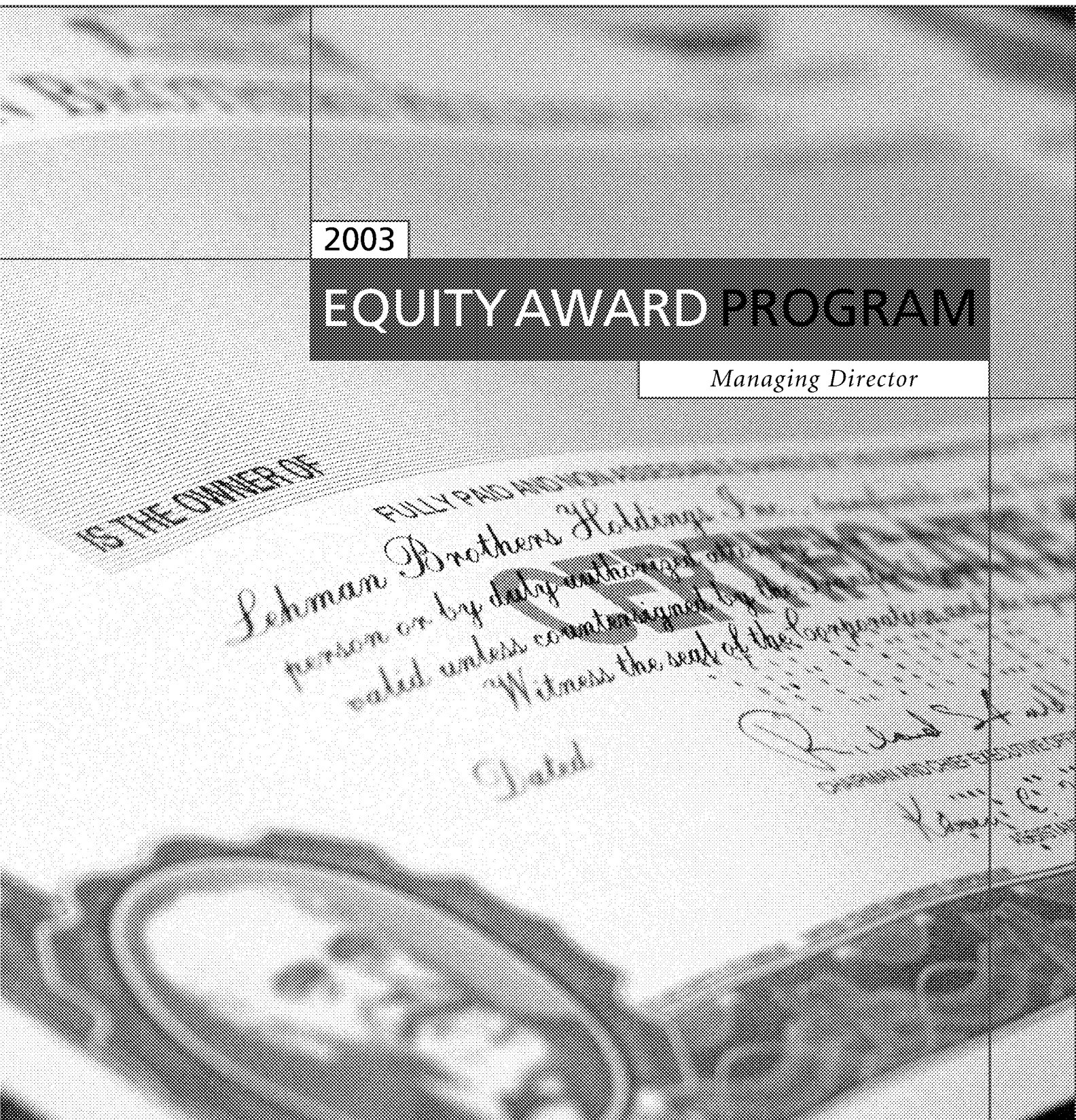


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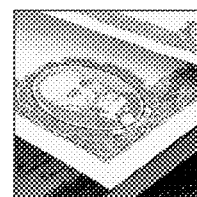
EQUITY AWARD PROGRAM

Managing Director



LEHMAN BROTHERS

2003 EQUITY AWARD PROGRAM



Managing Director

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This brochure describes significant features of the Lehman Brothers Equity Award Program for 2003. It is not intended to replace the award agreement or other official plan documents. This brochure should be read in conjunction with the other award documents.

2003 EQUITY AWARD PROGRAM AT A GLANCE

- All Managing Directors (MDs) receive a portion of their total compensation in conditional equity awards. The amount of compensation payable in equity increases as the amount of your compensation rises.
- The equity component of total compensation is in a combination of restricted stock units (RSUs) and stock options. Seventy-five percent of your 2003 equity award was in RSUs; 25 percent was in stock options.
- Each RSU represents the conditional right to receive one share of Lehman Brothers common stock five years after the RSU is granted, assuming continued employment with the Firm. On November 30, 2008, the restriction period will end, and you will be entitled to receive one share of Lehman Brothers common stock for each vested RSU you hold at that time. Once your RSUs convert to common stock, they become freely tradable. The RSUs cannot be sold, transferred or pledged before conversion.
- Your 2003 RSUs were calculated based on the price of \$49.97 per RSU (reflecting a December 10, 2003 market price of \$71.39, less a 30 percent discount).
- Your 2003 stock options have an exercise price of \$71.39 and will expire on November 29, 2013. The number of options you received was based on the Black-Scholes value (\$27.79) of a 10-year Lehman Brothers option, less a 30 percent discount (\$19.45).

Your Award Summary details your 2003 award.



HOW THE EQUITY AWARD PROGRAM WORKS

The Equity Award Program for Managing Directors (MDs) was developed to recognize the critical role you, as an MD, play in the success of the Firm. As an MD, you help drive the Firm's profitability, ensure the quality and integrity of service to our clients and customers, and are responsible for attracting and developing talent. Given your key role in Lehman Brothers' success, it is important for you to have a significant stake in the Firm. With this in mind, the Equity Award Program for MDs was designed to deliver a significant portion of your compensation in conditional equity awards (restricted stock units (RSUs) and stock options), which you acquire at a substantial discount. The Program provides you with an incentive to think and act like an owner every day, and allows you to share in the Firm's financial success over time.

Your 2003 equity award was awarded to you as a portion of your 2003 compensation. Seventy-five percent of your 2003 equity award was in RSUs; 25 percent was in stock options. Each RSU represents the conditional right to receive one share of Lehman Brothers common stock five years after the grant date, on November 30, 2008. You can consider the RSUs as shares of Lehman Brothers common stock that the Firm holds on your behalf for five years, which you will be entitled to receive at that time provided, you meet certain terms and conditions. The RSUs cannot be sold, traded, or pledged for that five-year period.

The stock options awarded to you in 2003 will expire on November 29, 2013. These options may not be sold, traded or pledged and may only be exercised by you (or your estate in the event of your death).

The Size of Your Award

The Award Summary shows your 2003 equity award. The amount of each individual's award is determined according to a schedule that specifies the awards granted at each level of compensation. Under this schedule, the amount of compensation paid in the form of conditional equity awards (RSUs and stock options) increases as total compensation rises.

Salaried Members of the Firm: Your award was based on your 2003 total compensation, which

includes salary earned in fiscal year 2003 plus any additional compensation with respect to fiscal year 2003, even if some of these payments are deferred or paid in 2004. Such compensation includes 2003 bonus, commissions, and other compensation.


Investment Representatives (IRs): Similar to salaried employees, you received a year-end conditional equity award as a portion of your 2003 total compensation. Your equity award accrued on a monthly basis, as a portion of your total payout on gross production during December 2002 through October 2003 (paid from January through November 2003) after all adjustments. For 2003, the portion of your total payout in cash (such as cash commissions) and the portion accrued in conditional equity awards were based on the award schedule previously communicated to you. (A copy of 2003 Equity Award Schedule appears on page 5.) The 2003 payout may have included regular grid production payout, certain special payments, and other production payout. During any period an IR is paid a draw, equity (in the form of RSUs and/or stock options) is awarded with respect to the amount of the draw. If the draw ends and the IR has earned production payout in excess of the draw, a portion of the excess ("overage") is paid in cash and a portion is accrued toward a year-end equity award (in the year in which overage is accrued).

Note that for purposes of this brochure, all references to payout or compensation assume compensation payments that are equity eligible only.

The Firm-Provided Discount

The number of RSUs you received for 2003 was based on the closing price of Lehman Brothers common stock (\$71.39 per share), less a 30 percent discount. With a 30 percent discount, every \$100 of compensation in RSUs gives you \$143 in value. A 30 percent discount really means that the Firm "grosses up" your contribution 43 percent at the outset.

The number of options you received for 2003 was based on the Black-Scholes value (\$27.79) of a 10-year Lehman Brothers option on December 10, 2003, less a 30 percent discount (\$19.45). These options have an exercise price of \$71.39. Your 2003 options will expire approximately 10 years after the grant date, on November 29, 2013.



The amount of compensation paid in equity increases as the amount of total compensation rises.



COMPONENTS OF 2003 EQUITY AWARD

Equity Award in RSUs and Stock Options

All MDs receive a portion of their total compensation in the form of conditional equity awards. The equity component of total compensation is in a combination of both RSUs and stock options. Seventy-five percent of your 2003 equity award was in RSUs; 25 percent was paid in stock options.

Description	RSUs	Stock Options
Grant Date:	December 10, 2003	December 10, 2003
Market Price:	\$71.39	N/A
Exercise Price:	N/A	\$71.39
Black-Scholes Value:	N/A	\$27.79
Discount:	30%	30%
Cost to MD:	\$49.97	\$19.45
Restriction Period:	5 years, until 11/30/08	N/A
Option Period:	N/A	10 years, until 11/29/13



EQUITY AWARD VESTING

When will my RSUs vest?

The vesting provisions of your 2003 RSUs are consistent with last year's MD RSUs. For purposes of discussing the vesting schedule, you should consider your RSU award as having two components: the **principal portion** and the **discount portion**. The principal portion represents the number of RSUs awarded as part of your 2003 compensation before the discount (70 percent of the award). The discount portion represents 30 percent of your RSU award.

Your RSUs will vest in two stages:

- 3 Years (November 30, 2006): Half of the principal portion
- 5 Years (November 30, 2008): Half of the principal portion plus the discount portion

Notwithstanding the above, in the event your employment is terminated with Cause or you engage in Detrimental Activity prior to November 30, 2008, all of your RSUs will be forfeited. Please refer to page 10 for the definition of Detrimental Activity.

When will my stock options become exercisable?

You should consider your stock option award as having two components: the **principal portion** and the **discount portion**. The principal portion represents the number of stock options awarded as part of your 2003 compensation before the discount (70 percent of the award). The discount portion represents 30 percent of your stock option award.

Your stock options will become exercisable in two stages:

- 3 Years (November 30, 2006): Half of the principal portion
- 5 Years (November 30, 2008): Half of the principal portion plus the discount portion

Notwithstanding the above, in the event your employment is terminated with Cause or you engage in Detrimental Activity prior to November 29, 2013, all of your stock options will be forfeited. Please refer to page 10 for the definition of Detrimental Activity.

Please refer to the *Termination Provisions for RSUs and Stock Options* on page 8 for a detailed explanation of how your RSUs and stock options may be affected if you leave Lehman Brothers, including the circumstances under which you may forfeit your rights to your RSUs and stock options.



SALARIED MEMBERS OF THE FIRM

2003 Equity Award Schedule

The participation schedule for 2003 is listed below. This schedule reflects the equity portion of 2003 total compensation. An example of the calculations follows.

Total Compensation Range	Portion of 2003 Compensation Paid Through Equity Award Program
\$0 - \$99,999	2% of 2003 total compensation
\$100,000 - \$199,999	\$2,000 plus 6% of 2003 total compensation over \$100,000
\$200,000 - \$299,999	\$8,000 plus 10% of 2003 total compensation over \$200,000
\$300,000 - \$499,999	\$30,000 plus 16.25% of 2003 total compensation over \$300,000
\$500,000 - \$749,999	\$62,500 plus 20% of 2003 total compensation over \$500,000
\$750,000 - \$999,999	\$112,500 plus 35% of 2003 total compensation over \$750,000
\$1,000,000 - \$1,499,999	\$200,000 plus 44% of 2003 total compensation over \$1,000,000
\$1,500,000 - \$1,999,999	\$420,000 plus 56% of 2003 total compensation over \$1,500,000
\$2,000,000 - \$2,499,999	\$700,000 plus 60% of 2003 total compensation over \$2,000,000
\$2,500,000 and up	40% of 2003 total compensation

Award Calculation Example

Using the equity award schedule above, your 2003 equity award was determined at year-end based on your 2003 total compensation.

EXAMPLE: As an example, we'll go through the calculation for an MD whose 2003 total compensation was \$1,000,000.

2003 Total Compensation:	\$1,000,000
Equity Award Based on 2003 Grid:	\$200,000
RSU Component:	\$150,000 (75% of Total Equity)
Stock Option Component:	\$50,000 (25% of Total Equity)

Based on a stock price of \$71.39 and a Black-Scholes option value of \$27.79, the components of the 2003 equity award are as follows:

RSU Component	Market Price	Discount Price	Number of Shares
RSU Award (75%): \$150,000	\$71.39	\$49.97	3,002
Option Component			
Option Award (25%): \$50,000	\$27.79 (a)	\$19.45	2,571
Total 2003 Equity Award: \$200,000			

(a) Black-Scholes value

Note to Investment Representatives (IRs): Your 2003 equity award was accrued as a portion of your monthly payout. Please refer to the section *IRs: Calculating Your 2003 Monthly Accrual* on page 6 for an illustration of how your monthly equity award accrual was determined.

INVESTMENT REPRESENTATIVES (IRs)

2003 Equity Award Schedule

The participation schedule for 2003 is listed below. This schedule reflects the equity portion of 2003 total compensation. * An example of the calculations follows.

Total Compensation Range *	Portion of 2003 Compensation Paid Through Equity Award Program
\$0 - \$99,999	2.50% of 2003 total compensation
\$100,000 - \$199,999	\$2,500 plus 7.50% of 2003 total compensation over \$100,000
\$200,000 - \$299,999	\$10,000 plus 12.50% of 2003 total compensation over \$200,000
\$300,000 - \$499,999	\$37,500 plus 20.31% of 2003 total compensation over \$300,000
\$500,000 - \$749,999	\$78,125 plus 25.00% of 2003 total compensation over \$500,000
\$750,000 - \$999,999	\$140,625 plus 43.75% of 2003 total compensation over \$750,000
\$1,000,000 - \$1,499,999	\$250,000 plus 55.00% of 2003 total compensation over \$1,000,000
\$1,500,000 - \$1,999,999	\$525,000 plus 70.00% of 2003 total compensation over \$1,500,000
\$2,000,000 - \$2,499,999	\$875,000 plus 75.00% of 2003 total compensation over \$2,000,000
\$2,500,000 and up	50% of 2003 total compensation

*For purposes of the 2003 Equity Award Program for IRs, 2003 total compensation includes only 11 months of total compensation earned during December 2002 through October 2003 (paid January through November 2003).

Managing Director



Calculating Your 2003 Monthly Accrual

As an example, we'll go through the monthly calculation for an MD IR whose 2003 total compensation earned from December 2002 through October 2003 (paid from January through November 2003) was \$900,000.

Step	Instructions	Sample Calculation	Sample Result
Step 1	Take YTD Total Payout for first month and annualize (multiply by 12 and divide by production month number).	$\$80,000 \times 12 \div 1$	\$960,000
Step 2	Calculate equity accrual from 2003 award schedule on page 5.	\$960,000	\$232,500
Step 3	Multiply result by allocation %. Subtract previous month's YTD equity accrual from result. This is the monthly equity accrual.	$(\$232,500 \times 8.33\%) - \0	\$19,375
Step 4	Take YTD Total Payout for second month and annualize (multiply by 12 and divide by production month number).	$\$180,000 \times 12 \div 2$	\$1,080,000
Step 5	Calculate equity accrual from 2003 award schedule on page 5.	\$1,080,000	\$294,000
Step 6	Multiply result by allocation %. This is the YTD equity accrual. Subtract previous month's YTD equity accrual from result. This is the monthly equity accrual.	$(\$294,000 \times 16.67\%) - \$19,375$	\$29,625
Step 7	Repeat for next month.		

Example

#	Pay Month	Monthly Total Payout(\$)	YTD Total Payout (\$)	Annualized Total Payout (\$)	Annualized Equity Award (\$)	Allocation %	YTD Equity Accrual (\$)	Monthly Equity Accrual (\$)
1	January	80,000	80,000	960,000	232,500	8.33%	19,375	19,375
2	February	100,000	180,000	1,080,000	294,000	16.67%	49,000	29,625
3	March	75,000	255,000	1,020,000	261,000	25.00%	65,250	16,250
4	April	125,000	380,000	1,140,000	327,000	33.33%	109,000	43,750
5	May	65,000	445,000	1,068,000	287,400	41.67%	119,750	10,750
6	June	75,000	520,000	1,040,000	272,000	50.00%	136,000	16,250
7	July	100,000	620,000	1,062,857	284,571	58.33%	166,000	30,000
8	August	80,000	700,000	1,050,000	277,500	66.67%	185,000	19,000
9	September	50,000	750,000	1,000,000	250,000	75.00%	187,500	2,500
10	October	60,000	810,000	972,000	237,750	83.33%	198,125	10,625
11	November	90,000	900,000	981,818	242,045	91.67%	221,875	23,750
12	December ¹	—	900,000	900,000	206,250	100.00%	206,250	(15,625)
Total								206,250

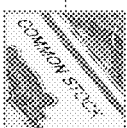
¹ Note that for purposes of calculating your 2003 equity award, your December payout was assumed to be zero.



Award Calculation Example

As an example, we'll go through the calculation for an MD IR with payout of \$900,000 for 2003. For purposes of the 2003 Equity Award Program for IRs, 2003 total compensation includes only 11 months of total compensation earned during December 2002 through October 2003 (paid January through November 2003).

Step	Instructions	Sample Calculation	Sample Result
Step 1	Your 2003 award was determined at year-end based on your total compensation from January through November.	Not applicable	\$900,000
Step 2	According to the schedule on page 5, the MD in our example with 2003 total compensation between \$750,000 and \$999,999 received \$140,625 plus 43.75 percent of his 2003 total compensation over \$750,000 in RSUs and stock options.	\$140,625 + (43.75% x \$150,000)	\$206,250
Step 3	The next step is to figure out how many options were awarded in 2003. The 2003 equity award was based on total payout, after all adjustments, for production months December 2002 through October 2003 (paid from January through November 2003) and the 2003 IR Equity Award Schedule on page 5. According to the schedule, the award for an IR with 2003 total payout of \$900,000 is \$140,625 plus 43.75 percent of 2003 total payout over \$750,000, or \$206,250. This amount, multiplied by 25 percent, gives us the stock option award.	[\$140,625 + (43.75% x \$150,000)] x 25%	\$51,562
Step 4	To calculate the number of options received, divide the value from step 3 by \$19.45 (which represents the \$27.79 Black-Scholes value of a 10-year Lehman Brothers option, less the Firm-provided 30 percent discount).	\$51,562 ÷ \$19.45	2,651 options
Step 5	The next step is to figure out how many RSUs were awarded in 2003. According to the schedule, the award for an IR with 2003 total payout of \$900,000 is \$140,625 plus 43.75 percent of 2003 total payout over \$750,000, or \$206,250. This amount, less the result in step 3 (which represents the value of the 2003 stock options), gives us the 2003 RSU award.	[((\$140,625 + (43.75% x \$150,000)) - (\$51,562)]	\$154,688
Step 6	To calculate the number of RSUs received, divide the value from step 5 by \$49.97 (which represents the \$71.39 price of Lehman Brothers stock on December 10, 2003, less the Firm-provided 30 percent discount).	\$154,688 ÷ \$49.97	3,096 RSUs



TERMINATION PROVISIONS FOR RSUs AND STOCK OPTIONS

Reason	RSUs	Stock Options
General Rules		
Salaried Members of the Firm	<ul style="list-style-type: none"> ■ If termination occurs prior to January 30, 2004, all RSUs will be forfeited. ■ If termination occurs after January 30, 2004, the disposition of the RSUs will be subject to the provisions outlined below. 	<ul style="list-style-type: none"> ■ If termination occurs prior to January 30, 2004, all options will be forfeited. ■ If termination occurs after January 30, 2004, the disposition of the options will be subject to the provisions outlined below.
Investment Representatives	<ul style="list-style-type: none"> ■ If termination occurs prior to November 30, 2003, the 2003 RSUs will be based on the amount of production-based compensation accrued for your 2003 equity award through the date of your termination, in accordance with Holdings' standard formula for the payout of equity-based compensation for employees at your level, multiplied by 75 percent. The disposition of the RSUs will be subject to the provisions outlined below. 	<ul style="list-style-type: none"> ■ If termination occurs prior to November 30, 2003, options will be based on the amount of production compensation accrued for your 2003 equity award through the date of your termination, in accordance with Holdings' standard formula for the payout of equity-based compensation for employees at your level, multiplied by 25 percent. The disposition of the options will be subject to the provisions outlined below.
Voluntary Not to a Competitor	<ul style="list-style-type: none"> ■ Entitled to the entire principal portion provided no Competitive Activity or Detrimental Activity through the Share Payment Date as defined below. ■ Entitled to a pro-rata portion of the discount (20 percent for each full year completed following the award date) provided no Competitive Activity or Detrimental Activity through the Share Payment Date. ■ If termination occurs after a "Full Career" with the Firm, entitled to the entire discount portion provided you do not engage in Competitive Activity or Detrimental Activity through the Share Payment Date. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. ■ Any shares that remain outstanding will be issued on the Share Payment Date. The Share Payment Date is defined as the earlier of a) November 30, 2008 (five years after the award date) or b) the end of the fiscal quarter one year following the termination date. 	<ul style="list-style-type: none"> ■ Entitled to the entire principal portion and discount portion of the option award. ■ Options become exercisable six months after termination (or on the scheduled date if sooner than six months), provided no Competitive Activity or Detrimental Activity. ■ Options remain exercisable until the later of a) November 30, 2008 (five years after the award date) or b) six months after the termination date. ■ If termination occurs after a "Full Career" with the Firm, options remain exercisable until November 29, 2013 (ten years after the award date), provided you do not engage in Competitive Activity or Detrimental Activity. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. ■ In no event shall the options remain exercisable after November 29, 2013 (ten years after the award date).



TERMINATION PROVISIONS FOR RSUs AND STOCK OPTIONS (cont'd)

Reason	RSUs	Stock Options
Voluntary to a Competitor	<ul style="list-style-type: none"> ■ Forfeit entire principal portion if termination occurs prior to November 30, 2006 (three years after the award date). ■ Entitled to half of the principal portion if termination occurs after November 30, 2006 (three years after the award date) provided no Detrimental Activity. ■ Forfeit entire discount portion. ■ Any shares that remain outstanding will be issued on the Share Payment Date. The Share Payment Date is defined as the earlier of a) November 30, 2008 (five years after the award date), or b) the end of the fiscal quarter one year following the termination date. 	<ul style="list-style-type: none"> ■ Forfeit entire principal portion and discount portion if termination occurs prior to November 30, 2006 (three years after the award date). ■ Forfeit options that are not exercised prior to termination date if termination occurs after November 30, 2006 (three years after the award date).
Involuntary with Cause	<ul style="list-style-type: none"> ■ Entire principal and discount portion will be forfeited immediately upon termination. 	<ul style="list-style-type: none"> ■ Entire principal and discount portion will be forfeited immediately upon termination.
Involuntary without Cause	<ul style="list-style-type: none"> ■ Entitled to the entire principal portion provided no Detrimental Activity through the Share Payment Date. ■ Entitled to a pro-rata portion of the discount (20 percent for each full year completed following the award date) provided no Detrimental Activity through the Share Payment Date. ■ If termination occurs after a "Full Career" with the Firm, entitled to the entire discount portion provided you do not engage in Detrimental Activity through the Share Payment Date. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. ■ Any shares that remain outstanding will be issued on the Share Payment Date. The Share Payment Date is defined as the earlier of a) November 30, 2008 (five years after the award date), or b) the end of the fiscal quarter one year following the termination date. 	<ul style="list-style-type: none"> ■ Entitled to the entire principal portion and discount portion of the option award. ■ Options become immediately exercisable and remain exercisable until the later of a) November 30, 2008 (five years after the award date) or b) six months after termination date, provided no Detrimental Activity. ■ If termination occurs after a "Full Career" with the Firm, options remain exercisable until November 29, 2013 (ten years after the award date) provided you do not engage in Detrimental Activity. "Full Career" termination means you have at least 20 years of service or your age and length of service equal at least 65, plus your age is at least 45 and you have at least ten years of service with Lehman Brothers. ■ In no event shall the options remain exercisable after November 29, 2013 (ten years after the award date).



TERMINATION PROVISIONS FOR RSUs AND STOCK OPTIONS (cont'd)

Reason	RSUs	Stock Options
Death, Disability, Retirement	<ul style="list-style-type: none"> ■ Entire principal portion and discount portion will vest immediately. ■ Shares of Lehman Brothers common stock will be issued immediately. ■ Retirement means a termination of employment which meets the criteria for retirement under Lehman Brothers Holdings Inc.'s qualified defined benefit pension plan, provided you enter into an agreement with the Firm not to engage in Competitive Activity or Detrimental Activity. 	<ul style="list-style-type: none"> ■ Entire principal portion and discount portion will immediately become exercisable and remain exercisable until the expiration date (November 29, 2013). ■ Retirement means a termination of employment, which meets the criteria for retirement under Lehman Brothers Holdings Inc.'s qualified defined benefit pension plan, provided you enter into an agreement with the Firm not to engage in Competitive Activity or Detrimental Activity.

Your Conduct With Respect to Lehman Brothers After You Leave

You may forfeit your rights to any 2003 RSUs (and related dividend reinvestment) and unexercised stock options if you engage in Competitive Activity or Detrimental Activity.

COMPETITIVE ACTIVITY

Competitive Activity means involvement (whether as an 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 Lehman Brothers Holdings Inc. or any of its subsidiaries or affiliates on the date of termination of a person's employment with the Firm, as determined in the sole discretion of the Chief Executive Officer or the Chief Operating Officer of the Firm (or their respective designees). ***Please note that the determination of Competitive Activity is not based on the function that an individual performs in a company but rather the nature of the company's businesses.***

Most financial services companies, including but not limited to, all of the "bulge bracket" investment banks, many commercial banks and even small boutique-type firms are considered competitors of the Firm for purposes of the Equity Award Program. While the Firm values its client relationships with financial institutions, these relationships will not preclude companies being deemed competitors when any of their business activities may be considered competitive with the Firm. Please consult your Human Resources representative or the Compensation Department if you have questions about a particular company.

DETRIMENTAL ACTIVITY

Detrimental Activity means at any time (i) using information received during a person's employment with Lehman Brothers Holdings Inc. or any subsidiary, their affiliates or clients, in breach of such person's undertakings to keep such information confidential; (ii) directly or indirectly persuading or attempting to persuade, by any means, any employee of Holdings or any subsidiary to terminate employment with Holdings or any subsidiary or to breach any of the terms of his or her employment with Holdings or any subsidiary; (iii) directly or indirectly making any statement that is, or could be, disparaging of Holdings, its subsidiaries or affiliates, or any of their employees (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 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 the Chief Executive Officer or the Chief Operating Officer of the Firm (or their respective designees).



TAX CONSIDERATIONS

Tax Treatment of RSUs and Stock Options

Under current tax regulations, you will not be taxed on the value of your RSUs until they convert to common stock. As a result, your RSUs appreciate on a pre-tax basis for the five-year restriction period.

You will not be taxed on the value of your stock option award on the date of grant. When you exercise your options, the gain will be considered ordinary income subject to applicable tax withholding.

Provided below is a summary of the taxes related to RSUs and stock options that are ultimately due under current law.

RSUs

- No taxation on the award date.
- Upon conversion to common stock, the fair market value of the shares will be taxed as employment income based on the closing price of Lehman Brothers common stock on the conversion date.
- This income will be subject to applicable withholding tax.
- Special provisions dealing with capital gains will not apply upon conversion to common stock.
- If you retain your shares after RSUs convert to common stock, the basis for capital gains is the closing price on the conversion date.

Options

- No taxation on the award date.
- When options are exercised, the difference between the Fair Market Value on the exercise date and the option exercise price will be taxed as employment income. Fair Market Value is defined as a) the average of the sale price(s) (for a "same-day-sale" transaction) or b) the closing price of Lehman Brothers common stock on the exercise date (for a cash exercise). Please refer to the Questions and Answers for Exercising Stock Options, that has been provided to you, for a more detailed explanation of the procedures for exercising stock options.
- This income will be subject to applicable withholding tax.
- Special provisions dealing with capital gains will not apply when options are exercised.
- If you retain your shares upon exercise, the basis for capital gains is the Fair Market Value on the date of exercise.

Consult your personal tax advisor concerning the application of all federal/state/local or foreign tax laws on your RSUs and stock options.





CHANGE IN CONTROL ("CIC") PROVISIONS

Reason	RSUs	Stock Options
Hostile	<ul style="list-style-type: none"> ■ All RSUs vest immediately. ■ Shares of Lehman Brothers common stock will be issued immediately. 	<ul style="list-style-type: none"> ■ All options become immediately exercisable.
Friendly	<ul style="list-style-type: none"> ■ Upon the CIC, you will receive the undiscounted award price for your RSUs in either cash or equity. ■ The additional value of the RSUs in excess of the undiscounted RSU award price will be paid on the Payment Date, defined as the earlier of: a) two years following the CIC or b) November 30, 2008 (five years after the award date). ■ The RSUs (or cash balance) will remain subject to the vesting and issuance restrictions (including the provisions related to Competitive Activity and Detrimental Activity) through the Payment Date. 	<ul style="list-style-type: none"> ■ Half of the non-exercisable options will become immediately exercisable. ■ The remaining half will continue to be subject to all exercise provisions until the earlier of: a) two years following the CIC or b) the scheduled exercise dates (35 percent on November 30, 2006 and 65 percent on November 30, 2008).

Payment of RSUs Upon a Friendly CIC

EXAMPLE: Let's use as an example an MD whose 2003 compensation was \$1,000,000. The amount of compensation paid in RSUs was \$150,000 (for 3,002 RSUs at a market value of \$214,313). Assume there is a Change in Control and the market price for Lehman Brothers stock at that time is \$100 per share.

UNDISCOUNTED PURCHASE PRICE:

- Upon a Friendly Change in Control, this MD receives a payment of shares (or cash) equivalent in value to the original award, \$214,313. Assuming a market price of \$100, this MD would receive 2,143 shares.

PREMIUM OVER UNDISCOUNTED PRICE:

- The additional value of the RSUs, in excess of the original award value, \$85,887 ((3,002 RSUs x \$100) - \$214,313), will be held on the MD's behalf in either cash or equity of the successor entity.
- The payment (in either cash or equity of the successor entity) will be subject to the same vesting and issuance restrictions as the RSU award.
- Assume the MD leaves within two years of the Change in Control:
 - The MD will be entitled to 70 percent of the additional value of the RSUs, in excess of the original award value (\$85,887 x 70% = \$60,121), provided no Competitive Activity or Detrimental Activity for a period of one year after termination

date (or the second anniversary of the Change in Control, if sooner).

- The MD will also be entitled to a pro-rata portion of the remaining 30 percent of the additional value of the RSUs (in excess of the original award value) based on the number of full years completed after the RSU award date (e.g., if termination occurs during 2006 (but before November 30, 2006), 2/5th of the remaining amount or \$10,306).
- In total, the MD will receive \$70,427 (\$10,306 plus \$60,121) or 704 shares. In this example, the MD receives 82 percent of the additional value of the RSUs in excess of the original award value.
- Please note that this value may be converted to shares of the successor entity. In this instance, the above percentages will be applied to the converted shares.



DIVIDEND EQUIVALENTS

Dividend equivalents accrue quarterly on your RSUs and are reinvested as additional RSUs, without a discount. Dividend reinvestment RSUs are subject to the same vesting and forfeiture provisions as the underlying RSUs to which they relate. The Firm retains the discretion to change this dividend policy at any time to pay in cash rather than RSUs. Dividends will not be paid on stock option awards.

VOTING RIGHTS

Lehman Brothers established a Trust and funded it with shares for your benefit to provide you with voting rights related to your RSU awards. You will be able to direct the voting related to shares held in the Trust in proportion to the number of RSUs you hold. You will continue to have these voting rights as long as you remain employed with the Firm.

OTHER INFORMATION

In the event of any conflict between the plan documents (including, but not limited to, the Restricted Stock Unit award agreement, the stock option award agreement, the Employee Incentive Plan, and the Employee Incentive Plan Prospectus) and the information in this summary, the plan documents will govern.

Nothing in this summary or the plan documents shall be construed to create or imply any contract of employment between you and Lehman Brothers.

All references to taxation in this summary refer to U.S. Federal taxes and current tax law. You should consult your local tax authorities or personal tax consultant for details on the impact of tax laws in effect at the time your RSUs and stock options become taxable.

If you have any questions about the Program in general, your personal award summary or your award agreement, call the Compensation Department at 212-526-8346 (5-8346), or for IRs, your PCS Human Resources contact at 212-526-2921 (5-2921).

