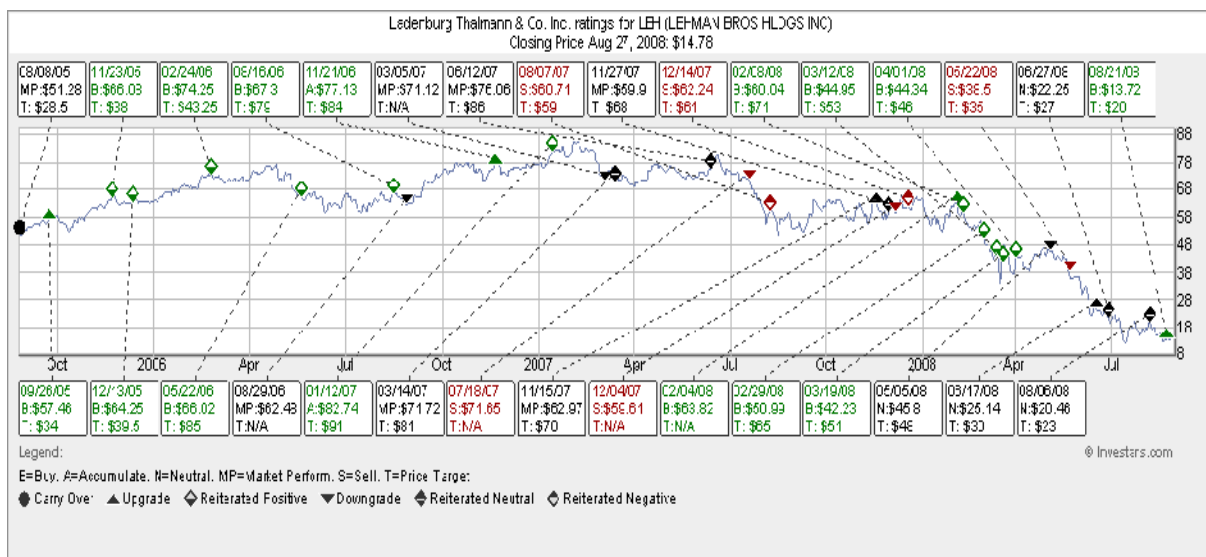
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