

REUTERS

Lehman shares plunge on capital raising fears

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By Dan Wilchins

NEW YORK (Reuters) - Lehman Brothers Holdings Inc (LEH.N: [Quote](#), [Profile](#), [Research](#)) shares tumbled to close at nearly a 5-year low on Tuesday on concern that Wall Street's smallest surviving major brokerage may need to raise more capital.

The upheaval at Lehman -- which has already cut thousands of jobs and raised \$4 billion to cushion the impact of previous write-downs -- was the latest reminder that it and larger rivals may be struggling to put the credit crunch behind them.

Lehman shares temporarily cut their losses after the company denied market rumors that it had borrowed directly from the Federal Reserve in recent days, but still fell 9.5 percent, their steepest drop since the Bear Stearns meltdown in March.

"I think there's still a confidence issue there," said **Joe Saluzzi**, co-manager of trading at **Themis Trading** in Chatham, New Jersey. "The market may be saying: 'Well, we've heard this before.' Bear Stearns is still fresh in people's minds."

Lehman said it last used the Fed credit line on April 16 "for testing purposes." It also said in an e-mailed statement that the company "finished the second quarter well above \$40 billion" in terms of liquidity.

Lehman spokeswoman Kerrie Cohen declined to comment on a report in The Wall Street Journal that Lehman was considering raising billions of dollars in fresh capital.

A source familiar with the situation earlier said Lehman had no need to raise capital and would do so only if the right market opportunity presented itself, or if the firm thought it would help investors' perceptions.

The source said a move to raise capital was only one of "dozens" of options for the investment bank.

The decline in Lehman shares dragged the broader market lower and the Standard & Poor's Financials index closed at its lowest level since the broader market's 2008 low of March 17 -- the day JPMorgan Chase & Co (JPM.N: [Quote](#), [Profile](#), [Research](#)) agreed to buy Bear Stearns at the fire sale price of \$2 a share -- later raised to \$10.

THE 'DRUMBEAT'

The Journal quoted analysts and Wall Street executives as saying Lehman was likely to seek \$3 billion to \$4 billion. The paper said the plans suggest the investment bank would post a second-quarter loss deeper than the \$300 million that analysts expect.

Some analysts said there was no urgent need for Lehman to further bolster its balance sheet.

"In our view, there is no immediate need to raise equity capital, and the company would only take this painful step in an effort to cease the drumbeat of negative perceptions," David Trone, an analyst for Fox-Pitt, Kelton, wrote in a research note.

Lehman shares are down 53 percent so far this year, far underperforming the Amex Securities Broker Dealer index .XBD, which has lost 21 percent in 2008.

"There's a broad sense in the market that some of the brokers need to raise capital imminently -- sooner than thought," said Peter Kenny, a managing director at Knight Equity Markets in Jersey City, New Jersey.

Despite the share drop and Standard & Poor's decision on Monday to cut its counterparty risk ratings for Lehman, other Wall Street companies do not appear to be pulling back from trading with it.

According to one equity derivatives trader who declined to be identified, Lehman is perceived to be "pretty well capitalized." While bank risk managers may have the firm on their radar screens, it would take a multiple-notch downgrade before firms stop trading with Lehman.

"We would only be concerned if it got much, much worse," he said, adding: "They're a solid company. They're not a small regional bank or a regional airline."

IT'S A LIABILITY'

But others were not as sanguine.

Aneet Deshpande, head trader at Allegiant Asset Management, a unit of National City Bank, said the fund is analyzing the risk associated with some over-the-counter derivatives positions it entered with Lehman.

"It's a liability," he said, although he added he does not expect to have to close the positions based on current information about Lehman's credit-worthiness.

Deshpande is watching to see whether other Lehman clients start to take their business elsewhere, due to concerns about the firm's stability. If that happens, Allegiant may have to consider unwinding its OTC positions, he said.

Lehman might issue common stock, diluting current shareholdings and will probably reveal its capital plans when it reports quarterly results the week of June 16, the Journal reported.

Lehman's market value was about \$16.9 billion based on Tuesday's closing price, according to Reuters data, down almost \$2 billion from what it was worth at Monday's close.

According to recent analysts' research notes, Lehman has been hurt by hedges used to offset losses in various securities.

Second-quarter losses from asset write-downs and ineffective hedges are likely to have topped \$2 billion, the Journal said. The bank will also realize losses tied to job cuts, it said, citing a person familiar with the matter.

In May, Lehman decided to cut around 1,300 jobs, or nearly 5 percent of its work force, a person briefed on the matter said. It had laid off more than 5,000 people since the middle of 2007.

Financial institutions globally have suffered more than \$350 billion in write-downs or credit losses tied to risky subprime mortgages and other debt.

Many have raised billions of dollars in capital, including Merrill Lynch & Co Inc (MER.N: [Quote](#), [Profile](#), [Research](#)) and Morgan Stanley (MS.N: [Quote](#), [Profile](#), [Research](#)).

S&P cut its credit ratings for Lehman, Merrill and Morgan Stanley on Monday, saying write-downs "may continue to depress earnings."
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Lehman is no stranger to worries about its cash problems. In 1998, it had to fight off concern about its survival after the Long Term Capital Management hedge fund collapsed.

(Additional reporting by Varsha Tickoo and Tenzin Pema in Bangalore; Kristina Cooke, Ellis Mnyandu, Christian Plumb and Elinor Comlay in New York; Satomi Noguchi in Tokyo; and Kevin Plumberg in Hong Kong; editing by Andre Grenon/Jeffrey Benkoe)