

**LEHMAN BROTHERS
COMPENSATION OVERVIEW**

July 30, 2008

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OVERVIEW

- Lehman Brothers' strategy around people is to attract and retain the most talented available group of employees and to powerfully align their interests to maximize Firm performance and shareholder return. Aligned with our strategy are a series of key goals, objectives, and behaviors that drive Firm performance. They include the following:
 - Hiring and retaining the very best employees.
 - Creating an ownership mentality that aligns employee interests with shareholder interests and keeps strong focus on long term performance.
 - Protecting our franchise through risk management, and a strong sense of discipline around the allocation of resources.
 - Leveraging the whole Firm to meet the needs of clients.
 - Protecting and enhancing the culture of the Firm.
- Our philosophy and business goals are both supported by a series of operating principles and compensation programs developed by the Compensation & Benefits Committee of the Board of Directors (the "Committee") and Firm management.
- Our compensation programs contain a mix of current and mandatory deferred compensation, paid in the form of cash, equity awards and benefits; each designed to support key goals. Plans and programs have been developed at different stages of our evolution as a franchise to meet specific needs. They have been amended over time as those needs have changed and as our franchise has matured.

DETERMINATION OF COMPENSATION AT THE FIRM LEVEL

The Compensation & Benefits Ratio

- Since going public in 1994, the Firm has been committed to a highly disciplined approach to determine total compensation expense. In determining aggregate compensation expense at the Firm level, we have focused on managing the ratio of total compensation and benefits expenses to net revenues (the “compensation and benefits ratio”) which is determined annually based on the need to balance a series of critical factors, including the need to:
 - Maximize returns to shareholders.
 - Invest compensation in strategic hiring to develop new products and businesses required to ensure long-term growth.
 - Adequately reward performance of existing employees and ensure compensation levels remain competitive with the market.
- During the period from 1996 to 2007, we have adjusted the compensation and benefits ratio a number of times:
 - For the period from 1996 to 1999 the ratio was set at 50.7% of net revenues.
 - In 2000, in response to market conditions prevailing at the time, the ratio was adjusted to 51% and remained at that level through 2002.
 - From 2003 to 2005, the ratio was slightly lowered each year from 49.9% to 49.3% in response to changing market conditions.
 - For 2006 and 2007, it was maintained at 49.3%, while several competitors increased their ratio last year.

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|------------------------|--------|-------|-------|-------|-------|
| Lehman Brothers | 49.3% | 49.3% | 49.3% | 49.5% | 49.9% |
| Bear Stearns | 57.6% | 47.1% | 47.9% | 47.8% | 48.1% |
| Goldman Sachs | 43.9% | 43.7% | 46.6% | 46.2% | 46.9% |
| Morgan Stanley | 59.1% | 46.9% | 45.7% | 45.1% | 44.3% |
| Merrill Lynch | 141.4% | 49.9% | 48.7% | 48.3% | 49.7% |

- Our 2008 compensation and benefits ratio may not be a meaningful calculation. Our focus to date has been to accrue sufficient compensation to pay competitively and retain the franchise. Through the first half, we expensed \$4.2 billion, intended to be approx. half of the projected 2008 comp and benefits expense required to pay employees down about 30% on average for 2008.

ELEMENTS CONTAINED WITHIN THE COMP AND BENEFITS RATIO

- The compensation and benefits ratio defines the aggregate amount of compensation expense taken by the Firm in a given year. Within that total amount are a series of expense components resulting from different compensation programs.

Salaries: base salaries paid to employees.

Commissions: production compensation paid typically only within our Investment Management and Mortgage Capital Divisions.

Benefits: the costs of providing health, welfare, and retirement benefits programs such as a pension plan, 401k, and medical, dental, and AD&D insurances, etc.

SERP: a fixed benefit supplemental executive retirement plan for selected senior executives.

Payroll Taxes: levied by governments on compensation paid to employees (e.g., FICA and Medicare in the US).

Bonuses: paid to employees at year-end.

Equity Awards: the amortization of expenses resulting from equity awards made to employees as part of their compensation.

- In addition, certain employee related expenses such as relocation costs, severance, and the costs of temporary employees are also charged against the total available compensation created by the ratio.

DETERMINATION OF COMPENSATION AT THE DIVISION LEVEL

- In order to strongly align business performance with Firm goals, we have developed a compensation arrangement known as the “Compensation Model”. The model was developed to provide a level of transparency in the determination of compensation at the divisional level in order to more clearly demonstrate the tie between financial performance and compensation, providing strong incentives for divisional performance.
- The current version of the Compensation Model focuses on a measure described as Pre-Compensation Profit Before Taxes (PCPBT). This measure is calculated from net revenues, after deducting direct and allocated expenses, excluding divisional compensation. The model was developed to:
 - Encourage revenue maximization, and
 - Continued aggressive management of non-personnel expenses.
- Each division has a baseline of resources and compensation. The Compensation Model then provides for a marginal positive (or negative) compensation accrual based on year-on-year improvement (or deterioration) in PCPBT. Each division’s marginal accrual rate is different and determined based on established market norms, competitive considerations, capital and equity usage, and internal measures of franchise maturity.

DIVISIONAL COMP MODELS

- The table below shows the compensation uplift / compression that the 2007 comp models would have kicked off based on divisional performance (defined as PCPBT) and respective marginal accrual rates

| \$Millions | PCPBT | | | Marginal Accrual Rates | Comp Uplift / (Compression) Per Comp Model |
|-----------------------------|--------|--------|-------------|---------------------------|--|
| | 2007 | 2006 | Inc / (Dec) | | |
| FID | 2,472 | 5,886 | (3,414) | 26% | (888) |
| EQ | 3,917 | 2,149 | 1,768 | 27% | 477 |
| IBD | 1,479 | 1,252 | 227 | 40% | 91 |
| PIM | 1,024 | 766 | 258 | 7.5% | 19 |
| Private Equity ¹ | 170 | 57 | 114 | 26% | 30 |
| Asset Management | 1,447 | 1,316 | 131 | 18% | 24 |
| Corporate ² | 15,508 | 14,574 | 934 | 4% | 37 |

1- Revenues used in comp model reflect management fees only

2- Corporate comp model based on Firm PCPBT

DIVISIONAL COMP MODELS (Continued)

Executive Discretion

- While the Compensation Model produces results strongly correlated to the performance of individual businesses, the CEO and the Firm's (non-Board) Executive Committee (the most senior management group, including heads of major businesses) reserve an element of discretion to adjust divisional compensation accruals based on Firm-wide considerations.
- Generally, each year, the CEO, President and Executive Committee make certain adjustments to reflect factors such as:
 - Investments in new business opportunities that are in early stages of their growth and have yet to generate sufficient compensation to pay employees competitively.
 - Significant market pressures in business sectors, typically reflective of market premiums paid by new entrants into that sector.
 - Strategic considerations where, for example, the Firm has made a decision to aggressively grow a business sector (e.g., Commodities) as part of the Firm's longer-term strategic plan.
 - Franchise preservation issues, typically driven by the market cycle, where the Firm is required to pay a sector at levels higher than their performance would suggest in order to protect its investment in key employees.
 - Reward for "One Firm" behaviors such as cross-selling or client management activities where the revenue benefit accrued to another business unit.
- This adjustment process is conducted at the Firm's Executive Committee with final approval by the Firm's President.

COMPENSATION AUGMENTATION HISTORY

- The chart below details the yearly augmentations / (haircuts) that divisions have received from the established comp models

| \$ Millions | <u>FID</u> | <u>Equities</u> | <u>IBD</u> | <u>Corporate</u> |
|-------------|------------|-----------------|------------|------------------|
| 1997 | 2 | - | - | - |
| 1998 | 55 | (3) | (3) | (3) |
| 1999 | (55) | 20 | 53 | (37) |
| 2000 | 52 | 82 | 165 | (31) |
| 2001 | (22) | 77 | 56 | (24) |
| 2002 | (247) | (58) | (137) | (47) |
| 2003 | 128 | 63 | (36) | (6) |
| 2004 | (61) | 63 | (12) | (36) |
| 2005 | (20) | (55) | 12 | (12) |
| 2006 | 164 | (13) | 196 | 30 |
| 2007 | <u>808</u> | <u>(248)</u> | <u>44</u> | <u>80</u> |
| Total | 804 | (73) | 338 | (86) |

DETERMINATION OF COMPENSATION AT THE INDIVIDUAL LEVEL

Top Level Executives

- Performance criteria and compensation levels for the senior executives are governed by the Compensation Committee of the Board of Directors who review goals at the beginning of the year and assess performance against them at year-end.
- Performance criteria at this most senior executive level are assessed largely against Firm-wide performance but with an element of individual business unit performance relevant to the individual executives who manage major businesses within the Firm.
 - Specific compensation formulas established to comply with Section 162(m) of the Internal Revenue Code have been adopted for this group.
 - Additionally, their performance and compensation structure has in the past included longer-term performance plans covering several years.
- Since the compensation formulas are intended to enable tax deductibility under IRC Section 162(m), they do not reflect an expected compensation award level but rather a maximum at each level of performance.
 - The 2008 formulas were intended to provide sufficient flexibility to incorporate the value of all equity-based awards, including other performance-based long-term incentives, in order to preserve the Committee's ability to modify the mix of compensation components.

2008 ANNUAL INCENTIVE COMPENSATION FORMULAS^{1,2}

| | | Pre-Tax Income ³ | | \$500 | | \$2,000 | | \$4,000 | | \$6,000 | | \$10,000 | |
|--|-----------|-----------------------------|-------|-------|--------|---------|--------|---------|--------|---------|--------|----------|--|
| | | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | | |
| <u>Executive Officers</u> | | | | | | | | | | | | | |
| CEO | Fuld | 1.80% | \$9.0 | 1.00% | \$20.0 | 0.85% | \$34.0 | 0.75% | \$45.0 | 0.70% | \$70.0 | | |
| President & COO | McDade | 1.40% | \$7.0 | 0.75% | \$15.0 | 0.60% | \$24.0 | 0.55% | \$33.0 | 0.50% | \$50.0 | | |
| Chief Legal Officer | Russo | 1.40% | \$7.0 | 0.75% | \$15.0 | 0.60% | \$24.0 | 0.55% | \$33.0 | 0.50% | \$50.0 | | |
| Co-CAO | Freidheim | 1.10% | \$5.5 | 0.40% | \$8.0 | 0.25% | \$10.0 | 0.20% | \$12.0 | 0.15% | \$15.0 | | |
| CFO and Co-CAO | Lowitt | 1.10% | \$5.5 | 0.40% | \$8.0 | 0.25% | \$10.0 | 0.20% | \$12.0 | 0.15% | \$15.0 | | |
| Other Executive Committee⁴ | | 1.40% | \$7.0 | 0.75% | \$15.0 | 0.60% | \$24.0 | 0.55% | \$33.0 | 0.50% | \$50.0 | | |

Notes:

¹ Intermediate amounts will be obtained through interpolation.

² The proposed formulas for FY2008 include cash bonuses and RSUs and have sufficient room to include the value of other long-term incentive

³ Pre-tax income is consolidated income before taxes and dividends paid or payable on the Redeemable Voting Preferred Stock, if any, for the performance period (i.e., December 1, 2007 through November 30, 2008) excluding the effect of any change in accounting principles and any

⁴ Other Executive Committee members including J. Bhattal, D. Goldfarb, J. Issacs, T. Janulis, S. Lessing, S. McGee and G. Walker.

DETERMINATION OF COMP AT THE INDIVIDUAL LEVEL (Continued)

Other Employees

- Once the amount of compensation available for a given business unit has been determined, individual compensation decisions are made by managers and reviewed by the Firm's Executive Committee.
- In broad terms, compensation decisions are primarily determined by a series of performance criteria that vary by class of professional rather than by division. These performance factors are typically managed as part of the Firm's performance management process and form the basis for discussions with employees when their compensation is communicated.
- Performance factors can be grouped into three broad categories:
 - Firm-wide criteria, to which all employees are held accountable.
 - Division-specific criteria that reflect the strategic priorities of the individual business unit.
 - Function-specific criteria that describe the performance of an individual employee in the role they currently occupy.
- Examples of performance criteria include:

Firm-wide

- Demonstrated performance as a leader in accordance with the Firm's Leadership Model.
- Adherence to Firm cultural values and expectations.
- Contribution to Firm strategic priorities such as recruiting, expense management, diversity, client focus, and philanthropy.

Division-specific

- Contribution to divisional strategic priorities, which often mirror Firm priorities but might be tailored to include divisional nuances such as a focus on a specific group of clients, or cross-selling in support of a specific new business within the division.
- Contribution to a division-specific project, such as, for example, an outsourcing initiative.

Individual Function

- Traders will be assessed on their individual revenue production, their use of resources, and their adherence to control factors such as risk limits.
- Salespeople will be assessed on their individual sales production and their successful management of existing client relationships and generation of new client business.
- Bankers will be assessed on the basis of the revenue derived from deals that they have participated in, their management of existing client relationships and their development of new relationships.
- Corporate Staff are typically assessed against agreed upon objectives and criteria describing functional excellence in their roles.

COMPONENTS OF COMPENSATION

Once an individual's compensation has been determined, compensation is allocated between a series of components based on existing policies.

- **Salary**

- The Firm, and the investment banking industry in general, has typically adopted a philosophy of low base salaries in order to provide for significant incentive compensation leverage. This philosophy allows for maximum incentive to generate superior performance and builds a degree of flexibility into the Firm's compensation structure by keeping compensation costs highly variable. Within the Firm, four major forms of salary structure exist:
 - Salaries for professionals in Sales and Trading functions are determined as a percentage of prior year total compensation.
 - Salaries for senior professionals in the Corporate Staff are determined based on a model very similar to that in place for Sales and Trading professionals but with a slightly higher ratio of base salary to total compensation reflecting market practice.
 - In accordance with market practice, salaries for investment bankers are adjusted annually, based on market rates and relative individual performance within their peer group.
 - Salaries for junior administrative staff are adjusted annually on a discretionary basis reflecting performance and the market salary rates for a given job.
- With the exception of selected senior executives, salaries at the Firm are "capped out" at the rate set for Managing Directors (currently \$200,000 or local currency equivalent). This maximum salary figure is reviewed annually, but has not been adjusted since 1995.
- Salaries at Neuberger Berman, and in the asset management industry in general, are somewhat higher than the Firm's traditional structure. Over time, we will adjust their salary structures to conform more closely with our policies however market norms will require that this group maintain slightly higher salaries.

- **Equity Component of Total Compensation**

- A portion of total compensation is awarded in the form of equity. The philosophy and structure of this component is discussed in more detail below.

COMPONENTS OF COMPENSATION (Continued)

- **Cash Bonus**

- After deducting salary and equity awards from total compensation, the remaining portion of total compensation, if any, is paid in the form of a cash bonus, typically at the end of January following the performance year.

- **Commissions**

- A limited number of employees receive commissions on revenues generated. Within Lehman's historical core businesses (i.e., the high net-worth retail business), employees are typically investment representatives and do not receive a base salary or bonus.
- Through acquisitions, we have added additional commission-based employees in the mortgage subsidiaries and at Neuberger Berman. Commission arrangements in these groups vary somewhat based on market practice.

USE OF EQUITY-BASED COMPENSATION

- Since the Firm went public in 1994, a core element of our compensation program has been broad-based employee ownership. To encourage employees to think and act like owners of the Firm, they receive a portion of their annual incentive compensation in the form of an equity award through the Lehman Brothers Stock Award Program.
- We believe that this program has been a powerful retention tool, has helped to promote a “One-Firm” culture, and created an ownership mentality. The ownership mentality helps to:
 - Create a community of “risk managers” with a vested stake
 - Enhance accountability for expense management
 - Promote cross divisional teamwork
- With the exception of Executive Committee members and Executive Officers, whose equity awards are determined by the Compensation Committee, as discussed below, all employees receive equity through a Firm-wide Stock Award Program.

Stock Award Program for Employees

- Employees receive equity as a component of total compensation at the end of each year. The Firm’s Stock Award program was originally developed in 1994 and subsequently amended from time to time in response to changing market conditions and Firm priorities. The basic concepts of the program remain unchanged:
 - Employees receive a portion of their total compensation in the form of Restricted Stock Units (“RSUs”) and/or Options, with the equity component of compensation increasing at higher total compensation levels. (We have used exclusively RSUs in our program since 2005.)
 - The proportion of compensation in equity has historically been larger for senior-level employees, based on corporate title.
 - Each RSU entitles the employee to one share of company stock after a period of years.
 - RSUs are subject to a series of vesting and forfeiture conditions to enhance employee retention, with longer vesting for more senior employees. For all prior award years, RSUs convert to freely tradable stock at the end of a 5-year period. However, changes were recently announced in July 2008 to move to a shorter (3-year) period.
 - Additionally, in all prior years, employees received their RSUs at a discount to market price, resulting in additional equity.

USE OF EQUITY-BASED COMPENSATION (Continued)

Changes Implemented in 2008

- In early 2008, the Firm began considering significant changes to the stock award program structure, to address the significant accumulated cost of the program and to align more with competitive practice.
 - The size of our equity program—and, in particular, the discount—had grown considerably over time, to the point where it began to hamper our ability to invest in new initiatives and pay our employees in line with revenue growth.
 - Projected 2008 expense for prior-year equity awards totals almost \$1.5 billion, a 32% increase from 2007 and a growing component of our overall compensation and benefits expense.
 - Our equity discount (value of \$800mm in 2007) was higher than that for competitors—as was our sale restriction of 5 years.
 - Due to the higher discount and longer sale restriction, our share utilization and equity overhang are high, making it more difficult to convince institutional shareholders to approve additional shares under the Stock Incentive Plan.
 - While revenues were increasing year-over-year, it was easier to absorb the cost of the equity “mortgage” – a declining economy and revenue opportunity in 2008, however, exacerbate the issue.
- A decision was reached to adjust and simplify our equity program, aligning it more closely with competitors, reducing the future equity award mortgage, and lowering our share utilization.
 - We eliminated the discount and reduced vesting and sales restrictions to 3 years, and simplified the terms so that all title levels received the same award conditions under the program.

| Feature | 2007 | 2008 |
|------------------|--|---|
| Equity Discount | MDs: 30% All others: 25% | No discount for employees |
| Vesting | <i>Principal portion:</i> MDs: 50% Year 3/50% Year 5 Others: 100% Year 2 | 33% per year over 3 years for all employees |
| Sale Restriction | 5 years for all employees | 3 years for all employees |
| Deferral Levels | Varies by corporate title | One schedule for all employees |

USE OF EQUITY-BASED COMPENSATION (Continued)

Determination of Appropriate Equity Award Levels

- In determining the appropriate use of Equity Awards, the Firm seeks to balance a series of competing constraints to design programs that generate maximum employee alignment with shareholder interests within the Firm's current economics. These constraints include:
 - The economic impact of accounting for equity awards on the Firm's P&L and the inter-play between accounting for equity and accounting for cash in managing the Firm's economics.
 - Competitive market factors suggesting the maximum portion of an individual's total compensation that can be paid in equity.
 - Shares available for awards under the shareholder approved plan(s)/
- Typically, deferral levels for the Equity Award Program are reviewed each year and changes communicated before year-end in light of Firm performance and the constraints outlined above. In July of 2008, we communicated a simplified, consolidated deferral grid that applied to all title levels for 2008 awards, and increased the component of compensation in stock to a maximum of 65%. Below is an illustration at specific compensation levels. See Appendix for the full deferral schedule.

| Total Comp | 2007 | | | 2008 |
|-------------|-------|-------|-------|-------|
| | VP | SVP | MD | All |
| <\$75,000 | 1.15% | 2.3% | 2.3% | 1.0% |
| \$100,000 | 2.3% | 2.3% | 2.3% | 2.0% |
| \$300,000 | 6.9% | 11.5% | 11.5% | 10.0% |
| \$500,000 | 11.0% | 14.4% | 14.4% | 20.0% |
| \$750,000 | 15.0% | 17.3% | 17.3% | 25.0% |
| \$1,000,000 | 19.3% | 24.0% | 24.0% | 35.0% |
| \$1,500,000 | 24.8% | 30.0% | 33.6% | 45.0% |
| \$2,000,000 | 29.1% | 36.0% | 42.0% | 55.0% |
| \$2,500,000 | 32.9% | 42.0% | 48.0% | 60.0% |
| \$3,000,000 | 36.0% | 42.0% | 50.0% | 65.0% |

USE OF EQUITY-BASED COMPENSATION (Continued)

July 2008 Equity Award Advance

- On July 1, 2008, we granted a mid-year equity award, as an “advance” on year-end 2008 awards for all employees, except proxy officers and Executive Committee members.
 - The objective of this equity “advance” was to:
 - Send a strong signal that the Firm has a high degree of confidence in our future and believes in the upside potential of our stock price;
 - Help to retain our employees by reloading them with additional equity when the value of their holdings had declined significantly.
 - The Firm awarded an off-cycle advance previously in times of adverse market conditions (in 1998 and 2001) and in both cases it worked out well for employees.
- Vesting provisions – since this award is considered an advance against the year-end award, any bonus-eligible employee whose employment terminates for any reason prior to November 30, 2008 will forfeit the advance.
 - Other termination provisions for the advance will be the same as for the 2008 award program approved by the Compensation Committee in June 2008. (Vesting in 1/3 increments, on November 30, 2009, 2010 and 2011, with shares delivered November 2011, at the end of three years.)
- Size of award – the amount of the 2008 equity advance was based on 20% of employees’ 2007 equity award deferral, with the number of RSUs calculated using the closing price on July 1, the date of the Committee’s approval.
 - Only 20% of the prior year award was used, to leave flexibility for a reduction in overall compensation levels and to minimize any potential cash compression at year end.
 - The total value of RSUs granted was approx. \$340 million (16 million shares).

USE OF EQUITY-BASED COMPENSATION (Continued)

Equity for Senior Executives

- The equity component for senior executives is typically set at higher levels than that applied to other employees. In addition to RSUs awarded under the program in place for employees, senior executives have, from time to time, been granted additional equity awards, increasing the percentage of their total compensation paid in the form of equity. These awards have included:
 - Annual Option Grants, designed to enhance retention and provide strong focus on improving the Firm's valuation over the option period (generally 5 years).
 - Performance Share Units ("PSUs") designed to enhance focus on building the Firm over a multi-year period.
- The form and structure of these additional awards has varied somewhat over time based on a number of factors, including the Firm's performance goals, goals for equity ownership by senior executives, and accounting requirements.
- At year end 2007, the Compensation Committee attempted to simplify the compensation structure to the Senior Executives by limiting the components of compensation to only cash and RSUs, and realigning the attribution of awards.
 - As a result, of the realignment, equity awards granted in December (after the end of the fiscal year) are attributed to compensation for the prior fiscal year, rather than in the fiscal year of grant.

OTHER COMPENSATION PROGRAMS

Senior Management Compensation Programs

- From time to time, the Firm has adopted cross-divisional compensation programs for selected senior employees below the Executive Officer level. These programs are designed to:
 - Retain key executives and ensure succession for the Executive Officer group.
 - Align a group of key executives even more closely with the long-term success of the Firm by providing them with additional long-term incentives tied to Firm performance, rather than divisional performance.

Special Retention Awards

- To provide greater retention of key talent in 2008, we awarded special options and RSUs in February to Executive Committee members and proxy officers. In July, we awarded special RSU retention awards to an additional group of key leaders and franchise players (approximately 100).
- As a general practice, the expense resulting from these special awards is contained within the compensation and benefits ratio and is deducted from total expense prior to the determination of compensation for business units. However, the awards are communicated as “on-top” of annual compensation.
- A summary of the awards is included on the following page.

February 2008 Special Retention Equity Awards (@ \$60.04)

(\$000s)

| Participant | Grant Value | Accounting Expense | Share Granted | | Total |
|---------------------|------------------|--------------------|---|---|------------------|
| | | | RSUs vesting over 6 years (20% vests per yr begin. in yr 2) | Stock Options vesting over 5 years (25% vests begin. in yr 2) | |
| Jesse Bhattal | \$25,000 | \$21,725 | 416,389.07 | | |
| Skip McGee | \$25,000 | \$21,725 | 416,389.07 | | |
| Andrew Morton | \$25,000 | \$21,725 | 416,389.07 | | |
| George Walker | \$25,000 | \$21,725 | 416,389.07 | | |
| Erin M. Callan | \$4,643 | \$4,643 | | 250,000 | |
| Scott J. Freidheim | \$4,643 | \$4,643 | | 250,000 | |
| Ian T. Lowitt | \$4,643 | \$4,643 | | 250,000 | |
| Chris M. O'Meara | \$4,643 | \$4,643 | | 250,000 | |
| Theodore P. Janulis | \$4,643 | \$4,643 | | 250,000 | |
| Total | \$123,213 | \$110,113 | 1,665,556.30 | 1,250,000 | 2,915,556 |

July 2008 Special Retention Equity Awards (@ \$20.96)

(\$mm)

| Participants | | Award Levels | | | | Accounting Cost | | |
|--------------|------------|-----------------|------------|------------------|---------------------|-----------------|---------------|---------------|
| | | Per Participant | | All Participants | | Total | Annual | FY 2008 |
| | | Value | RSUs | Value | RSUs | | | |
| EC | 2 | \$15.00 | 715,648.85 | \$30.0 | 1,431,297.70 | \$27.0 | \$6.7 | \$2.8 |
| | 1 | \$10.00 | 477,099.24 | \$10.0 | 477,099.24 | \$9.0 | \$2.2 | \$0.9 |
| Tier #1 | 33 | \$2.50 | 119,274.81 | \$82.5 | 3,936,068.70 | \$70.7 | \$23.6 | \$9.8 |
| Tier #2 | 3 | \$2.00 | 95,419.85 | \$6.0 | 286,259.54 | \$5.1 | \$1.7 | \$0.7 |
| | 4 | \$1.75 | 83,492.37 | \$7.0 | 333,969.47 | \$6.0 | \$2.0 | \$0.8 |
| | 2 | \$1.50 | 71,564.89 | \$3.0 | 143,129.77 | \$2.6 | \$0.9 | \$0.4 |
| | 65 | \$1.00 | 47,709.92 | \$65.0 | 3,101,145.04 | \$55.7 | \$18.6 | \$7.7 |
| | 7 | \$0.50 | 23,854.96 | \$3.5 | 166,984.73 | \$3.0 | \$1.0 | \$0.4 |
| Total | 117 | | | \$207.0 | 9,875,954.19 | \$179.1 | \$56.7 | \$23.6 |

EMPLOYEE EQUITY OWNERSHIP

- With annual equity awards at a sizable level since the time Lehman Brothers went public in 1994 and the required 5-year holding period, employees have a significant ownership stake in the Firm.
 - Including RSU awards, employee ownership is approximately 30%.
 - The average MD at Lehman Brothers currently has approximately \$___ in Lehman value (a decline of \$5.6 million in value, based on the difference between a high of \$72.50 to a current price of \$19).
- Members of the Executive Committee have annual limits on how much Lehman equity they are permitted to liquidate, based on the market value of their equity holding at the beginning of the year. For 2008, that amount is 20%, calculated from a pre-tax equity ownership that includes RSUs, option gains, and the pre-tax equivalent of shares owned.

Based on \$17.00 FMV

\$MM (Except Share Prices)

| Name | Outstanding Equity Awards (Pre-Tax) | | | | | | Shares Owned | | Total Pre-tax Value | |
|------------------|-------------------------------------|------------------|-------------------|-------------------|------------------|--------------------|---------------|------------------|---------------------|----------------|
| | RSUs / PSUs | | | Stock Options | | | Pre-tax Value | Owned Shares | | Pre-tax Value* |
| | RSUs | PSUs | Total | Avg. Strike Price | Options | In-the-money Value | | | | |
| Richard Fuld, Jr | 1,677,174 | 5,815,487 | 7,492,661 | \$46.17 | 2,500,000 | \$0.0 | \$127.4 | 3,414,191 | \$109.5 | \$236.9 |
| Tom Russo | 454,098 | 910,808 | 1,364,906 | \$54.39 | 350,000 | \$0.0 | \$23.2 | 89,880 | \$2.9 | \$26.1 |
| Bart McDade | 1,272,372 | 82,437 | 1,354,809 | \$36.08 | 1,400,000 | \$0.0 | \$23.0 | 153,678 | \$4.9 | \$28.0 |
| Scott Freidheim | 233,366 | 0 | 233,366 | \$37.41 | 349,500 | \$0.0 | \$4.0 | 8,206 | \$0.3 | \$4.2 |
| Ian Lowitt | 227,161 | 0 | 227,161 | \$28.14 | 324,902 | \$0.0 | \$3.9 | 14,702 | \$0.5 | \$4.3 |
| Total | 3,864,171 | 6,808,732 | 10,672,903 | \$42.07 | 4,924,402 | \$0.0 | \$181 | 3,680,657 | \$118.1 | \$299.5 |

* The value of shares owned has been grossed up at an assumed income tax rate of 47% to provide comparability with other pre-tax equity holdings.

INVESTMENT OPPORTUNITIES IN PRIVATE EQUITY

- From time to time, senior level employees have been offered the opportunity to invest side-by-side with the Firm in private equity and other investments. These programs are designed to give employees an opportunity to achieve substantial capital appreciation through access to investment opportunities that are not broadly available to individual investors. The investment opportunities are focused on areas in which the Firm has a clear expertise, including merchant banking, venture capital, and funds focused on the communications sector, real estate investments or fixed income products. They have also included some investment funds managed by third parties.
- Participation in these programs is entirely voluntary with investments made on an after- tax basis and generally structured to produce long-term capital gains for participants. Other design features, such as the use of Firm-provided leverage, vary from program to program based on a range of factors, such as the size of the fund, the level of Firm participation, and the risk profile of the fund's major asset classes. The programs do not create compensation expense for the Firm.
- Additionally, the specialists (in the Private Equity business) who raise and manage the investment funds are generally compensated via programs that strongly align their financial interest with the performance of the fund they manage. These programs are designed to be consistent with market practice and require a personal investment in the particular fund.

COMPENSATION FOR THE BOARD OF DIRECTORS

- Lehman Brothers' Board of Directors consists of both Directors who are employees of the Firm ("Employee Directors") and those who have no direct employee relationship ("External Directors"). Employee Directors receive compensation from the Firm with respect to their duties as employees and officers of the Firm and receive no additional compensation for their service on the Board of Directors. External Directors receive director's fees for their Board service. In keeping with good corporate governance practices, External Directors receive no other form of compensation from the Firm.
- In developing the compensation program for External Directors we have followed three major principles:
 - Compensation levels sufficient to attract and retain qualified directors, and appropriate for the time and effort required to effectively fulfill their duties as directors.
 - Levels which are competitively appropriate in comparison with other major firms in our industry.
 - A structure that allows for the payment of a significant portion of compensation in equity to align directors interests with those of other shareholders.
- The current structure contains a combination of annual cash retainers, additional cash payments for committee service, and equity compensation.
 - An annual cash retainer paid quarterly.
 - Additional annual retainers for each Director who serves as a chairman of a Committee of the Board.
 - Per-meeting fees for each Committee member.
 - An annual equity retainer in the form of a grant of RSUs (alternatively directors may elect to receive stock options of equivalent value in lieu of the RSU grant).
 - Directors are reimbursed for reasonable travel and related expenses.
- Additionally, Directors may elect to defer receipt of all or a portion of their future cash compensation to a specified future date or termination of service.
- Our director compensation program is reviewed annually and compared to the programs provided by our leading competitors, primarily those firms within the investment banking and financial services industries.

2008 COMPENSATION FOR THE BOARD OF DIRECTORS

- Our Director pay program currently consists of the following components:
 - Annual Board Retainer \$75,000
 - Annual Equity Award 3,400 RSUs / 10,200 options
 - Committee Chair Retainer \$25,000 for the Audit Committee; \$15,000 for other Committees
 - Committee Meeting Fee \$2,500 per meeting
 - Unanimous Written Consent \$1,500 per consent

- In 2007, for a Director that served on 2 Committees and was Chairman of one of them, this provided approximately \$375,000 in total annual compensation (based on a 2007 stock grant price of \$72).

BENEFITS & PERQUISITES

- The Firm provides a series of benefit programs covering those areas typically found at other major corporations. Our philosophy around benefit programs is to provide a level of benefits coverage sufficient to ensure the health, well being, and financial security of our employees and to share the costs of that coverage with employees in a way that minimizes Firm cost without discouraging employees from participating in essential benefits programs. In addition the Firm provides employees with the choice to elect supplemental levels of benefits coverage on an optional basis with employees responsible for 100% of the costs (e.g., additional life insurance coverage).
- While the specifics of the benefits programs vary by geography, based on local practice, laws, and regulations, the benefits program typically provides for a series of insurance policies and some form of retirement planning vehicle. Using the US as an example, our offerings include:
 - Medical and Dental insurance (paid 80% by the Firm and 20% by employees on a sliding scale with more highly compensated employees contributing a larger portion of the cost).
 - Basic levels of Life and Disability insurance (with employees having the option to purchase additional coverage at their own expense).
 - A Firm-provided pension plan.
 - A 401(k) savings plan with a limited employer match for junior employees.
 - A series of “Wellness” initiatives and “Work-Life” initiatives (e.g., Back-up Child Care) provided by the Firm at its major locations.
- Benefits programs are reviewed annually in light of cost constraints and competitive practice.
 - We recently proposed and have planned to implement changes to our retirement plan in the US, freezing our defined benefit program and moving to a defined contribution model. No communications to employees have been launched at this time.
- As an operating policy, the Firm does not generally offer any perquisites.

APPENDIX A

2008 EQUITY AWARD SCHEDULE FOR BONUS-ELIGIBLE EMPLOYEES

| 2008 TOTAL COMPENSATION RANGE | AMOUNT OF TOTAL COMPENSATION ("TC") IN EQUITY-BASED AWARDS ¹ | |
|----------------------------------|--|--|
| \$0 - \$74,999 | | 1% of 2008 TC |
| \$75,000 - \$99,999 | | 2% of 2008 TC |
| \$100,000 - \$299,999 | \$2,000 | plus 14% of 2008 TC above \$100,000 |
| \$300,000 - \$499,999 | \$30,000 | plus 35% of 2008 TC above \$300,000 |
| \$500,000 - \$749,999 | \$100,000 | plus 35% of 2008 TC above \$500,000 |
| \$750,000 - \$999,999 | \$187,500 | plus 65% of 2008 TC above \$750,000 |
| \$1,000,000 - \$1,499,999 | \$350,000 | plus 65% of 2008 TC above \$1,000,000 |
| \$1,500,000 - \$1,999,999 | \$675,000 | plus 85% of 2008 TC above \$1,500,000 |
| \$2,000,000 - \$2,499,999 | \$1,100,000 | plus 80% of 2008 TC above \$2,000,000 |
| \$2,500,000 and above | \$1,500,000 | plus 90% of 2008 TC above \$2,500,000 up to a maximum of 65% of 2008 TC |

¹ Subject to a 5-share minimum.

APPENDIX B

COMPETITOR EQUITY PROGRAMS

| Firm | Disc. | Vesting Schedule | | | | | Delivery Schedule | | | | | | |
|---|-----------|------------------|------------|------------|------------|--------|-------------------|----------|--------|--------|-------------|--------|--------|
| | | At Grant | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | At Grant | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Citigroup ¹ | 25% | | 25% | 25% | 25% | 25% | | 25% | 25% | 25% | 25% | | |
| Credit Suisse ² ISUs (in lieu of disc.) | n/a | | 33% | 33% | 33% | | | 33% | 33% | 33% | | 100% | |
| Deutsche Bank | 9% | | | 50% | 25% | 25% | | | 50% | 25% | 25% | | |
| Goldman Sachs | 0% | 40% | | | 60% | | | | | | 100% | | |
| JP Morgan | 0% | | | 50% | 50% | | | | 50% | 50% | | | |
| Merrill Lynch | 0% | | 25% | 25% | 25% | 25% | | 25% | 25% | 25% | 25% | | |
| Morgan Stanley | 0% | | | 50% | 50% | | | | 50% | 50% | | | |
| UBS | 0% | | 33% | 33% | 33% | | | 33% | 33% | 33% | | | |
| <u>Lehman Brothers</u> | | | | | | | | | | | | | |
| 2007 MD | Princ. | | | | 50% | | | | | | | | 100% |
| | Disc. | 30% | | | | | | | | | | | 100% |
| 2007 SVP and below | Princ. | | | 100% | | | | | | | | | 100% |
| | Disc. | 25% | | | | | | | | | | | 100% |
| 2008 Proposed | 0% | | 33% | 33% | 33% | | | | | | 100% | | |

¹ Discount provided on deferral levels up to \$500k in bonus only. Discretionary supplemental awards in 2007.

² Equity discount replaced in 2006 by a new performance-based Incentive Stock Unit ("ISU") program; ISUs were communicated as equivalent to RSUs with a 20% discount. Deferral % of 100% above \$4mm in bonus.

APPENDIX C

2008 EQUITY AWARD – TERMINATION PROVISIONS

| Event | Treatment of 2008 RSUs |
|---|---|
| Voluntary Termination | Forfeit unvested 2008 RSUs upon termination. Participant will become entitled to vested RSUs on the Share Payment Date, provided no Detrimental Activity ⁱ through the Share Payment Date. |
| Involuntary Termination with Cause ⁱⁱ | Forfeit all outstanding 2008 RSUs. |
| Involuntary Termination without Cause | Participant is entitled to all outstanding 2008 RSUs on the Share Payment Date, provided such participant signs a Release Agreement and does not engage in Detrimental Activity through the Share Payment Date. |
| Full Career Termination ⁱⁱⁱ | <p><u>Voluntary Termination</u></p> <p>Participant is entitled to all outstanding 2008 RSUs on the Share Payment Date, provided no Competitive Activity^{iv} through the earlier of (i) the end of the Firm's first fiscal quarter which ends following the one year anniversary of the termination date or (ii) the Share Payment Date and no Detrimental Activity through the Share Payment Date.</p> <p><u>Involuntary Termination without Cause</u></p> <p>Participant is entitled to all outstanding 2008 RSUs on the Share Payment Date, provided no Detrimental Activity through the Share Payment Date.</p> |
| Death, Disability ^v , or Termination for Select Government Service ^{vi} | All 2008 RSUs immediately vest and shares are issued within 30 days following the termination date. |

ⁱ "Detrimental Activity" means (i) using information received during a person's employment with Holdings or any of its subsidiaries related to the business affairs of Holdings or any of its subsidiaries, affiliates or their 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 employees (except as necessary to respond truthfully to any inquiry from applicable regulatory authorities or to provide information pursuant to legal process); (iv) solicitation of employees of Holdings or any subsidiary to work at another company; (v) improper use or disclosure of confidential information; (vi) the violation of policies and practices adopted by Holdings or any subsidiary; (vii) a material breach of a person of any contract between the person and Holdings or any subsidiary; or (viii) 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 the Chief Executive Officer or Chief Operating Officer of Holdings (or their respective designees). Notwithstanding the foregoing, if following any termination of employment other than for Cause but prior to the scheduled Share Payment Date it is determined that an act constituting Cause has occurred which was not determined by Holdings (or its designee) at the time of such termination, such act shall also be deemed to constitute Detrimental Activity.

ii "Cause" means a material breach by a person of an employment contract between the person and Holdings or any subsidiary, failure by a person to devote substantially all business time exclusively to the performance of his or her duties for Holdings or any subsidiary, willful misconduct, dishonesty related to the business and affairs of Holdings or any subsidiary, conviction of a felony or of a misdemeanor constituting a statutory disqualification under U.S. securities laws (or failure to contest prosecution for a felony or such a misdemeanor), habitual or gross negligence in the performance of a person's duties, solicitation of employees of Holdings or any subsidiary to work at another company, improper use or disclosure of confidential information, the violation of policies and practices adopted by Holdings or any subsidiary, including but not limited to the Code of Conduct, or a material violation of the conflict of interest, proprietary information or business ethics policies of Holdings or any subsidiary, or such other circumstances as may be determined in the sole discretion of the Chief Executive Officer or Chief Operating Officer of Holdings (or their respective designees).

iii "Full Career Termination" means a termination of employment when (i) a person has at least 20 years of service; or (ii) a person meets all of the following criteria: (a) the person's age plus years of service equals at least 55, (b) the person is at least 45 years old, and (c) the person has at least 10 years of service; or (iii) a person meets all of the following criteria: (a) the person is at least 50 years old, and (b) the person has at least 5 years of service.

iv "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 Holdings or any of its subsidiaries or affiliates on the date of termination of a person's employment with Holdings or any of its subsidiaries, as determined in the sole discretion of the Chief Executive Officer or Chief Operating Officer of Holdings (or their respective designees).

v "Disability" means a disability under both the Long-Term Disability Insurance Plan and Social Security Act.

vi In the event of a termination for select government service, shares will be issued as soon as practicable following the date of termination, to the extent permitted under Treas. Reg. § 1.409A-3(j)(4)(iii) regarding compliance with laws or agreements related to ethics or conflicts of interest.

The terms and conditions of the SIP shall be incorporated by reference into these Awards. Without limiting any of the foregoing, a Participant shall forfeit any outstanding RSU if the Participant fails to comply with either Section 4(c) or Section 12 of the SIP as may be interpreted by the Corporation and/or as may be evidenced in any Award Agreement.

In the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, payments may not be made at the time contemplated by the terms of the RSUs or the SIP, as the case may be, without causing the individual to be subject to taxation under Section 409A of the Code, Holdings will make such payment on the first day that would not result in such individual's incurring any tax liability under Section 409A of the Code. If the individual is a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code), payments and/or deliveries of shares of Common Stock that are linked to the date of such individual's separation from service shall not be made prior to the date which is six (6) months after the date of the individual's separation from service Holdings and its affiliates, determined in accordance with Section 409A of the Code and the regulations promulgated thereunder.

**Project Friend
Commercial RE Questions**

- 1) **Archstone Smith**
 - i. Please discuss the current composition of the portfolio, including number of properties and units by market
 - ii. Please identify which properties are under contract/LOI and in the market and status of efforts to date - what are you seeing in terms of demand and pricing (cap rates)
 - iii. Please explain 72.6% and 71.0% LTVs for the debt and mezz, respectively (not clear why the mezz LTV is lower). Note: for each of the commercial real estate assets, we need to understand the full capital stack, including terms and estimated LTVs; we would like to determine the first and last dollar loss positions on debt and junior positions held by Lehman).
- 2) **SunCal Companies**
 - i. Please discuss the lot inventory by development project and market.
 - ii. Please discuss recent marketing efforts (including bulk sales).
- 3) **Hilton Portfolio**
 - i. Discuss portfolio composition, including number of properties by market, brands, age, generation, date last renovated, etc.
 - ii. Please discuss significant capital improvement requirements, including PIPs.
 - iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs
- 4) **Prologis**
 - i. Discuss current information about portfolio composition, including number of properties and size by market, type (bulk warehouses, distribution, etc), average age, % leased and occupied, etc.
 - ii. Please provide general observations about market conditions in key markets.
 - iii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iv. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.
- 5) **Coeur Defense**
 - i. Please provide general observations about market conditions in key markets.
 - ii. Please provide % leased and occupied.
 - iii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iv. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.
- 6) **Beacon III**
 - i. Discuss current information about portfolio composition, including number of properties and size by market, type (CBD, suburban, class A, etc), % leased and occupied, etc.
 - ii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.
- 7) **EOP - Austin**
 - i. Discuss current information about portfolio composition, including number of properties and size by market, type (CBD, suburban, class A, etc), % leased and occupied, etc.
 - ii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.
- 8) **237 Park Avenue**
 - i. Discuss current status of the property, including % leased and occupied, etc.
 - ii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.
- 9) **Rosslyn Portfolio**
 - i. Discuss current status of the properties, including % leased and occupied, etc.
 - ii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
 - iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTVs.

Note: With regard to the requests above that refer to "current" information; at a minimum, we would like to discuss/receive information at least as current as May 31, 2008.

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Project Friend
Commercial RE Questions

10) Carlyle (WIN 14)

- i. Discuss current information about portfolio composition, including number of properties and size by market, type (CBD, suburban, class A, etc), % leased and occupied, etc.
- ii. Please identify significant capital requirements, if any, including TIs and other re-leasing costs.
- iii. Please provide current terms of all debt positions - balance, maturity, interest rate, LTV.

11) 1107 Broadway

- i. Please discuss the status of the project - percentage of completion, cost vs. budget, etc.
- ii. Please discuss marketing efforts - pre-sales, traffic, drop-outs, etc.
- iii. Please describe the source/nature of the borrower equity - cash, sweat equity, etc.
- iv. Please provide current terms of all debt positions - balance, maturity, interest rate, LTV.

12) Exhibition City

- i. Please discuss the status of the project - percentage of completion, cost vs. budget, etc.
- ii. Please discuss status of marketing efforts, including significant commitments by tenants.
- iii. Please discuss any potential competition, including WMC.
- iv. Please describe the source/nature of the borrower equity - cash, sweat equity, etc.
- v. Please provide current terms of all debt positions - balance, maturity, interest rate, LTV.

13) Innkeepers

- i. Please describe the composition of the portfolio, including number of properties, rooms by market, age, generation, date last renovated, etc.
- ii. Please discuss significant capital improvement requirements, including PIPs.
- iii. Please identify all properties with expiring management contracts and status of renewals.
- iv. Please provide current terms of all debt positions - balance, maturity, interest rate, LTV.

14) Ritz Carlton - Kapalua

- i. Please discuss the status of the project is - percentage of completion, cost vs. budget, etc.
- ii. Please discuss marketing efforts - pre-sales, traffic, drop-outs, etc.
- iii. Please provide current terms of all debt positions - balance, maturity, interest rate.

15) On the Avenue

- i. Please discuss recent performance of the hotel vs. budget/pro forma.
- ii. Please discuss significant capital improvement requirements.
- iii. Please provide current terms of all debt positions - amount, maturity, interest rate, LTV.

16) Intrawest

- i. Please discuss recent performance of the company and assets, market conditions, etc.
- ii. Please provide current terms of all debt positions - amount, maturity, interest rate, LTV.

Note: With regard to the requests above that refer to "current" information; at a minimum, we would like to discuss/receive information at least as current as May 31, 2008.

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