

**LEHMAN BROTHERS HOLDINGS INC.**

**Summary Terms of the Proposed Convertible Preferred Stock**

Issuer .....	Lehman Brothers Holdings Inc.
Securities Offered .....	[3,000,000] shares of ●% [Series K] Non-Cumulative Perpetual Convertible Preferred Stock ([ ] shares if the underwriter exercises its option to purchase additional shares in full), each with a \$1,000 per share redemption price and liquidation preference (the “Preferred Stock”).
Option to Purchase Additional Shares of Preferred Stock .....	To the extent the underwriter sells more than [ ] shares of our Preferred Stock, the underwriter has the option to purchase up to [ ] additional shares of Preferred Stock from us at the initial offering price, less underwriting discounts and commissions, within 30 days from the pricing date.
Offering Type.....	SEC-registered
Dividends.....	[ 7-7.5 ]% per annum. Dividends will accrue from the issue date. No dividends on the Preferred Stock will be declared or paid, at any time during which the terms and provisions of any of our agreements, including any agreement relating to our junior subordinated debentures and our other indebtedness, would prohibit such declaration or payment of a dividend or provide that such a declaration or payment would constitute a breach or a default or would not be permitted thereunder.
Dividend Stopper.....	With certain limited exceptions, if we do not pay fully quarterly dividends on the Preferred Stock for a particular dividend period, we may not pay dividends on, or repurchase, redeem or make a liquidation payment with respect to, our common stock or other securities ranking equally with or junior to the Preferred Stock during the next succeeding dividend period.
Frequency .....	We will pay non-cumulative dividends quarterly, when, as and if declared by our Board of Directors.
Payment Dates.....	We will pay dividends, if declared, on [March 31], [June 30], [September 30] and [December 31] of each year, or the next business day, beginning [June 30, 2008].
Ranking .....	The Preferred Stock ranks on an equal basis as to dividends and upon liquidation, dissolution or winding up with our 5.94% Cumulative Preferred Stock, Series C, 5.67% Cumulative Preferred Stock, Series D, 6.50%

Cumulative Preferred Stock, Series F, Floating Rate Cumulative Preferred Stock, Series G, and Non-Cumulative Perpetual Preferred Stock, Series J, which are currently outstanding, and will rank on an equal basis with our Non-Cumulative Perpetual Preferred Stock, Series H, and Non-Cumulative Perpetual Preferred Stock, Series I, when they are issued. We may from time to time, without notice to or consent from the holders of the Preferred Stock, create and issue additional shares of preferred stock ranking on an equal basis to the Preferred Stock as to dividends and upon liquidation, dissolution or winding up

Maturity .....	Perpetual.
Conversion Right <sup>1</sup> .....	Each share of the Preferred Stock may be converted at any time, at the option of the holder, into [x] shares of Lehman Brothers common stock (which reflects an approximate initial conversion price of \$[50.35] per share of common stock) plus cash in lieu of fractional shares, subject to adjustment. The conversion rate is subject to adjustment upon the occurrence of certain events. [Note: Premium range is 30-35%]
Mandatory Conversion at our Option.....	On or after [March 31, 2013], we may, at our option, at any time or from time to time cause some or all of the Preferred Stock to be converted into shares of our common stock at the then applicable conversion rate. We may exercise our conversion right if, for 20 trading days within any period of 30 consecutive trading days, including the last trading day of such period, ending on the trading day preceding the date we give notice of mandatory conversion, the closing price of our common stock exceeds 130% of the then applicable conversion price of the Preferred Stock.
Adjustment to conversion rate upon certain fundamental changes	<p>Upon a Fundamental Change in which Lehman Brothers is acquired for consideration that consists of more than 10% cash or securities other than publicly traded common shares, Lehman Brothers may be required to pay a make-whole premium on the preferred stock converted in connection with the fundamental change. The make-whole premium will be payable in shares of Lehman Brothers common stock.</p> <p>The amount of the make-whole premium, if any, will be based on the stock price and the effective date of the fundamental change.</p>

---

<sup>1</sup> See Page 3 for terms specific to the conversion feature.

Holders of Convertible Preferred Stock shall, if the Market Value at such time is less than the applicable Conversion Price, also have a one-time option to convert all of their outstanding shares of Convertible Preferred Stock into shares of common stock at an adjusted Conversion Price equal to the greater of (1) the Market Value of our common stock at the time of the transaction and (2) [ ] (50% of the stock price at issue). This option shall be exercisable during a period of not less than 30 days nor more than 60 days after the Fundamental Change Notice Date. In lieu of issuing the shares of common stock issuable upon conversion in the event of a Fundamental Change, we may, at our option, make a cash payment equal to the Market Value for each share of such common stock otherwise issuable upon conversion or determined for the period ending on the Effective Date.

Limitation on Beneficial Ownership .....

Notwithstanding anything to the contrary, no holder of Preferred Stock will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a “beneficial Owner” (within the meaning of Section 13(d) of the Exchange Act and the rules and regulations promulgated thereunder) of more than 9.9% of the shares of common stock outstanding at such time. Any purported delivery of shares of our common stock upon conversion of Preferred Stock shall be void and have no effect to the extent (but only to the extent) that such delivery would result in the converting holder becoming the beneficial owner of more than 9.9% of the shares of common stock outstanding at such time. If any delivery of shares of our common stock owed to a holder upon conversion of Preferred Stock is not made, in whole or in part, as a result of this limitation, our obligation to make such delivery shall not be extinguished and we shall deliver such shares as promptly as practicable after any such converting holder gives notice to us that such delivery would not result in it being the beneficial owner of more than 9.9% of the shares of common stock outstanding at such time.

Liquidation Rights .....

If Lehman Brothers is dissolved or liquidated, you will be entitled to receive, out of any assets available for distribution to our stockholders, up to \$1,000 per share of Preferred Stock plus the dividend for the then-current quarterly dividends period accrued through and including the liquidation payment date, whether or not declared.

Voting Rights .....

None, except with respect to certain changes in the terms

of the Preferred Stock. In addition, whenever dividends payable on the shares of Preferred Stock have not been paid for six or more dividend periods, whether or not consecutive, the authorized number of our directors will automatically be increased by two. The holders of the Preferred Stock will have the right, with holders of any other equally ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly created directorships at our next annual meeting of stockholders and at each of our subsequent annual meetings until full dividends have been paid on the Preferred Stock for at least four consecutive dividend periods. At that point the right to elect directors terminates, and the terms of office of the two directors so elected will terminate immediately.

Preemptive Rights .....	None.
[Rating].....	[A3 (Moody's), A- (S&P), A (Fitch)]
Use of Proceeds .....	To create additional equity capital to increase financial flexibility and accomplish, in part, the near-term strategy for de-leveraging the balance sheet.
Transfer Agent, Dividend Disbursing Agent and Registrar .....	[Computershare Trust Company, N.A.]
NYSE Listing .....	Application will be made to list the Preferred Stock on the New York Stock Exchange. Trading on the New York Stock Exchange is expected to begin within 30 days of the initial delivery of the Preferred Stock.
CUSIP Number.....	[ ]

## Terms Specific to Conversion Feature

### Basic Term

Any number of whole (but not fractional) shares of ●% Non-Cumulative Perpetual Convertible Preferred Stock shall be convertible at any time, at the option of the holders thereof, into fully paid and non-assessable shares of common stock of Lehman Brothers at a conversion rate of [ ] share of common stock of Lehman Brothers for each share of Preferred Stock (equivalent to an approximate conversion price of \$[ ] per share of common stock), subject to adjustment as described below, provided, however, that the right to convert preferred stock called for redemption shall terminate at the close of business on the business day immediately preceding the redemption date for such shares, unless Lehman Brothers shall default in making payment of the redemption price.

### Conversion Rate Adjustment

The conversion rate will be subject to adjustment, without duplication, upon the occurrence of any of the following events:

- (1) If Lehman Brothers issues common stock as a dividend or distribution on its common stock, or if Lehman Brothers effect a share split or share combination, the conversion rate will be proportionally adjusted.
- (2) If Lehman Brothers distributes to holders of its common stock any rights, warrants or options entitling them for a period of not more than 60 days after the date of issuance thereof to subscribe for or purchase our common stock at an exercise price per share of its common stock less than the then market price of the common stock, the conversion rate will be adjusted for the value of the discount.
- (3) If Lehman Brothers distributes shares of its capital stock, evidences of indebtedness or other assets or property to holders of its common stock, then the conversion rate will be adjusted for the fair market value of the distribution.
- (4) If Lehman Brothers pays any cash dividend above its regular quarterly cash dividend of \$.17 per share, the conversion rate will be adjusted with respect to such increase in dividend.
- (5) If Lehman Brothers or any of its subsidiaries make a payment in respect of a tender offer or exchange offer for its common stock at a price above the then-current market price of Lehman Brothers common stock, the conversion rate will be adjusted to reflect the premium paid in such tender or exchange offer.
- (6) If Lehman Brothers is acquired for more than 10% cash, holders may elect to convert in connection with the change of control and be entitled to a make-whole premium based price and date of the acquisition. Holders also have a one-time option to convert at a conversion price equal to the then current market price subject to a floor of 50% of the stock price at the time of original issuance.