

# LEHMAN BROTHERS

TRACY BINKLEY  
MANAGING DIRECTOR

April 13, 2007  
*Revised May 1, 2007*

Mr. Michael Gelband  
30 Stewart Road  
Short Hills, NJ 07078

Dear Mike:

This letter agreement will confirm our understanding with respect to your separation from employment with Lehman Brothers Inc. and its parent, subsidiaries and affiliates (collectively, the "Firm").

1. You will continue to remain an active employee through June 15, 2007 (the "transition period"), provided that you comply with all Firm policies and reasonable job requirements through the end of such period. During your transition period, you will remain on payroll and will continue to receive your biweekly base salary and your benefits coverage under the terms of our plans. At the end of your transition period, you will resign your position as Managing Director and all committee memberships and other titles you hold with the Firm (the "resignation date"). This resignation date will be considered your termination date for purposes of your licenses and registration (and the filing of a form U-5) and for purposes of all outstanding equity awards. The form U-5 will indicate a "mutual agreement" separation.
2. Following your transition period, you will continue to receive base salary and benefits coverage until the earlier of January 31, 2008 or the date on which you become associated with another firm (your "separation date"). Beginning at the end of your transition period and continuing through your separation date, you will not be expected to report to work, but you agree to remain available to the Firm for consultation concerning your areas of responsibility, as may be requested by Joe Gregory.
3. You will receive a special separation payment on or about January 31, 2008, provided (i) you have not engaged in "Competitive Activity" (as defined on Exhibit B) prior to July 1, 2007 and (ii) you have complied with terms of this agreement, including your agreement not to engage in "Detrimental Conduct" (defined in paragraph 9(a) below)

LEHMAN BROTHERS INC.

745 SEVENTH AVENUE NEW YORK, NY 10019 212 526 8023 FAX 646 758 4523

Confidential Treatment Requested By Lehman Brothers Holdings, Inc.

**LBEX-AM 340311**

CONFIDENTIAL TREATMENT REQUESTED BY  
LEHMAN BROTHERS HOLDINGS, INC.

through January 31, 2008 (the date of payment). The amount of the special separation payment will be \$10,000,000; provided, however, that this amount will be increased to \$20,000,000, if you have not engaged in "Competitive Activity" through the date of payment. For purposes of this paragraph, "Competitive Activity" includes accepting or publicly announcing (directly or indirectly) future employment at a Competitive Firm (as defined in paragraph 9(a) below). Such special separation payment will be entirely in cash, as you are not eligible to participate in the Firm's 2007 Equity Award Program. You agree that your right to this special separation payment is in lieu of any rights you may have to severance benefits under the terms of the Lehman Brothers Severance Plan.

4. If you become associated with another firm as an employee, consultant or independent contractor at any time through your separation date, you must promptly inform the Firm so that your employment may be officially terminated at that time. In such event, your salary will end.
5. For reference, your outstanding Firm-provided equity awards are summarized on the attached Exhibit A. Note that for purposes of your equity award holdings, your separation is treated as an involuntary termination without cause as of your resignation date (assuming your continued employment through such date). You are also eligible for "Full Career" treatment on certain year-end awards, as indicated on Exhibit A, pursuant and subject to the terms of the applicable equity award agreements. For purposes of the summary below, "Detrimental Activity" has the meaning set forth in the applicable award agreement. For your reference, this definition is reproduced on Exhibit B. With respect to the awards, you and Lehman acknowledge the following:
  - a) With respect to the restricted stock units ("RSUs") issued to you pursuant to the Firm's Equity Award Program, you will be eligible to receive the number of shares of freely tradable common stock of Lehman Brothers Holdings Inc. ("LBHI") indicated under the "Retained" column for RSUs on the dates indicated under the related "Issuance" column, provided you do not engage in "Detrimental Activity" through such dates.
  - b) None of the 2006 Performance RSUs previously granted to you will have vested as of your resignation date, and you will therefore not be entitled to retain any of them.
  - c) With respect to all options awarded to you other than the options awarded to you on December 9, 2005 (described in paragraph d below), the unexercised portion of such options will become exercisable on the resignation date, and will remain exercisable through the applicable expiration date, provided you do not engage in Detrimental Activity through the exercise date.
  - d) With respect to the options awarded to you on December 9, 2005, these options will be entirely canceled if your resignation date is on or before June

9, 2007. If your resignation date is after June 9, 2007, then the option will expire December 8, 2010, and will become exercisable on the earlier of (i) such date on or after November 30, 2007 that the stock price exceeds \$83 or (ii) June 9, 2010, provided you have not engaged in Detrimental Activity through the exercise date.

6. With respect to your participation in investment partnerships (Capital Partners II, L.P., Capital Partners III, L.P., Capital Partners IV, L.P., Venture Capital Partners I, L.P., Communications Capital Partners I, L.P., and Partnership Account 2000/2001), you will remain as an active limited partner in accordance with the terms of the controlling partnership documents.
7. You have not vested in, and therefore are not eligible for, any retirement benefit under the terms of the Lehman Brothers Holdings Inc. Supplemental Retirement Plan ("SERP"). You are, however, 100% vested in your accrued retirement benefit under the terms of the Lehman Brothers Inc. Retirement Plan, pursuant and subject to the terms of such plan.
8. Except as otherwise provided by the terms of the applicable plans or programs or by this letter agreement, you will not be eligible for any continuing coverage or participation under the Firm's employee benefit or compensation plans or programs after your separation date. For information concerning post-separation medical plan coverage under COBRA, please contact Wendy Uvino at (212) 526-8249.
9. In consideration of the benefits described in this agreement, you agree as follows:
  - a) you will not engage in "Detrimental Conduct" through January 31, 2008. For purposes of this paragraph 9(a) and the special separation payment described in paragraph 3 above, Detrimental Conduct means (i) any conduct that constitutes "Detrimental Activity" (as defined on Exhibit B) or (ii) the solicitation or hiring of any Restricted Employee of the Firm into any position that is directly or indirectly under your management at a Competitive Firm, without regard to your direct personal involvement in such solicitation or hiring. For purposes of the preceding sentence "Restricted Employee" means any individual (i) who is employed by the Firm as a Managing Director or (ii) who is employed by the Firm as a Vice President or higher in the Fixed Income Division (or supporting the Fixed Income Division), or in Global Principal Strategies, or (iii) who is employed by the Firm as a Vice President or higher who directly interacted with you on business matters within the twelve months preceding your resignation date; or any individual who was so employed by the Firm at any time within the 12 months preceding such solicitation or hiring; and "Competitive Firm" means any entity that would be deemed competitive for purposes of determining "Competitive Activity" (as defined on Exhibit B). You further agree and acknowledge that your obligations under this paragraph are separate from, and in addition to, any restrictions and forfeiture remedies applicable to your outstanding equity

award agreements pursuant and subject to the terms thereof. Finally, you acknowledge that in the event of your breach of your obligations under this paragraph, you will not receive the special payment described in paragraph 3 above and that, further, the Firm will be entitled to all additional remedies at law or in equity arising from such breach.

- b) you hereby release the Firm, including all affiliated companies, past and present parents, subsidiaries and divisions and present and former employees, officers, directors, successors and assigns, from all claims you may now have based on your employment with the Firm, or the termination of that employment, to the maximum extent permitted by law. This includes a release, to the maximum extent permitted by law, of any rights or claims you may have under federal, state or local laws of the United States, including: the Age Discrimination in Employment Act, which generally prohibits age discrimination in employment; Title VII of the Civil Rights Act of 1964, which generally prohibits discrimination in employment based on race, color, national origin, religion or sex; the Americans with Disabilities Act, which generally prohibits discrimination on the basis of disability; the Employee Retirement Income Security Act of 1974, which governs the provision of pension and welfare benefits; and all other federal, state or local laws prohibiting employment discrimination. This also includes a release by you of any claims for wrongful discharge, any compensation claims, or any other claims under any statute, rule, regulation or under the common law. This release covers both claims that you know about and those you may not know about.
- c) you will reasonably cooperate with the Firm with respect to matters relating to your responsibilities while employed by the Firm, including but not limited to any business-related litigations, arbitrations or investigations. In such event, the Firm will reimburse you for all reasonable out-of-pocket expenses relating to such cooperation, in accordance with standard Firm policy. The Firm will also consider the reimbursement of reasonable legal expenses that may reasonably be required by you in connection with such cooperation;
- d) you will be available from time to time through January 31, 2008 to the CEO and President of the Firm and their designees to advise on business matters related to clients that you have covered and other matters pertaining to your areas of expertise and experience, provided such activities do not conflict with your obligations to a new employer;
- e) you will maintain in strictest confidence all confidential or proprietary information concerning or relating to the Firm and/or its clients and not disclose or provide access to or copies of such information, directly or indirectly, to any other person or entity without the Firm's prior written consent; and

- f) you will not disparage the Firm or its directors or officers, and you will not direct, encourage or suggest in any way to any other person that such other person disparage the Firm or its directors or officers. The Firm's CEO and President similarly agree not to disparage you. Nothing in this paragraph prevents responding truthfully to any inquiry from applicable regulatory authorities or to provide information pursuant to legal process.
10. Nothing in this agreement affects your eligibility for indemnification pursuant and subject to the terms and conditions set forth in the corporate charter and by-laws.
  11. All payments described in this letter are subject to applicable tax withholding.
  12. It is intended that none of the payments otherwise payable in this agreement shall be deferred, accelerated, extended, paid out or modified in a manner that would result in the imposition upon you of an additional tax under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided that neither the Firm nor any of its employees or representatives shall have any liability to you with respect to any such taxes. In the event that it is reasonably determined by the Firm that, as a result of Section 409A of the Code, payments hereunder may not be made at the time contemplated by the terms of this agreement without causing you to be subject to taxation under Section 409A of the Code, the Firm will make such payment on the first day that would not result in your incurring any tax liability under Section 409A of the Code.
  13. You will keep this letter and its terms in strictest confidence and will not disclose information concerning it to anyone other than your immediate family or professional advisors without prior written consent of the Firm, except as required by law.
  14. You have been given a period of twenty-one days from the date of this letter to review and consider it before signing. In addition, you may revoke your agreement to this letter within seven days of your signing it by delivering a written notice of revocation to me at 745 7<sup>th</sup> Avenue, New York, New York. Should you revoke your agreement, this letter agreement will be null and void.
  15. This letter constitutes the entire agreement between you and the Firm and supersedes any other written or unwritten agreement between you and the Firm with respect to the separation of your employment. This letter may only be amended or terminated by a written agreement signed by you and by me or the Firm's Chairman or Chief Legal Officer, subject to final approval by the Compensation Committee. This letter will be binding on the Firm and its successors and assigns.
  16. The parties agree that this contract will be governed by New York law. You agree that any controversies arising out of or relating to this letter or your employment by the Firm shall be submitted to and settled by arbitration pursuant to the rules as then in effect of the National Association of Securities Dealers.

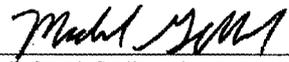
Mr. Michael Gelband  
April 13, 2007  
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If this letter accurately reflects our understanding, please sign in the space indicated below and return the signed copy to me.

Very truly yours,

  
Tracy Einkley  
Global Director of Human Resources

Accepted and Agreed:

  
\_\_\_\_\_  
Michael Gelband

5/2/07  
Date

**EXHIBIT A**

<b>SUMMARY OF EQUITY AWARD HOLDINGS AS OF MARCH 23, 2007            ASSUMED TERMINATION WITHOUT CAUSE DATE OF JUNE 15, 2007*</b>						
<b>RSUs</b>	<u>Award Date</u>		<u>Outstanding</u>	<u>Retained</u>	<u>Issuance</u>	
		2002	57,261	57,261	11/30/07	
		2003	147,680	147,680	08/31/08	
		2004	203,142	203,142	08/31/08	
		2005	119,883	119,883	08/31/08	
		2006	195,086	195,086	11/30/11	
<b>Perf RSUs</b>		2006	27,869	0	n/a	
<b>OPTIONS</b>		<u>Exercise Price</u>			<u>Expiration</u>	
		09/20/01	\$23.32	40,824	40,824	09/19/11
		12/03/01	\$31.70	53,034	53,034	11/29/11
		12/11/02	\$27.21	86,814	86,814	11/29/12
		12/10/03	\$35.695	123,392	123,392	11/29/13
		12/09/05**	\$63.825	400,000	400,000	12/8/10

\* Such termination is deemed to be "Full Career" termination for purposes of all the awards in this Exhibit A except the Performance RSUs and the 12/09/05 option award.

\*\* The options granted 12/09/05 will be canceled in their entirety in the event of a separation date on or before June 9, 2007.

**EXHIBIT B**

“Competitive Activity” means involvement (whether as employee, proprietor, consultant or otherwise) with any person or entity (including any company and its affiliates) engaged in any business activity which is materially competitive with any business carried on by Holdings or any of its subsidiaries or affiliates on the date of termination of a person's employment with Holdings and any of its subsidiaries, as determined in the sole discretion of an Appropriate Officer.

“Detrimental Activity” means at any time (i) using information received during a person's employment with Holdings or any of its subsidiaries relating to the business affairs of Holdings or any of its subsidiaries, affiliates or clients, in breach of such person's undertaking to keep such information confidential; (ii) directly or indirectly persuading or attempting to persuade, by any means, any employee of Holdings or any of its subsidiaries or affiliates to terminate employment with any of the foregoing or to breach any of the terms of his or her employment with the foregoing; (iii) directly or indirectly making any statement that is, or could be, disparaging of Holdings, its subsidiaries or affiliates, or any of their affiliates (except as necessary to respond truthfully to any inquiry from applicable regulatory authorities or to provide information pursuant to legal process); or (iv) directly or indirectly engaging in any activity that is, or could be, substantially injurious to the financial condition, reputation, or goodwill of Holdings or its subsidiaries or affiliates, in each case as determined in the sole discretion of an Appropriate Officer.

For purposes of this Exhibit B, “Holdings” means Lehman Brothers Holdings Inc., and “Appropriate Officer” means the Chief Executive Officer or Chief Operating Officer of Holdings (or their respective designees).