

2006 EXECUTIVE COMPENSATION

**Compensation and Benefits Committee
Report to the Board of Directors
of Lehman Brothers Holdings Inc.**

January 31, 2007

CONFIDENTIAL

FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

LB 008732

LBHI_SEC07940_025642

LEHMAN BROTHERS 2006 CEO Compensation Estimates - Primary Group

1/18/07

Note: Values in millions

Company	CEO	2004			2005			Reported/Estimated 2006			Commentary
		ROE	Net Income	Total Comp ⁽¹⁾⁽²⁾	ROE	Net Income	Total Comp ⁽¹⁾⁽²⁾	ROE ⁽³⁾	Net Income ⁽³⁾	Total Comp ⁽¹⁾⁽²⁾	
Bear Stearns	Cayne, J.E.	16.3%	\$1,345	\$31.5	14.8%	\$1,462	\$30.2	17.9%	\$2,054	≅ \$33 (Reported) ≅ \$37 (Reported + \$4M est preferential earnings)	Strong results lag competitors somewhat due to business mix. Compensation moderated by decline in "preferential earnings" on CAP units
Merrill Lynch	O'Neal, S.	15.0%	\$4,506	\$32.0	15.3%	\$5,116	\$37.0	22.4%	\$8,413	\$48	Record year and strong business momentum. Expect increase in compensation consistent with results and strong shareholder returns
Goldman Sachs	Paulson, H.M. (04-mid'06)	19.5%	\$4,553	\$29.8	21.2%	\$5,626	\$38.9	29.9%	\$9,537	--	Continues to exceed expectations. Increase for Blankfein at top of CEO pay scale consistent with Goldman's philosophy and off high 2005 amount
	Blankfein, L.C. (mid'06)			--			\$38.6			≅ \$54 (Reported)	
Morgan Stanley	Purcell, P.J. (04)	16.9%	\$4,486	\$22.0	17.2%	\$4,939	\$33.8	23.2%	\$7,472	≅ \$41 (Reported)	Rebound year for Morgan Stanley. Performance magnified off subpar 2005 and management "shake-up". Received 500K special restricted stock units in 2005 to join Firm (annualized here over 5 yrs)
	Mack (05-06)			<i>Purcell</i>			<i>Mack</i>			≅ \$46 (Reported + annualized special RSU)	
JP Morgan	Harrison, W.B. (04-05)	5.9%	\$4,466	\$15.3	8.0%	\$8,483	\$22.0	11.9%	\$13,251	--	Solid first year by Jamie Dimon as new CEO. Challenging environment in retail and commercial lending. Cost-consciousness impacts pay increase
	Dimon, J. (06)			--			\$22.0			\$28-\$30	
Lehman Brothers (Full R/S)		24.7% (target ROE)	\$1,369	\$26.3	27.8% (target ROE)	\$3,980	\$41.5	29.1% (target ROE)	\$7,007	TBD	
		17.9% (target ROE)			21.6% (target ROE)			25.4% (target ROE)			

(1) Beginning in 2005, options valued at 28% of face value to reflect lower industry stock volatility. We believe continues to represent reasonable estimate of option grant value based on current/expected market conditions
 (2) Excludes value of perquisites and benefits due to limited historical disclosure. Expect to include value in future when detailed disclosure makes more transparent
 (3) If estimated, used Múltex 4th quarter earnings estimates

LEHMAN BROTHERS

2006 CEO Compensation Estimates - Secondary Group

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		ROE	Net Income	Total Comp ⁽¹⁾⁽²⁾	ROE	Net Income	Total Comp ⁽¹⁾⁽²⁾	ROE ⁽³⁾	Net Income ⁽³⁾	Total Comp ⁽¹⁾⁽²⁾	
Bank of America	Lewis, K.D.	18.8%	\$13,947	\$26.1	16.3%	\$16,465	\$24.1	17.1%	\$21,071	\$26-\$28	Performance heavily linked to retail banking. Signs of weakness in mortgages and other lending margins tempers performance
Wells Fargo	Kovacevich, R.M.	19.4%	\$7,014	\$22.0	19.5%	\$7,671	\$21.9	19.5%	\$8,495	\$23-\$25	Lower involvement in hot market areas such as commodities and investment banking
Wachovia	Thompson, G.K.	14.9%	\$5,214	\$18.7	13.6%	\$6,429	\$17.7	14.7%	\$7,351	\$19-\$21	Increasingly challenging market environment minimal impact to-date on credit quality
Citigroup	Prince, C.	16.4%	\$17,046	\$20.5	22.2%	\$24,589	\$22.7	19.2%	\$22,241	\$26-\$29	Global expansion weighing down short-term margins. However, expect reward for achievements toward longer-term

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**2005 Compensation for Lehman Brothers and Competitors
Proxy Officers Summary (\$000's)**

Company	Name	Title	Salary	Cash Bonus	Annual Cash	Restricted Stock	Total Comp.	Stock Option Value (a)	Total Remun.	Other (b)	Total Remun. Plus Other (c)	Special Items (c)	Total with Sp. Items (c)	ROE(d)
Bear Stearns	Cayne, J.E.	Chairman & CEO	\$200	\$12,721	\$12,921	\$10,296	\$23,217	\$1,883	\$25,100	\$5,181	\$30,281	n/a	\$30,281	16.5%
	Greenberg, A.C.	Chair, Exec. Comm.	\$200	\$7,274	\$7,474	\$5,666	\$13,140	\$1,066	\$14,206	\$2,184	\$16,390	n/a	\$16,390	
	Molinaro Jr., S.L.	EVP & CFO	\$200	\$8,053	\$8,253	\$6,328	\$14,580	\$1,183	\$15,763	\$1,525	\$17,288	n/a	\$17,288	
	Schwartz, A.D.	President & Co-CEO	\$200	\$12,073	\$12,273	\$9,745	\$22,017	\$1,786	\$23,803	\$4,487	\$28,290	n/a	\$28,290	
	Spector, W.J.	President & Co-CEO	\$200	\$12,073	\$12,273	\$9,745	\$22,017	\$1,786	\$23,803	\$4,920	\$28,723	n/a	\$28,723	
Totals			\$1,000	\$52,194	\$53,194	\$41,778	\$94,972	\$7,704	\$102,675	\$18,296	\$120,971	n/a	\$120,971	
Goldman Sachs	Paulson Jr., H.M. ^(e)	Chairman & CEO	\$600	\$0	\$600	\$30,147	\$30,747	\$7,253	\$38,000	\$255	\$38,255	n/a	\$38,255	21.8%
	Blankfein, L.C.	Pres. & COO	\$600	\$19,121	\$19,721	\$10,805	\$30,525	\$7,203	\$37,728	\$311	\$38,040	n/a	\$38,040	
	Viniar, D. A.	CFO	\$600	\$12,246	\$12,846	\$6,680	\$19,525	\$4,453	\$23,978	\$286	\$24,264	n/a	\$24,264	
	Johnson, S. N.	Vice Chairman	\$600	\$10,768	\$11,368	\$5,780	\$17,147	\$3,853	\$21,000	\$30	\$21,031	n/a	\$21,031	
	Forst, E.C.*	Chief Admin Officer	\$600	\$10,746	\$11,346	\$5,780	\$17,125	\$3,853	\$20,978	\$75	\$21,053	n/a	\$21,053	
Totals			\$3,000	\$52,879	\$55,879	\$59,191	\$115,070	\$26,616	\$141,685	\$957	\$142,642	n/a	\$142,642	
Merrill Lynch	O'Neal, E.S.	Chairman & CEO	\$700	\$14,100	\$14,800	\$22,200	\$37,000	\$0	\$37,000	\$500	\$37,500	n/a	\$37,500	16.0%
	Kim, D.W.	Pres., Inv. Banking	\$350	\$10,850	\$11,200	\$16,800	\$28,000	\$0	\$28,000	\$85	\$28,085	n/a	\$28,085	
	Fleming, G.J.	Pres., Inv. Banking	\$350	\$8,850	\$9,200	\$13,800	\$23,000	\$0	\$23,000	\$113	\$23,113	n/a	\$23,113	
	Fakahany, A.L.	Vice Chair & CFO	\$350	\$8,050	\$8,400	\$12,600	\$21,000	\$0	\$21,000	\$124	\$21,124	n/a	\$21,124	
	McCaru, R.J.	Vice Chair, Gbl Priv. Client	\$350	\$6,850	\$7,200	\$10,800	\$18,000	\$0	\$18,000	\$94	\$18,094	n/a	\$18,094	
Totals			\$2,100	\$48,700	\$50,800	\$76,200	\$127,000	\$0	\$127,000	\$917	\$127,917	n/a	\$127,917	
Morgan Stanley	Mack, J.J.* ^(e)	Chairman & CEO	\$810	\$0	\$810	\$11,584	\$12,394	\$0	\$12,394	\$5,670	\$18,064	\$0	\$18,064	17.3%
	Cruz, Z.	Co-President	\$300	\$7,245	\$7,545	\$13,582	\$21,127	\$0	\$21,127	\$6	\$21,133	\$0	\$21,133	
	Shear, N.A.*	Co - Head Instl Sales	\$250	\$8,663	\$8,913	\$16,239	\$25,152	\$0	\$25,152	\$6	\$25,158	\$0	\$25,158	
	Chammah, W.A.*	Head of Invst. Banking	\$250	\$4,813	\$5,063	\$9,022	\$14,085	\$0	\$14,085	\$0	\$14,085	\$0	\$14,085	
	Chenevix-Trench, J.*	Chair, Europe. Mgmt Comm	\$312	\$4,791	\$5,103	\$8,981	\$14,084	\$0	\$14,084	\$31	\$14,115	\$11	\$14,126	
Totals			\$1,922	\$25,512	\$27,434	\$59,408	\$86,842	\$0	\$86,842	\$5,713	\$92,555	\$11	\$92,566	
Group Averages														
CEO			\$578	\$6,705	\$7,283	\$18,557	\$25,840	\$2,284	\$28,124	\$2,901	\$31,025	n/a	\$31,025	
Average Below CEO			\$357	\$9,529	\$9,886	\$10,147	\$20,033	\$1,574	\$21,607	\$892	\$22,499	n/a	\$22,500	
Officer Group			\$2,006	\$44,821	\$46,827	\$59,144	\$105,971	\$8,580	\$114,551	\$6,471	\$121,021	n/a	\$121,024	
Lehman Brothers	Fuld Jr., R.S.	Chairman & CEO	\$750	\$13,750	\$14,500	\$14,542	\$29,442	\$5,040	\$34,482	\$18	\$34,500	\$1,600	\$36,100	21.6%
	Gregory, J.M.	Pres. & COO	\$450	\$11,550	\$12,000	\$11,542	\$23,542	\$3,920	\$27,462	\$10	\$27,472	\$1,211	\$28,683	
	Goldfarb, D.	Chief Admin Officer	\$450	\$5,550	\$6,000	\$5,200	\$11,200	\$3,360	\$14,560	\$0	\$14,560	\$800	\$15,360	
	Russo, T.A.	Chief Legal Officer	\$450	\$4,550	\$5,000	\$3,314	\$8,314	\$1,680	\$9,994	\$0	\$9,994	\$700	\$10,694	
	Beyman, J.	Chief of Ops. & Tech.	\$200	\$3,100	\$3,300	\$3,143	\$6,443	\$0	\$6,443	\$0	\$6,443	\$0	\$6,443	
Totals			\$2,300	\$38,500	\$40,800	\$38,141	\$78,941	\$14,000	\$92,941	\$28	\$92,969	\$4,311	\$97,279	
Avg Below CEO			\$388	\$6,188	\$6,575	\$5,800	\$12,375	\$2,240	\$14,615	\$2	\$14,617	\$678	\$15,295	
Ranking			2 of 5	5 of 5	5 of 5	5 of 5	5 of 5	2 of 5	5 of 5	5 of 5	5 of 5	5 of 5	2 of 5	

* Newly named officers.

(a) Based on reported values in annual proxy statement (modified Black-Scholes Option Pricing Model). Excludes the value of the reload feature embedded in Morgan Stanley grants.

(b) Typically includes contributions to 401(k) plans, stock purchase programs, retirement programs, and insurance premiums.

(c) Includes the following items: i) Morgan Stanley: The value of reload options granted as a result of the exercise of RORs granted in prior years, and ii) Lehman Brothers: Attributed value of 2003 PSU award.

(d) Return on average equity, as disclosed, before special charges.

(e) Mr. Paulson's 2005 bonus was paid in RSUs.

(f) Mr. Mack joined Morgan Stanley as Chairman and CEO on June 30, 2005, for 2005 his salary has been annualized. A sign-on award of 500,000 RSUs has been annualized over 3-years. His 2005 bonus was paid in RSUs.

CHIEF EXECUTIVE OFFICER COMPENSATION
Compensation History and 2006 Recommendations
 (\$000s)

	2005 Total Comp			2006 Projected Total Compensation							2005-'06 Increase				
	Total Comp	Total w/ PSUs	Proxy Comp	Cash	RSUs	Value of Options	Perform. RSUs	Total Comp	2006 PSU (1/4th) ¹	Total w/ PSUs	Proxy Comp	% Equity	Total Comp	Total w/ PSUs	Proxy
Fuld	\$30,000	\$31,615	\$34,482	\$7,000	\$7,632	\$6,458	\$0	\$21,090	\$1,615	\$22,705	\$40,500	69%	-30%	-28%	17%
Scenario A				\$5,000	\$7,632	\$6,458	\$0	\$10,090	\$1,615	\$20,705	\$38,500	76%	-36%	-35%	12%
Scenario B				\$6,000	\$7,632	\$6,458	\$0	\$20,090	\$1,615	\$21,705	\$39,500	72%	-33%	-31%	15%
Scenario C				\$7,000	\$7,632	\$6,458	\$0	\$21,090	\$1,615	\$22,705	\$40,500	69%	-30%	-28%	17%
Scenario D				\$8,000	\$7,632	\$6,458	\$0	\$22,090	\$1,615	\$23,705	\$41,500	66%	-26%	-25%	20%
Gregory	\$24,000	\$25,211	\$27,462	\$6,000	\$6,300	\$5,535	\$0	\$17,935	\$1,211	\$19,046	\$33,046	68%	-26%	-24%	20%
McDade	\$23,000	\$23,808		\$13,000	\$12,500	\$0	\$1,500	\$27,000	\$808	\$27,808		53%	-17%		17%
Gelband	\$19,000	\$19,000		\$10,500	\$10,500	\$0	\$1,500	\$22,500	NA	\$22,500		53%	-18%		18%
McGee	\$19,000	\$19,000		\$10,500	\$10,500	\$0	\$1,500	\$22,500	NA	\$22,500		53%	-18%		18%
Janulis	\$15,000	\$13,719		\$7,000	\$6,500	\$0	\$1,500	\$15,000	\$719	\$15,719		55%	-15%		15%
Walker	NA	NA		\$8,500	\$8,000	\$0	\$1,500	\$18,000	NA	\$18,000		53%	NA		NA
Goldfarb	\$15,000	\$13,808	\$14,560	\$3,000	\$2,660	\$3,690	\$0	\$9,350	\$808	\$10,158	\$18,576	70%	-28%	-26%	28%
Lessing	\$21,000	\$21,808		\$4,000	\$0	\$0	\$0	\$4,000	\$808	\$4,808		17%	-31%		-78%
Isaacs	\$15,830	\$17,041		\$9,500	\$8,800	\$0	\$1,500	\$19,800	\$1,211	\$21,011		55%	-25%		23%
Nagioff	\$14,500	\$15,219		\$9,300	\$8,500	\$0	\$1,500	\$19,300	\$719	\$20,019		54%	-32%		32%
Bhattal	\$13,500	\$13,979		\$7,500	\$7,000	\$0	\$1,500	\$16,000	\$479	\$16,479		54%	-16%		18%
Russo	\$9,000	\$9,719	\$9,994	\$5,000	\$3,973	\$1,845	\$0	\$10,818	\$719	\$11,537	\$18,307	57%	-20%	19%	83%
O'Meara	\$4,500	\$4,500		\$2,500	\$2,500	\$0	\$0	\$5,000		\$5,000	\$6,071	50%	-11%		11%
Lowitt	\$3,000	\$3,000		\$2,250	\$2,250	\$0	\$0	\$4,500		\$4,500	\$5,464	50%	-50%		50%
Freidheim	\$4,000	\$4,000		\$2,500	\$2,500	\$0	\$0	\$5,000		\$5,000	\$6,071	50%	-25%		25%

¹ Note that 1/4 of the 2003 PSU value will be attributed to compensation earned in fiscal years 2003 through 2006.

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	Dimon, J. ('06)			--						\$22.0	
Lehman Brothers - Full R/S		24.7% (tangible ROE)	\$2,369	\$26.3	27.8% (tangible ROE)	\$3,260	\$34.5	29.1% (tangible ROE)	\$4,007	TBD	
		7.9% (intangible ROE)			21.6% (intangible ROE)			23.4% (intangible ROE)			

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	Johnson, S. N.	Vice Chairman	\$600	\$10,768	\$11,368	\$5,780	\$17,147	\$3,853	\$21,000	\$30	\$21,031	n/a	\$21,031	
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Totals			\$3,000	\$52,879	\$53,879	\$59,191	\$115,070	\$26,616	\$141,685	\$957	\$142,642	n/a	\$142,642	
Merrill Lynch	O'Neal, E.S.	Chairman & CEO	\$700	\$14,100	\$14,800	\$22,200	\$37,000	\$0	\$37,000	\$500	\$37,500	n/a	\$37,500	16.0%
	Kim, D.W.	Pres., Inv. Banking	\$350	\$10,850	\$11,200	\$16,800	\$28,000	\$0	\$28,000	\$85	\$28,085	n/a	\$28,085	
	Fleming, G.J.	Pres., Inv. Banking	\$350	\$8,850	\$9,200	\$13,800	\$23,000	\$0	\$23,000	\$113	\$23,113	n/a	\$23,113	
	Fakahany, A.L.	Vice Chair & CFO	\$350	\$8,050	\$8,400	\$12,600	\$21,000	\$0	\$21,000	\$124	\$21,125	n/a	\$21,125	
	McCann, R.J.	Vice Chair, Gbl Priv. Client	\$350	\$6,850	\$7,200	\$10,800	\$18,000	\$0	\$18,000	\$94	\$18,094	n/a	\$18,094	
Totals			\$2,100	\$48,700	\$50,800	\$76,200	\$127,000	\$0	\$127,000	\$917	\$127,917	n/a	\$127,917	
Morgan Stanley	Mack, J.J. ^(f)	Chairman & CEO	\$810	\$0	\$810	\$11,584	\$12,394	\$0	\$12,394	\$5,670	\$18,064	\$0	\$18,064	17.3%
	Cruz, Z.	Co-President	\$300	\$7,245	\$7,545	\$13,582	\$21,127	\$0	\$21,127	\$6	\$21,133	\$0	\$21,133	
	Shear, N.A.*	Co - Head Inst'l Sales	\$250	\$8,663	\$8,913	\$16,239	\$25,152	\$0	\$25,152	\$6	\$25,158	\$0	\$25,158	
	Chamneh, W.A.*	Head of Invst. Banking	\$250	\$4,813	\$5,063	\$9,022	\$14,085	\$0	\$14,085	\$0	\$14,085	\$0	\$14,085	
	Chenevix-Trench, J.*	Chair, Europe. Mgmt Comm	\$312	\$4,791	\$5,103	\$8,981	\$14,084	\$0	\$14,084	\$31	\$14,115	\$11	\$14,126	
Totals			\$1,922	\$25,512	\$27,434	\$59,408	\$86,842	\$0	\$86,842	\$5,713	\$92,555	\$11	\$92,566	
Group Averages														
CEO			\$578	\$6,705	\$7,283	\$18,557	\$25,840	\$2,284	\$28,124	\$2,901	\$31,025	n/a	\$31,025	
Average Below CEO			\$357	\$9,529	\$9,886	\$10,147	\$20,033	\$1,574	\$21,607	\$892	\$22,499	n/a	\$22,500	
Officer Group			\$2,006	\$44,821	\$46,827	\$59,144	\$105,971	\$8,580	\$114,551	\$6,471	\$121,021	n/a	\$121,024	
Lehman Brothers	Fuld Jr., R.S.	Chairman & CEO	\$750	\$13,750	\$14,500	\$14,942	\$29,442	\$5,040	\$34,482	\$18	\$34,500	\$1,600	\$36,100	21.6%
	Gregory, J.M.	Pres. & COO	\$450	\$11,550	\$12,000	\$11,542	\$23,542	\$3,920	\$27,462	\$10	\$27,472	\$1,211	\$28,683	
	Goldfarb, D.	Chief Admin Officer	\$450	\$5,550	\$6,000	\$5,200	\$11,200	\$3,360	\$14,560	\$0	\$14,560	\$800	\$15,360	
	Russo, T.A.	Chief Legal Officer	\$450	\$4,550	\$5,000	\$3,314	\$8,314	\$1,680	\$9,994	\$0	\$9,994	\$700	\$10,694	
	Beyman, J.	Chief of Ops. & Tech.	\$200	\$3,100	\$3,300	\$3,143	\$6,443	\$0	\$6,443	\$0	\$6,443	\$0	\$6,443	
Totals			\$2,300	\$38,500	\$40,800	\$38,141	\$78,941	\$14,000	\$92,941	\$28	\$92,968	\$4,311	\$97,279	
Avg Below CEO			\$388	\$6,188	\$6,575	\$5,800	\$12,375	\$2,240	\$14,615	\$2	\$14,617	\$678	\$15,295	
Ranking			2 of 5	5 of 5	5 of 5	5 of 5	5 of 5	2 of 5	5 of 5	5 of 5	5 of 5	5 of 5	2 of 5	

* Newly named officers.

(a) Based on reported values in annual proxy statement (modified Black-Scholes Option Pricing Model). Excludes the value of the reload feature embedded in Morgan Stanley grants.

(b) Typically includes contributions to 401(k) plans, stock purchase programs, retirement programs, and insurance premiums.

(c) Includes the following items: i) Morgan Stanley: The value of reload options granted as a result of the exercise of RORs granted in prior years, and ii) Lehman Brothers: Attributed value of 2003 PSU award.

(d) Return on average equity, as disclosed, before special charges.

(e) Mr. Paulson's 2005 bonus was paid in RSUs.

(f) Mr. Mack joined Morgan Stanley as Chairman and CEO on June 30, 2005, for 2005 his salary has been annualized. A sign-on award of 500,000 RSUs has been annualized over 5-years. His 2005 bonus was paid in RSUs.

CHIEF EXECUTIVE OFFICER COMPENSATION

Compensation History and 2006 Recommendations

(\$000s)

	2005 Total Comp			2006 Projected Total Compensation								2005-'06 Increase			
	Total Comp	Total w/ PSUs	Proxy Comp	Cash	RSUs	Value of Options	Perform. RSUs	Total Comp	2006 PSU (1/4th) ¹	Total w/ PSUs	Proxy Comp	% Equity	Total Comp	Total w/ PSUs	Proxy
Fuld	\$30,000	\$31,615	\$34,482	\$7,000	\$7,632	\$6,458	\$0	\$21,090	\$1,615	\$22,705	\$40,500	69%	-30%	-28%	17%
Scenario A				\$5,000	\$7,632	\$6,458	\$0	\$19,090	\$1,615	\$20,705	\$38,500	76%	-36%	-35%	12%
Scenario B				\$6,000	\$7,632	\$6,458	\$0	\$20,090	\$1,615	\$21,705	\$39,500	72%	-33%	-31%	15%
Scenario C				\$7,000	\$7,632	\$6,458	\$0	\$21,090	\$1,615	\$22,705	\$40,500	69%	-30%	-28%	17%
Scenario D				\$8,000	\$7,632	\$6,458	\$0	\$22,090	\$1,615	\$23,705	\$41,500	66%	-26%	-25%	20%
Gregory	\$24,000	\$25,211	\$27,462	\$6,000	\$6,300	\$5,535	\$0	\$17,835	\$1,211	\$19,046	\$33,046	68%	-26%	-24%	20%
McDade	\$23,000	\$23,808		\$13,000	\$12,500	\$0	\$1,500	\$27,000	\$808	\$27,808		53%	17%	17%	
Gelband	\$19,000	\$19,000		\$10,500	\$10,500	\$0	\$1,500	\$22,500	NA	\$22,500		53%	18%	18%	
McGee	\$19,000	\$19,000		\$10,500	\$10,500	\$0	\$1,500	\$22,500	NA	\$22,500		53%	18%	18%	
Janulis	\$13,000	\$13,719		\$7,000	\$6,500	\$0	\$1,500	\$15,000	\$719	\$15,719		55%	15%	15%	
Walker	NA	NA		\$8,500	\$8,000	\$0	\$1,500	\$18,000	NA	\$18,000		53%	NA	NA	
Goldfarb	\$13,000	\$13,808	\$14,560	\$3,000	\$2,660	\$3,690	\$0	\$9,350	\$808	\$10,158	\$18,576	70%	-28%	-26%	28%
Lessing	\$21,000	\$21,808		\$4,000	\$0	\$0	\$0	\$4,000	\$808	\$4,808		17%	-81%	-78%	
Isaacs	\$15,850	\$17,041		\$9,500	\$8,800	\$0	\$1,500	\$19,800	\$1,211	\$21,011		55%	25%	23%	
Nagioff	\$14,500	\$15,219		\$9,300	\$8,500	\$0	\$1,500	\$19,300	\$719	\$20,019		54%	33%	32%	
Bhattal	\$13,500	\$13,979		\$7,500	\$7,000	\$0	\$1,500	\$16,000	\$479	\$16,479		54%	19%	18%	
Russo	\$9,000	\$9,719	\$9,994	\$5,000	\$3,973	\$1,845	\$0	\$10,818	\$719	\$11,537	\$18,307	57%	20%	19%	83%
O'Meara	\$4,500	\$4,500		\$2,500	\$2,500	\$0		\$5,000		\$5,000	\$6,071	50%	11%	11%	NA
Lowitt	\$3,000	\$3,000		\$2,250	\$2,250	\$0		\$4,500		\$4,500	\$5,464	50%	50%	50%	NA
Freidheim	\$4,000	\$4,000		\$2,500	\$2,500	\$0		\$5,000		\$5,000	\$6,071	50%	25%	25%	NA

¹ Note that 1/4 of the 2003 PSU value will be attributed to compensation earned in fiscal years 2003 through 2006.

INDEPENDENCE DETERMINATIONS

Director	NYSE Disqualifying Relationships	Relationships that Exceed the Categorical Standards	Relationships that Fall Below the Categorical Standards			
			Personal Relationships	Business Relationships	Charitable Relationships	
	<ul style="list-style-type: none"> None. 	<ul style="list-style-type: none"> The only relationships of which the Firm is aware are the directors' investments in certain investment partnerships sponsored by the Firm, which were offered to the directors on favorable employee terms. These investments are disclosed in the proxy statement. Updated information regarding these investments is included on the following pages. The Board will need to determine whether or not these investments impair the directors' independence. <ul style="list-style-type: none"> In the Firm's 2006 and 2005 proxy statements, these investments were explained from an independence perspective on the basis that none of the rights of the directors in these partnerships are contingent in any way on their continued service as directors. No director has made any commitment to any of these partnerships since mid-2001. 	<ul style="list-style-type: none"> These relationships are considered immaterial under the Categorical Standards for Independence Determinations adopted by the Board. A "Yes" below indicates that: <ul style="list-style-type: none"> In the case of "Personal Relationships," the Director has personal account(s) with the Firm. In each such case, the Director has stated that such business is conducted in the ordinary course of the Firm's business and on arms-length terms. In addition, each Director has stated that no member of his or her immediate family conducts personal business with the Firm except in the ordinary course of the Firm's business and on arms-length terms. Under the Categorical Standards for Independence Determinations, an unlimited amount of ordinary course, arms-length personal business with the Firm can be conducted. In the case of "Business Relationships," the Firm receives revenues from a company with which the Director is associated, as described more fully on the following pages. In the case of "Charitable Relationships," the Firm makes charitable contributions to a charity with which the Director is associated, as described more fully on the following pages. 			
Ainslie	—	Yes	Yes	—	Yes	
Akers	—	Yes	Yes	Yes	—	
Berlind	—	Yes	Yes	—	—	
Cruikshank	—	Yes	Yes	—	—	
Evans	—	—	—	Yes	—	
Gent	—	—	Yes	Yes	—	
Hernandez	—	—	Yes	Yes	—	
Kaufman	—	Yes	Yes	Yes	Yes	
Macomber	—	Yes	Yes	Yes	Yes	

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MICHAEL L. AINSLIE

Investment Partnerships

Set forth below is information regarding Mr. Ainslie's limited partner investments in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Partnership Account 2000/2001, L.P.	\$0	\$75,000	\$0
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

Set forth below are the Firm's charitable contributions for each of the last three fiscal years to non-profit organizations with which Mr. Ainslie is associated. Under the Categorical Standards for Independence Determinations, such contributions are considered immaterial, provided they do not exceed the greater of \$100,000 and 2% of the charity's revenues in any fiscal year.

Organization	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Palm Beach Civic Association	\$3,000 (Palm Beach's revenues not available)	—	—
Posse Foundation	\$100,000 (Posse's revenues not available)	\$75,000 (0.9% of Posse's revenues)	\$75,000 (1.9% of Posse's revenues)

JOHN F. AKERS

Investment Partnerships

Set forth below is information regarding limited partner investments by adult children of Mr. Akers in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Partnership Account 2000/2001, L.P.	\$0	\$75,000	\$0
Lehman Brothers Venture Capital Partners I, L.P.	\$2,475	\$74,585	—
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by The Pepsi Bottling Group, Inc., which is, according to PepsiCo, Inc., a noncontrolled affiliate of PepsiCo, Inc. Mr. Akers serves as an outside director for PepsiCo, Inc. Under the Categorical Standards for Independence Determinations, an unlimited amount of such payments may be made, provided such business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
The Pepsi Bottling Group, Inc. (noncontrolled affiliate of PepsiCo, Inc.)	\$43,000 (0.0% of Pepsi Bottling's revenues)	\$196,494 (0.0% of Pepsi Bottling's revenues)	\$78,000 (0.0% of Pepsi Bottling's revenues)

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ROGER S. BERLIND

Investment Partnerships

Set forth below is information regarding Mr. Berlind's limited partner investments in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners II, L.P.	\$0	\$0	—
Lehman Brothers Capital Partners III, L.P.	\$0	\$0	—
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Partnership Account 2000/2001, L.P.	\$0	\$75,000	\$0
Lehman Brothers Venture Capital Partners I, L.P.	\$2,475	\$74,585	—
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	\$0	\$143,116	—

THOMAS H. CRUIKSHANK

Investment Partnerships

Set forth below is information regarding Mr. Cruikshank's limited partner investments in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Venture Capital Partners I, L.P.	\$2,475	\$74,585	—
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—

MARSHA JOHNSON EVANS

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by a company for which Ms. Evans serves as an outside director. Under the Categorical Standards for Independence Determinations, an unlimited amount of such payments may be made, provided such business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Huntsman Corporation	—	\$90,000 (0.0% of Huntsman's revenues)	—

SIR CHRISTOPHER GENT

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by companies with which Sir Christopher is associated. Sir Christopher serves as non-executive Chairman of GlaxoSmithKline Plc. Under the Categorical Standards for Independence Determinations, an unlimited amount of such payments may be made, provided such business is conducted in the ordinary course of the Firm's business and on arms-length terms. Sir Christopher is a Senior Advisor to Bain & Company, Inc. Under the Categorical Standards for Independence Determinations, annual payments which do not exceed the greater of \$100,000 and 1% of Bain's revenues in a fiscal year are considered immaterial, provided the business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
GlaxoSmithKline Plc	\$20,242,663 (GlaxoSmithKline's revenues not available)	\$1,375,959 (0.0% of GlaxoSmithKline's revenues)	\$6,041,000 (0.0% of GlaxoSmithKline's revenues)
Bain & Company, Inc.	—	—	\$17,759 (Bain's revenues not available)

ROLAND HERNANDEZ

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by companies for which either Mr. Hernandez, or his brother, Enrique Hernandez, Jr., serves as an outside director. Under the Categorical Standards for Independence Determinations, an unlimited amount of such payments may be made, provided such business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
MGM Mirage	—	—	\$80,800 (0.0% of MGM Mirage's revenues)
Vail Resorts	—	—	\$411,013 (0.0% of Vail's revenues)
Wal-Mart Stores, Inc.	\$1,154,086 (0.0% of Wal-Mart's revenues)	\$2,817,379 (0.0% of Wal-Mart's revenues)	\$3,031,662 (0.0% of Wal-Mart's revenues)
Nordstrom Inc.*	\$79,000 (0.0% of Nordstrom's revenues)	\$107,238 (0.0% of Nordstrom's revenues)	\$102,670 (0.0% of Nordstrom's revenues)
Wells Fargo & Company*	\$42,231,748 (Wells Fargo's revenues not available)	\$38,762,189 (0.1% of Wells Fargo's revenues)	\$31,522,567 (0.1% of Wells Fargo's revenues)

* Directorship held by Enrique Hernandez, Jr., the brother of Mr. Hernandez.

HENRY KAUFMAN

Investment Partnerships

Set forth below is information regarding Mr. Kaufman's limited partner investments in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners III, L.P.	\$0	\$0	—
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Partnership Account 2000/2001, L.P.	\$0	\$75,000	\$0
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by a company with which Mr. Kaufman is associated. Mr. Kaufman is Managing Member of Kaufman Family LLC. Under the Categorical Standards for Independence Determinations, annual payments which do not exceed the greater of \$100,000 and 1% of Kaufman Family LLC's revenues in a fiscal year are considered immaterial, provided the business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Kaufman Family LLC	\$59,858 (Kaufman Family LLC's revenues not available)	\$22,770 (Kaufman Family LLC's revenues not available)	\$73,227 (Kaufman Family LLC's revenues not available)

Charitable Relationships

Set forth below are the Firm's charitable contributions for each of the last three fiscal years to non-profit organizations with which either Mr. Kaufman or his wife is associated. Under the Categorical Standards for Independence Determinations, such contributions are considered immaterial, provided they do not exceed the greater of \$100,000 and 2% of the charity's revenues in any fiscal year.

Organization	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Animal Medical Center	—	—	\$1,500 (0.0% of Animal Medical Center's revenues)
Institute of International Education	\$310,000 (IIE's revenues not available)	\$135,000 (0.1% of IIE's revenues)	—
New York University	\$25,000 (NYU's revenues not available)	\$10,000 (0.0% of NYU's revenues)	—
Stern School of Business, New York University	\$22,500 (Stern School's revenues not available)	\$7,500 (0.2% of Stern School's revenues)	—

JOHN D. MACOMBER

Investment Partnerships

Set forth below is information regarding limited partner investments by adult children of Mr. Macomber in investment partnerships sponsored by the Firm.

Partnership	Fiscal 2006 Distributions	LP Capital Remaining Invested as of 11/30/06	Recourse Financing Remaining as of 11/30/06
Lehman Brothers Capital Partners IV, L.P.	\$0	\$0	\$0
Lehman Brothers Partnership Account 2000/2001, L.P.	\$0	\$75,000	\$0
Lehman Brothers Venture Capital Partners I, L.P.	\$2,475	\$74,585	—
Lehman Brothers Communications Capital Partners I, L.P.	\$21,676	\$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	\$0	\$143,116	—
Lehman Brothers Real Estate Capital Partners I, L.P.	\$122,615	\$178,640	—

Relationships that Fall Below the Categorical Standards

Business Relationships

Set forth below are the aggregate payments made to the Firm during each of the last three fiscal years by companies with which Mr. Macomber is associated. Mr. Macomber is Chairman of Macomber Family LLC. Under the Categorical Standards for Independence Determinations, annual payments which do not exceed the greater of \$100,000 and 1% of the revenues of Macomber Family LLC in a fiscal year are considered immaterial, provided the business is conducted in the ordinary course of the Firm's business and on arms-length terms. Mr. Macomber serves as an outside director of AEA Investors. Under the Categorical Standards for Independence Determinations, an unlimited amount of such payments may be made, provided such business is conducted in the ordinary course of the Firm's business and on arms-length terms.

Company	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
Macomber Family LLC	\$977 (Macomber Family LLC's revenues not available)	\$4,930 (Macomber Family LLC's revenues not available)	—
AEA Investors Inc.	\$167,837 (AEA's revenues not available)	\$2,900,000 (AEA's revenues not available)	\$138,000 (AEA's revenues not available)

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Charitable Relationships

Set forth below are the Firm's charitable contributions for each of the last three fiscal years to non-profit organizations with which either Mr. Macomber or his wife is associated. Under the Categorical Standards for Independence Determinations, such contributions are considered immaterial, provided they do not exceed the greater of \$100,000 and 2% of the charity's revenues in any fiscal year.

Organization	Fiscal Year 2006	Fiscal Year 2005	Fiscal Year 2004
American Museum of Natural History	—	—	\$35,000 (0.0% of Museum's revenues)
Atlantic Council	—	\$20,000 (Atlantic Council's revenues not available)	—
National Campaign to Prevent Teen Pregnancy	—	\$10,000 (National Campaign's revenues not available)	—
New York Philharmonic	\$50,000 (N.Y. Philharmonic's revenues not available)	—	—
The Morgan Library	\$25,000 (Morgan Library's revenues not available)	—	—

Independence of Audit Committee Members

The regulations promulgated under the Securities Exchange Act of 1934 (the "Act") require that each member of the Audit Committee be independent. To meet such requirement the director may not, other than in his or her capacity as a member of the Audit Committee, the Board of Directors or any other Board committee, (A) accept directly or indirectly any consulting, advisory or other compensatory fee from the Firm or any subsidiary or (B) be an affiliated person of the Firm or any subsidiary.

Each of Thomas H. Cruikshank, Michael L. Ainslie, Roger S. Berlind and Sir Christopher Gent meets the requirements for independence under the Act. Michael Ainslie's service as a director of Lehman Brothers Bank does not create an independence issue: the rule contains an exemption for service by an audit committee member as a director of a subsidiary of the listed issuer.

LEHMAN BROTHERS

DATE: January 26, 2007
TO: Members of the Board of Directors of Lehman Brothers Holdings Inc.
FROM: Madeline L. Shapiro, Assistant Secretary *MJS*
RE: **JANUARY 31, 2007 MEETING OF THE BOARD OF DIRECTORS**

Enclosed please find an Agenda for the January 31, 2007 meeting of the Board of Directors and accompanying materials. Also enclosed is a summary of Executive Committee and certain other corporate actions taken since the November 14, 2006 Board meeting.

The meeting is scheduled to be held in the Board Room on the 31st floor, 745 Seventh Avenue (between 49th and 50th Streets), from 11:30 a.m. to 2:00 p.m. Lunch will be served. Please bring the enclosed materials with you.

Distribution:

Mr. Michael L. Ainslie
Mr. John F. Akers
Mr. Roger S. Berlind
Mr. Thomas H. Cruikshank
Ms. Marsha Johnson Evans

Mr. Richard S. Fuld, Jr.
Sir Christopher Gent
Mr. Roland A. Hernandez
Mr. Henry Kaufman
Mr. John D. Macomber

Copy to:

Mr. Joseph M. Gregory
Mr. Christopher M. O'Meara
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

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AGENDA

LEHMAN BROTHERS HOLDINGS INC. ("Holdings")

BOARD OF DIRECTORS MEETING

January 31, 2007
745 Seventh Avenue
31st Floor – Board Room
11:30 a.m. – 2:00 p.m.

- 1) Approval of Minutes of Holdings' Board of Directors Meeting held on November 14, 2006. (Resolution and Minutes Attached) (Fuld)
- 2) Report of January 30, 2007 Nominating and Corporate Governance Committee Meeting. (Resolutions and Materials Attached) (Evans)
 - Designation of Director nominees for election at the Annual Meeting.
- 3) Report of January 30, 2007 Finance and Risk Committee Meeting. (Resolutions Attached) (Kaufman)
- 4) Report of November 30, 2006, December 8, 2006 and January 30, 2007 Compensation and Benefits Committee Meetings. (Resolution and Materials Attached) (Akers)
- 5) Report of December 13, 2006 and January 31, 2007 Audit Committee Meetings. (Cruikshank)
- 6) Financial Update. (Materials Attached) (O'Meara)
- 7) 2007 Budget. (O'Meara)
- 8) Independence Determinations with respect to individual Directors. (Resolutions Attached) (Russo)
- 9) Holdings Annual Meeting. (Resolutions Attached) (Russo)
 - Delegation of authority for Annual Meeting, Proxy Statement and related materials.
 - Approval of Annual Meeting Agenda.
- 10) Legal Update. (Russo)
- 11) Country Risk Update. (Miscik)

12) Executive Session. (Discussion of CEO Compensation) (Akers)

WORKING LUNCH

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 1

Holdings
Board of Directors
1/31/07

RESOLVED, that the Minutes of the meeting of the Board of Directors held on November 14, 2006 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

LEHMAN BROTHERS HOLDINGS INC.

**Minutes of the Board of Directors
November 14, 2006**

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held in the Board Room of 745 Seventh Avenue, on November 14, 2006, at 12:00 noon, pursuant to written notice.

PRESENT - BOARD MEMBERS

Mr. Michael L. Ainslie
Mr. John F. Akers
Mr. Roger S. Berlind
Mr. Thomas H. Cruikshank
Ms. Marsha Johnson Evans
Mr. Richard S. Fuld, Jr.
Sir Christopher Gent
Mr. Roland A. Hernandez
Mr. Henry Kaufman
Mr. John D. Macomber

ALSO PRESENT BY INVITATION

Mr. David Goldfarb
Mr. Joseph M. Gregory
Mr. Christopher M. O'Meara
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

APPROVAL OF MINUTES

The first order of business was the approval of the Minutes of the Board of Directors meeting held on October 3, 2006. Upon motion, duly made and seconded, it was unanimously

RESOLVED, that the Minutes of the meeting of the Board of Directors held on October 3, 2006 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Ms. Evans reported on the morning's meeting of the Nominating and Corporate Governance Committee. She noted that the Committee completed its annual review of compliance with its charter and that no deficiencies were noted. Ms. Evans also reported that the Committee conducted its self-evaluation. Ms. Evans gave the Board an update on the director search and the status of the leading director candidates, and she briefed the Board on additional prospective candidates and requested that the other Directors provide her with any input on those candidates. Ms. Evans also reported that the Committee received a briefing by Mr. Russo on the stockholder proposals received by the Firm and noted that Mr. Russo would be discussing this topic with the full Board later in the meeting.

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

Mr. Akers reported on the morning's Compensation and Benefits Committee meeting. He reported that the Committee approved the 2006 bonus pool and the year-end stock award programs. He stated that the Committee approved a Firm-wide bonus pool for 2006 which, together with all other compensation and benefits expenses for 2006, does not exceed 49.8% of the Firm's net revenues. Mr. Akers reported that the terms and conditions for the year-end equity awards were approved, and that changes to the program for 2006 include: increasing the portion of compensation paid in equity; eliminating the choice of options; and adjusting the restriction period of restricted stock awards to five years for all employees, rather than the shortened period that previously applied following retirement and for certain other terminations.

Mr. Akers reported that the Committee discussed performance formulas for annual compensation for fiscal year 2007 for members of the Executive Committee and Executive Officers. He noted that establishment of these formulas enables the Firm to meet the requirements for tax deductibility of compensation paid to the Executive Officers and stated that the formulas would be determined during the Committee's first meeting in fiscal year 2007 in December. Mr. Akers reported that the Committee is considering awarding a performance based restricted stock unit award in place of an option award for members of the Executive Committee and Executive Officers. Mr. Akers stated that the Committee continued its discussion of a potential amendment to previously awarded performance stock units which are payable following a change in control (or under such other circumstances as the Committee may determine) which would make such awards payable based on the completion of future service requirements. Mr. Akers reported that the Committee reviewed and ratified restricted stock unit awards granted to senior-level new hires. Mr. Akers also reported that the Committee continued its review of the new proxy disclosure requirements relating to executive compensation and determined that early adoption of the rules was not advisable.

REPORT OF THE AUDIT COMMITTEE

Mr. Cruikshank reported on the morning's Audit Committee meeting. He described that the Audit Committee reviewed and approved the audit, audit-related, tax and other services of Ernst & Young ("E&Y") (in accordance with the Committee's Pre-Approval Policy for Independent Auditor Services). He reported that the Committee approved additional Audit Fees of \$2,925,000, bringing total Audit Fees to \$19,725,000, and reduced Audit Related Fees by \$111,000, reducing that total to \$6,031,000. He reported on total fees to E&Y for the Firm and for managed entities, comparing the amounts to the prior year.

Mr. Cruikshank reported that Ms. Beth Rudofker, Global Head of Corporate Audit, gave the semi-annual report on Corporate Audit to the Committee. He reported that Corporate Audit has a current headcount of 140, which has increased 26% year-over-year in response to business growth in the Firm's businesses, new initiatives, increased regulatory requirements and coverage of the Firm's controls per the audit plan. He described that Corporate Audit is spending time across the Firm's key risks (including Financial, Market and Credit, Operational, Technology, and Compliance and Regulatory). He reported that Corporate Audit spent 86% of its time for the year on planned audit activities and 14% on unplanned activities, and that Corporate Audit has spent approximately 63% of its project time covering businesses and 37% of its project covering support infrastructure. Mr. Cruikshank noted that Corporate Audit's Sarbanes-Oxley review is nearing conclusion with no material weaknesses identified. The Board directed questions to Mr. Cruikshank regarding the Firm's Sarbanes-Oxley review and rotation of E&Y partners.

Mr. Cruikshank then summarized the semi-annual report on Compliance activity presented to the Committee by Mr. David DeMuro, Global Head of Compliance. He reported that in the first ten months of calendar 2006, the Firm had been subject to 33 regulatory examinations globally. He reported that ten regulatory disciplinary actions were resolved in the first 10 months with fines totaling \$1,880,000. He put these fines in context by mentioning fines paid by certain other firms in the range of \$10 million to \$250 million. Mr. Cruikshank reported that there are currently six significant ongoing regulatory investigations that could result in fines

Mr. Cruikshank then summarized the report of E&Y provided to the Committee by Mr. William Schlich of E&Y. He reported that E&Y is completing its interim procedures and is on target to complete its year-end work. Mr. Cruikshank also reported that E&Y is reviewing management's process for complying with Sarbanes-Oxley, and that E&Y believes that management is well positioned to complete the work in time to facilitate E&Y's review of the results. He reported that E&Y concurs with the control deficiency themes as outlined by Corporate Audit and does not believe that any noted deficiencies rise to the level of material weakness either separately or in aggregate. Mr. Cruikshank also noted that E&Y and management are in the process of finalizing the E&Y engagement letter. Mr. Cruikshank concluded by stating that the Committee met in private session with Ms. Rudofker following the Committee meeting.

FINANCIAL UPDATE

Mr. O'Meara reviewed the Firm's financial results for the month of October and for the fiscal year to date. As part of such review, he discussed, among other things, market environment, net income, revenues, expenses, return on equity, earnings per share and capital position (including leverage ratios), as well as the performance of the Firm by business unit and by region. He compared the results to monthly averages during 2006 and to budget. He discussed the calendar year-to-date investment banking fee share of the Firm and compared it to calendar year 2005. The Board directed questions to management regarding the Firm's principal trading activities and the scope of the Firm's resources outside of the U.S.

PRESENTATION ON INVESTMENT MANAGEMENT DIVISION

Mr. George Walker, Global Head of the Investment Management Division ("IMD"), gave a presentation on this division. He provided an overview of IMD, including a review of the organization of IMD and an analysis of its asset and revenue growth from 2002 to the present. Mr. Walker then provided a business overview of business lines within IMD, including Private Investment Management, Asset Management, Hedge Funds and Private Equity. As part of such overview, he reviewed key products and financial metrics for these businesses, including detailed discussions of assets under management.

Mr. Walker next discussed IMD's opportunities and challenges. He first described the strengths of the division, including: multiple world class investment teams; a healthy growing business; and the proven ability to leverage the Firm globally. Speaking of the investment teams, he provided an analysis of the investment results on assets under management by quartile for one, three and five years, noting the strong long term track records. He also provided analyses of external rankings of certain IMD products and private asset management teams within IMD's asset management group, as well as internal rates of return on IMD's private equity products. Mr. Walker then described the healthy growth of IMD and noted that net flows to the business indicate that IMD is growing faster than its larger competitors and that its anticipated 2006 net flows comprise 20.1% of beginning-of-year assets under management, exceeding the peer average or the overall market percentages. He discussed IMD's proven ability to leverage the Firm globally, specifically the growth of the Firm's cash business fueled by IBD relationships, IMD's leveraging of the Fixed Income sales force in Japan, and the sourcing of the Firm's manufactured products by the IMD Private Investment Management group.

Mr. Walker then identified opportunities of the division arising from its current initiatives, including: implementation of a more leveragable investment and distribution model; plans to grow IMD's offering of high margin, scalable products; and efforts to increase IMD's participation in institutional areas. Speaking of the investment and distribution model, he discussed that IMD seeks to employ a more leveragable model as

it builds more teams and invests in sub-scale efforts. He then described the current investment and distribution model and the proposed integrated and flexible model. Mr. Walker then discussed IMD's plans to grow scalable, high margin products in 2007 and 2008. He then turned to the topic of IMD's participation in institutional areas. Mr. Walker described that growth is occurring in areas where IMD has been building out its capabilities and specifically discussed that corporate defined benefit plans are increasing their allocations to alternative and international equity and that the largest investment management firms are increasing sourcing their growth outside the U.S.

Mr. Walker then described the challenges of IMD, including: the small size of the business relative to competitors; the fact that it is primarily a U.S. business; and its systems and client reporting capabilities. Discussing the small size of the business relative to competitors, Mr. Walker presented a competitive analysis, including a comparison between the Firm and its peers of 2005 assets under management and pre-tax margin. He discussed that the division's investment teams are highly U.S.-focused and provided a geographic breakdown of IMD's investment professionals and of Neuberger Berman research department coverage. Mr. Walker described in detail the challenges regarding wealth management reporting systems, the trading platform, and the data and reporting platform, and then he summarized the time to resolution for these challenges.

Mr. Walker concluded his presentation by discussing the near-term priorities of IMD, including: to encourage new business leaders to lead IMD as a team; to focus on globalization of the business; to focus on alternatives throughout each of the IMD businesses; and to leverage off of and contribute to the Firm. The Board directed questions to Mr. Walker regarding the Firm's minority investments in outside hedge funds, performance of certain asset management products, the proposed investment and distribution model for IMD, the efforts to address IMD's systems and client reporting capabilities, and other matters.

UPDATE ON ANNUAL MEETING

Mr. Russo discussed the general plans for the 2007 Annual Meeting of Stockholders. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the 2007 Annual Meeting of Stockholders (the "Annual Meeting") of Lehman Brothers Holdings Inc. (the "Corporation") be held on April 12, 2007 or such other date and at such time as the Chairman shall determine; and

FURTHER RESOLVED, that the Annual Meeting be held in the Allan S. Kaplan Auditorium, at 745 Seventh Avenue, Concourse Level, New York, New York or such other location as the Chairman shall determine; and

FURTHER RESOLVED, that the Corporation hereby declares that the record date for stockholders entitled to notice of and to vote at the Annual Meeting shall be February 12, 2007 or such other date as the Chairman shall determine.

POLICY REGARDING TRANSACTIONS WITH RELATED PERSONS

Mr. Russo described that the SEC's new executive compensation disclosure rules will require the Firm to include a description in its proxy statement of its policies and procedures for the review, approval or ratification of related person transactions that would be required to be reported in the Firm's proxy statement. He referred to the draft Policy Regarding Transactions with Related Persons and his detailed memorandum on this subject which had been distributed to the Board in advance of the meeting.

Mr. Russo described that, to transition to the proposed Policy, the Board should consider ratifying (i) the transactions of the type pre-approved under the Policy that have been entered into since the beginning of the Firm's 2006 fiscal year and (ii) the investments made by Directors and their immediate family members prior to 2002 in employee investment funds sponsored by the Firm (which investments have been disclosed in the Firm's proxy statements). After discussion, upon motion duly made and seconded, it was unanimously

RESOLVED, that the Policy Regarding Transactions with Related Persons presented to the Board of Directors (the "Policy") is hereby adopted and approved; and further

RESOLVED, that the Board of Directors hereby ratifies (i) any Related Person Transaction (as defined in the Policy) between the Firm and any Related Person (as defined in the Policy) described in Article II of the Policy under "Pre-Approved Transactions" which has been entered into during fiscal 2006 to date; and (ii) any investments made by a Director or a member of his or her immediate family prior to 2002 in employee investment funds sponsored by the Firm.

MAJORITY VOTING IN DIRECTOR ELECTIONS

Mr. Russo stated that the Firm is recommending that the Board of Directors adopt a majority voting by-law and referred to his detailed memorandum on this subject which had been distributed to the Board in advance of the meeting. Mr. Russo discussed that the Firm had received stockholder proposals from each of the American Federation of State, County and Municipal Employees ("AFSCME") and the United Brotherhood of Carpenters and Joiners of America ("Carpenters") regarding majority voting in the election of directors. He summarized that the Carpenters' proposal requests that the Board of Directors amend the Firm's By-laws to provide for majority voting in the

election of directors with a plurality vote standard retained for contested director elections. He described that the AFSCME proposal is similar, but requests that the shareholders amend the By-laws to provide for majority voting in the election of directors, in which case any further change to this By-law provision must be adopted by the shareholders. Mr. Russo stated that the Firm believes both proponents will withdraw these proposals if the Board of Directors adopts a majority voting by-law.

Mr. Russo described that majority voting is widely viewed as a corporate governance best practice, and the Firm's adoption of a majority voting by-law will be viewed as a positive development by corporate governance ratings evaluators such as Institutional Shareholder Services. He noted, however, that projections by the Firm's proxy solicitor, Georgeson Shareholder, indicated that the Firm could defeat these stockholder proposals regarding majority voting. Mr. Russo discussed the merits of the Firm's adopting a majority voting by-law rather than a director resignation policy. He described that director resignation policies are not considered to be the best practice in majority voting and that adoption of a director resignation policy will not protect the Firm from receiving future stockholder proposals for adoption of a majority voting by-law and will not be sufficient to obtain a withdrawal of the current stockholder proposals.

Mr. Russo discussed why there is very little practical difference between plurality voting coupled with a resignation policy and a majority voting by-law. He stated that, although a majority voting by-law generally provides that in an uncontested election, each director who fails to obtain a majority of votes is not elected, Delaware corporate law provides that an incumbent director will remain in office until such director resigns. Mr. Russo then described that a majority voting by-law would be coupled with resignation procedures, which would be similar to a director resignation policy and would be included in the Firm's Corporate Governance Guidelines.

Mr. Russo described that, if the Board is inclined to adopt a majority voting by-law, the Firm would approach AFSCME and the Carpenters and ask them to confirm that they will withdraw their proposals if the Board adopts a majority voting by-law. At that point, the Firm would ask the Board to execute a Unanimous Written Consent adopting a majority voting by-law, at which time the Firm would be required to file a Form 8-K reporting the change. The Committee directed questions to Mr. Russo regarding the impact of majority voting in the election of directors, including the potential impact of broker non-votes.

Mr. Russo then discussed that, in addition to the two stockholder proposals on majority voting, the Firm received four other stockholder proposals for inclusion in the 2007 proxy statement. He described that two separate stockholder proposals requesting increased disclosure regarding the Firm's political contributions were submitted by Mrs. Evelyn Y. Davis and the Central Laborers' Pension, Welfare & Annuity Funds, respectively. Mr. Russo then reported that the Free Enterprise Action Fund had submitted a stockholder proposal requesting that the Firm prepare a Sarbanes-Oxley ("SOX") Right-to-Know Report, which would include an assessment of (i) the costs and benefits of SOX on the Firm's in-house operations and (ii) the impacts of SOX on the

Firm's investment banking business. He also reported that the Firm received a stockholder proposal from Walden Asset Management regarding disclosure of the Firm's equal opportunity data and affirmative action programs. Mr. Russo concluded the discussion of the stockholder proposals by stating that the Firm is evaluating its responses to these proposals.

LITIGATION

Mr. Russo provided the Board with an update on the shareholder derivative action.

BOARD OF DIRECTORS SELF-ASSESSMENT

The Board of Directors reviewed and discussed the composite document containing the Directors' responses to the Board of Directors self-evaluation questionnaire, including a discussion of desirable areas of expertise for director candidates.

PRIVATE SESSION

Management (other than Mr. Fuld) was excused, and the Board met in private session.

EXECUTIVE SESSION

Mr. Fuld was excused and the non-management Directors met in executive session.

There being no further business to come before the meeting, the meeting was, upon motion duly made and seconded, adjourned.

Respectfully submitted,

Jeffrey A. Welikson
Secretary of the Meeting

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 2

**Holdings
Board of Directors
1/31/07**

RESOLVED, that upon the recommendation of the Nominating and Corporate Governance Committee, the following individuals are hereby designated by the Board of Directors as the Corporation's Director nominees:

Michael L. Ainslie
John F. Akers
Roger S. Berlind
Thomas H. Cruikshank
Marsha Johnson Evans
Richard S. Fuld, Jr.
Sir Christopher Gent
Roland A. Hernandez
Henry Kaufman
John D. Macomber

FURTHER RESOLVED, that upon the recommendation of the Nominating and Corporate Governance Committee, the amended Nominating and Corporate Governance Committee Charter presented to the Board of Directors is hereby adopted and approved as the Nominating and Corporate Governance Committee Charter.

LEHMAN BROTHERS HOLDINGS INC.
NOMINATING AND CORPORATE GOVERNANCE
COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER

I. PURPOSE

The purpose of the Nominating and Corporate Governance Committee (the "Committee") shall be to:

- A. Identify individuals qualified to become directors and select, or recommend that the Board of Directors select, the candidates for all directorships to be filled by the Board of Directors or by the stockholders;
- B. Develop and recommend to the Board of Directors a set of corporate governance principles applicable to the Corporation; and
- C. Otherwise take a leadership role in overseeing the corporate governance of the Corporation.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

The Committee shall be comprised of three or more members of the Board of Directors, and shall comply with the "independent director" requirements of the rules of the New York Stock Exchange, Inc.

B. Appointment and Removal

The members of the Committee shall be appointed by the Board of Directors and shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

C. Chairman

Unless a Chairman is elected by the Board of Directors, the members of the Committee shall designate a Chairman by majority vote of the Committee membership. The Chairman will chair all regular sessions of the Committee.

D. Delegation to Subcommittees

In fulfilling its responsibilities, the Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Committee.

III. MEETINGS

The Committee shall meet at least two times annually, or more frequently as circumstances dictate. The Chairman of the Board of Directors or any member of the Committee may call meetings of the Committee. All meetings of the Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.

All non-employee directors that are not members of the Committee may attend meetings of the Committee but may not vote. Additionally, the Committee may invite to its meetings any other director or any member of management of the Corporation and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

The following functions shall be the ordinary recurring activities of the Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Committee outlined in Section I of this Charter.

The Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Committee deems appropriate. In this regard, the Committee shall have the authority to select, retain and terminate outside counsel or other experts for this purpose, including the authority to approve the fees payable to and expenses of such counsel or experts and any other terms of retention. If a search firm is to be used to identify director candidates, the Committee shall have sole authority to select, retain and terminate the search firm, including sole authority to approve the firm's fees and other retention terms.

A. Board of Directors Selection, Composition and Evaluation

1. Make recommendations to the Board of Directors regarding the criteria for membership on the Board of Directors.
2. Identify individuals believed to be qualified as candidates to serve on the Board of Directors (including from among those individuals, if any, recommended by stockholders) and select, or recommend that the Board of Directors select, the

candidates for all directorships to be filled by the Board of Directors or by the stockholders at an annual or special meeting. The Committee shall adopt procedures for the submission of such recommendations by stockholders as it deems appropriate.

In identifying candidates for membership on the Board of Directors, the Committee shall take into account the criteria for board membership established by the Board of Directors and all other factors it considers appropriate, which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity and the extent to which the candidate would fill a present need on the Board of Directors.

3. Review and make recommendations to the full Board of Directors with respect to, or determine, whether members of the Board of Directors should stand for re-election. In the case of a person nominated to fill a vacancy on the Board of Directors due to an increase in the size of the Board of Directors, recommend to the Board of Directors the class of directors in which the director-nominee should serve.
4. Conduct all necessary and appropriate inquiries into the backgrounds and qualifications of possible candidates, including an evaluation as to whether such candidates have special interests that would impair their ability to effectively represent the interests of all stockholders.
5. Consider questions of independence and potential conflicts with respect to possible candidates to serve on the Board of Directors and directors being considered for re-election and provide guidance, as appropriate, with respect to the director independence determinations made by the full Board of Directors.
6. Review and make recommendations, as the Committee deems appropriate, regarding the composition and size of the Board of Directors.
7. Oversee evaluation of the Board of Directors.
8. Make recommendations to the Board of Directors on whether to accept any tender of resignation by an incumbent Director, or whether other action should be taken, in the circumstances required by the Corporation's Corporate Governance Guidelines.

B. Committee Selection and Composition

1. Recommend members of the Board of Directors to serve on the committees of the Board of Directors, giving consideration to the purpose and structure of each committee and the criteria for service on such committee as set forth in any charter for such committee, as well as to any other factors the Committee deems relevant, and where appropriate, make recommendations regarding the removal of any member of any committee.

2. Recommend members of the Board of Directors to serve as the Chairman of each committee of the Board of Directors.
3. Periodically review the composition of each committee of the Board of Directors in light of the purpose and structure of such committee, and the criteria for service on such committee.

C. Corporate Governance

1. Develop and recommend to the Board of Directors a set of corporate governance principles and keep abreast of developments with regard to corporate governance to enable the Committee to make recommendations to the Board of Directors in light of such developments as may be appropriate.
2. As circumstances dictate, make recommendations to the Board of Directors for the creation of additional committees or the elimination of committees of the Board of Directors.

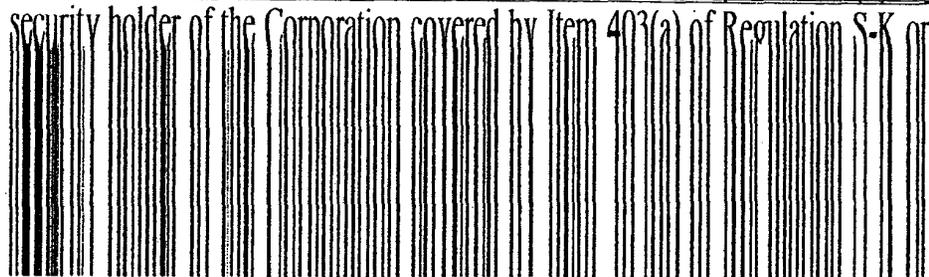
D. Reports

1. Report regularly to the Board of Directors (i) with respect to meetings of the Committee, (ii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.
2. Maintain minutes or other records of meetings and activities of the Committee.

E. Related Party Transactions

Review, approve or ratify transactions in which the Corporation is a participant and in which (i) a Director or nominee for Director of the Corporation or (ii) any

security holder of the Corporation covered by Item 403(a) of Regulation S-K or



2. Recommend members of the Board of Directors to serve as the Chairman of each committee of the Board of Directors.
3. Periodically review the composition of each committee of the Board of Directors in light of the purpose and structure of such committee, and the criteria for service on such committee.

C. Corporate Governance

1. Develop and recommend to the Board of Directors a set of corporate governance principles and keep abreast of developments with regard to corporate governance to enable the Committee to make recommendations to the Board of Directors in light of such developments as may be appropriate.
2. As circumstances dictate, make recommendations to the Board of Directors for the creation of additional committees or the elimination of committees of the Board of Directors.

D. Reports

1. Report regularly to the Board of Directors (i) with respect to meetings of the Committee, (ii) with respect to such other matters as are relevant to the Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.
2. Maintain minutes or other records of meetings and activities of the Committee.

E. Related Party Transactions

Review, approve or ratify transactions in which the Corporation is a participant and in which (i) a Director or nominee for Director of the Corporation or (ii) any security holder of the Corporation covered by Item 403(a) of Regulation S-K or, in each case, any "immediate family member" (as defined in Item 404 of Regulation S-K) of any such person, has a direct or indirect material interest, in accordance with the Corporation's Policy Regarding Transactions with Related Persons.

V. **ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW**

- A. The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee and its members. Furthermore, the Committee shall review, at least annually, the compliance of the Committee with this Charter.

- B. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Committee considers necessary or valuable.
- C. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 3

Holdings
Board of Directors
1/31/07

RESOLVED, that upon the recommendation of the Finance and Risk Committee, the Board of Directors hereby adopts the following stock dividend policy, effective for dividends payable on or after December 1, 2006: it is the policy of the Corporation to declare and pay an annual Common Stock dividend of \$0.60 per share (which equates to \$0.15 per share per quarter).

FURTHER RESOLVED, that the Corporation hereby declares a regular dividend on its Common Stock in the amount of \$0.15 per share, payable in cash on February 21, 2007 to each person who was the holder of record thereof on February 12, 2007.

WHEREAS, the Board of Directors has determined that it is in the best interest of the Corporation to continue to purchase shares of Common Stock of the Corporation in order to, among other things, fund the issuance of shares under various compensation plans; it is therefore

RESOLVED, that the Board of Directors hereby approves a Common Stock repurchase plan as presented and recommended by the Finance and Risk Committee under which the Corporation may repurchase, subject to market conditions, up to 100 million shares of its Common Stock for the management of the Corporation's equity capital, including offsetting dilution due to employee stock awards, as proper officers of the Corporation deem necessary or advisable. This resolution shall supersede and replace the Board of Directors' previous share repurchase resolution adopted on January 18, 2006.

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 4

Holdings
Board of Directors
1/31/07

RESOLVED, that, upon the recommendation of the Compensation and Benefits Committee, the amended Compensation and Benefits Committee Charter presented to the Board of Directors is hereby adopted and approved as the Compensation and Benefits Committee Charter.

LEHMAN BROTHERS HOLDINGS INC.

COMPENSATION AND BENEFITS

COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The purpose of the Compensation and Benefits Committee (the "Compensation Committee") shall be to:

- A. Oversee evaluation of the Corporation's management;
- B. Discharge the responsibilities of the Board of Directors with respect to the Corporation's compensation and benefits programs and compensation of the Corporation's executives; and
- C. Produce an annual report on executive compensation for inclusion in the Corporation's annual proxy statement, in accordance with applicable rules and regulations of the New York Stock Exchange, Inc. ("NYSE"), Securities and Exchange Commission ("SEC") and other regulatory bodies.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

The Compensation Committee shall be comprised of three or more members of the Board of Directors and shall comply with the "independent director" requirements of the rules of the NYSE. Additionally, no director may serve unless he or she (i) is a "Non-employee Director" for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (ii) satisfies the requirements of an "outside director" for purposes of Section 162(m) of the Internal Revenue Code, including the requirement that she or he not receive remuneration from the Corporation, either directly or indirectly, in any capacity other than as a director.

B. Appointment and Removal

Members of the Compensation Committee shall be appointed by the Board of Directors, and each member shall serve until a successor is duly elected and qualified or until earlier resignation or removal. The members of the Compensation Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

C. Chairman

Unless a Chairman is elected by the Board of Directors, the members of the Compensation Committee shall designate a Chairman by the majority vote of the Compensation Committee. The Chairman will chair all regular sessions of the Compensation Committee.

D. Delegation

In fulfilling its responsibilities, the Compensation Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Compensation Committee. In addition, the Compensation Committee shall be entitled to make any other delegations permissible under applicable law.

III. MEETINGS

- A. The Compensation Committee shall meet at least two times annually, or more frequently as circumstances dictate. The Chairman of the Board or any member of the Compensation Committee may call meetings of the Committee.
- B. As part of its review and establishment of the performance criteria and compensation of designated key executives, the Compensation Committee should meet separately at least on an annual basis with the ~~CEO~~Chief Executive Officer (the "CEO"), the Corporation's principal human resources executive, and any other corporate officers, as it deems appropriate. All meetings of the Compensation Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.
- C. All non-employee directors that are not members of the Compensation Committee may attend meetings of the Compensation Committee but may not vote. Additionally, the Compensation Committee may invite to its meetings any other directors or members of management of the Corporation and other persons as it deems appropriate in order to carry out its responsibilities, provided that such members of management shall not be present at meetings when their specific performance and compensation are being discussed and determined. The Compensation Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

The following functions shall be the ordinary recurring activities of the Compensation Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Compensation Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Compensation Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Compensation Committee

outlined in Section I of this Charter.

The Compensation Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Compensation Committee deems appropriate. In this regard, the Compensation Committee shall have the authority to select, retain and terminate outside counsel or other experts for this purpose, including the authority to approve the fees payable to and expenses of such counsel or experts and any other terms of retention. If a compensation consultant is to assist in the evaluation of director, CEO or senior management compensation, the Compensation Committee shall have the sole authority to select, retain and terminate the consulting firm, including sole authority to approve the firm's fees and other retention terms.

A. Compensation Policy

1. Establish and review the overall compensation philosophy of the Corporation.
2. Review and approve corporate goals and objectives relevant to compensation of the CEO and such other members of senior management as the Board of Directors or the Compensation Committee shall deem appropriate from time to time (collectively, the "Designated Executives"), including annual and any longer-term performance objectives.
3. Periodically review other matters of interest to the Compensation Committee pertaining to compensation, including the Corporation's practices in the areas of perquisites and expense accounts for Designated Executives.
4. Review and approve, on at least an annual basis, the compensation process for lead research analysts engaged in the equity research business conducted by the Corporation or its subsidiaries.

B. Compensation Payments

1. Evaluate the performance of the Designated Executives in light of the relevant criteria and, based on such evaluation, determine and approve, ~~either as a committee or in conjunction with the other independent directors,~~ the annual salary, bonus, share and option awards, other long-term incentives, perquisites and other benefits to be paid to them.
2. Review and make recommendations to the full Board of Directors with respect to compensation of directors as well as director and officer indemnification and insurance matters.
3. Approve, or review and make recommendations to the full Board of Directors with respect to, any compensatory contracts or transactions (other than those pursuant to a plan, contract or other arrangement previously approved by the Compensation Committee or the Board of Directors) with current or former Designated Executives, including consulting arrangements, employment contracts, severance or termination arrangements and, to the extent permitted

by law, loans to Designated Executives made or guaranteed by the Corporation.

C. Compensation Plans

1. Approve, or review and make recommendations to the full Board of Directors with respect to, the Corporation's executive compensation programs, including incentive compensation plans and equity compensation plans, as well as any amendments, revisions or supplements thereto, and oversee the activities of the individuals responsible for administering those plans. Notwithstanding the foregoing, all equity compensation plans of the Corporation shall be subject to the approval of the Compensation Committee, including those also subject to the approval of the Corporation's shareholders.
2. Review the participation of the Designated Executives in the Corporation's employee pension plans.

D. Reports

1. Prepare an annual report on executive compensation for inclusion in the Corporation's proxy statement, in accordance with applicable rules and regulations of the NYSE, the SEC and other applicable regulatory bodies.
2. Report regularly to the Board of Directors (i) with respect to meetings of the Compensation Committee, (ii) with respect to such other matters as are relevant to the Compensation Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Compensation Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Compensation Committee designated by the Committee to make such report.
3. Maintain minutes or other records of meetings and activities of the Compensation Committee.

E. Related Party Transactions

Review, approve or ratify transactions in which the Corporation is a participant and in which an executive officer of the Corporation or any "immediate family member" (as defined in Item 404 of Regulation S-K) of any executive officer of the Corporation has a direct or indirect material interest, in accordance with the Corporation's Policy Regarding Transactions with Related Persons.

V. **ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW**

- A. The Compensation Committee shall perform a review and evaluation, at least annually, of the performance of the Compensation Committee and its members. Furthermore, the Compensation Committee shall review, at least annually, the compliance of the Compensation Committee with this Charter.

- B. In addition, the Compensation Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Compensation Committee considers necessary or valuable.
- C. The Compensation Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 6

LEHMAN BROTHERS

RICHARD S. FULD, JR.
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

January 26, 2007

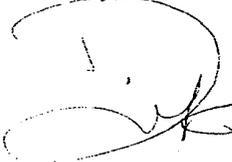
Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Wednesday, January 31. The materials include the financial results for the month of December 2006 which will be discussed at the meeting.

At this meeting, Jami Miscik, our Global Head of Sovereign Risk, will deliver a country risk update.

I look forward to seeing you at our dinner on Tuesday night.

Sincerely,



RSF:aj
Enclosures

LEHMAN BROTHERS HOLDINGS INC.
745 SEVENTH AVENUE NEW YORK, NEW YORK 10019 TEL 212 526-7200

CONFIDENTIAL

LB 008786

FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI_SEC07940_025696

Confidential Presentation to:

Lehman Brothers Board of Directors

Financial Information

December 2006

LEHMAN BROTHERS

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LEHMAN BROTHERS

Executive Summary

Market Environment

- ◆ Global equity market valuations increased approximately 3% during the month due to stronger than expected housing data, an increase in consumer confidence and a decline in oil prices.
 - Daily average trading volumes were below their 2006 daily averages in the Americas (down 9%) and Asia (down 5%), but higher in Europe (up 9%).
- ◆ Global fixed income credit spreads remained near their all time lows overall. Yield curves remained inverted in the U.S. and the U.K.

Revenues / Expenses

- ◆ Third highest net revenues of \$1,683 million were 8% ahead of budget and 21% above average month 2006.
 - Fixed Income revenues of \$840 million were 8% ahead of budget driven by solid customer flow, as well as profitable trading strategies, especially in Credit Products.
 - Equities revenues of \$407 million outperformed budget by 14% due to strength in Execution Services and Equities Strategies.
 - Banking revenues of \$225 million trailed budget by 24% as both Advisory and Equity Origination were below budgeted levels.
 - Asset Management revenues of \$160 million were 12% ahead of budget on strong Private Equity and Alternative Investment gains. Assets Under Management increased during the month, primarily due to net inflows.
 - Non-U.S. revenues of \$539 million were flat to budget, but 18% ahead of average month 2006.
- ◆ Personnel expenses were accrued at 49.3% of net revenue, consistent with prior period levels.
- ◆ Non-personnel expenses of \$275 million were in line with budgeted levels.

Profitability

- ◆ Net income of \$387 million (EPS of \$0.66) for December exceeded budget by 13% and average month 2006 by 22%.
- ◆ Pretax margin was 34.3%, ROE was 24.7% and ROTE was 30.2%.

December Financial Results

<i>\$ millions, except per share data</i>	Monthly Performance					Year to Date Performance				
	December 2006	Monthly Budget	% Δ	Avg. Month 2006	% Δ	2007	Budget	% Δ	2006	% Δ
Segment Revenues										
Investment Banking	290	286	2%	251	16%	290	286	2%	324	(10)%
Capital Markets	1,178	1,052	12%	953	24%	1,178	1,052	12%	752	57%
Investment Management	215	222	(3)%	192	12%	215	222	(3)%	165	30%
Total Revenues	1,683	1,560	8%	1,395	21%	1,683	1,560	8%	1,241	36%
Expenses										
Personnel	830	769	8%	688	21%	830	769	8%	612	36%
Non Personnel	275	278	(1)%	239	15%	275	278	(1)%	222	24%
Pre Tax Income	578	513	13%	469	23%	578	513	13%	407	42%
Income Taxes	191	169	13%	154	24%	191	169	13%	132	45%
Net Income Before Accounting Change	387	344	13%	314	23%	387	344	13%	275	41%
Cumulative Effect of Accounting Change	-	-		4	nm	-	-		47	nm
Net Income After Accounting Change	387	344	13%	318	22%	387	344	13%	322	20%

Additional Data										
Earnings per Common Share	\$0.66	\$0.59	13%	\$0.54	22%	\$0.66	\$0.59	13%	\$0.54	22%
Return on Common Equity	24.7%	21.7%	+3.0pp	23.4%	+1.3pp	24.7%	21.7%	+3.0pp	24.1%	+0.6pp
Return on Tangible Equity	30.2%	26.3%	+3.9pp	29.1%	+1.1pp	30.2%	26.3%	+3.9pp	30.4%	-0.2pp
Pre Tax Margin	34.3%	32.9%	+1.4pp	33.6%	+0.7pp	34.3%	32.9%	+1.4pp	32.8%	+1.5pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	-	49.3%	49.3%	-	49.3%	-
Effective Tax Rate	33.0%	33.0%	-	32.9%	+0.1pp	33.0%	33.0%	-	32.4%	-0.6pp

Divisional Revenues										
Fixed Income	840	778	8%	717	17%	840	778	8%	618	36%
Equities	407	357	14%	320	27%	407	357	14%	289	41%
Banking	225	294	(24)%	265	(15)%	225	294	(24)%	190	18%
Asset Management	160	143	12%	131	22%	160	143	12%	97	65%
Global Trading and Principal Strategies	135	63	112%	46	194%	135	63	112%	58	134%
Banking Elimination / Other	(82)	(75)	nm	(83)	nm	(82)	(75)	nm	(11)	nm
Total Revenues	1,683	1,560	8%	1,395	21%	1,683	1,560	8%	1,241	36%
Shadow Revenues										
Private Investment Management	96	109	(12)%	93	3%	96	109	(12)%	80	20%
Europe	345	369	(7)%	323	7%	345	369	(7)%	154	124%
Asia	194	171	14%	132	47%	194	171	14%	217	(11)%

LEHMAN BROTHERS

Capital Markets

Fixed Income

- ◆ Total revenues of \$840 million outperformed budget by 8%.
- ◆ Customer flow was solid across most products during the month.
- ◆ Record revenues in Credit Products as both customer flow and origination activity were strong, and tightening credit spreads in high yield led to profitable trading strategies.
- ◆ Securitized Products trailed budget, due to lower residential mortgage origination and securitization activity during the month.
- ◆ Real Estate revenues were lower, primarily due to the timing of securitizations and principal transaction closings.

Fixed Income Market Conditions

- ◆ Yields on the U.S., European, U.K., and Japanese government 10 year notes all increased during the month.
- ◆ Oil prices continued to decline during the month, ending the month at \$61 per barrel (down 3%).
- ◆ High yield spreads tightened 33 basis points, while high grade spreads widened by 1 basis point.

Equities

- ◆ Third highest monthly revenues of \$407 million were 14% above budget.
- ◆ Global Execution Services revenues were ahead of budget with strong performance across all regions as global equity market valuations increased.
- ◆ Convertibles revenues were significantly ahead of budget due to strong origination activity and profitable trading strategies.
- ◆ Strong performance in Equities Strategies, particularly in Asia.
- ◆ Derivative revenues were down despite an increase in customer flow.

Equity Market Conditions

- ◆ The global equity markets (MSCI) increased 3% during December, with increases across most major indices.
- ◆ U.S. markets were mixed, with the S&P 500 increasing 1% and the NASDAQ lower by 1% in December.
- ◆ Global trading volumes were seasonally lower in December in the Americas and Asia.

Investment Banking

Revenue Summary

- ◆ Revenues of \$225 million were 24% below budget.
- ◆ Debt Capital Markets revenues were ahead of budget driven by an active calendar in the Americas highlighted by the joint-lead managed \$5 billion Home Depot issuance.
- ◆ Leveraged Finance revenues were significantly ahead of budget as financial sponsor activity remained strong.
- ◆ Advisory revenues were below budget despite the completion of the AT&T purchase of BellSouth Corp.
- ◆ Equity Origination revenues were down primarily due to losses on a large block trade.
- ◆ Fee pipeline remained strong at \$763 million, down 2% from November.

Market Environment

- ◆ Both Completed and Announced M&A market activity remained strong in December, with transaction volumes exceeding average month 2006 by 34% and 40%, respectively.
- ◆ Equity origination volumes were lower than November, but remained above average month 2006 levels.
- ◆ Investment grade issuance was seasonally slow in December as origination volumes fell well below average month 2006.
- ◆ The High Yield and Leveraged Loan markets both remained very active in December.

Significant Deals in Pipeline

	Value \$Bn	Description	Gross Fees (Estimated)
Advisory:			
Cerberus Capital Mgt	4.2	• Acquisition of BAWAG	15.0mm
Kohlberg Kravis Roberts & Co.	6.8	• Acquisition of ProSiebenSat.1	14.6mm
Travel Centers of America	1.9	• Sale to Hospitality Properties Trust	14.5mm
Chicago Mercantile Exchange	8.0	• Acquisition of CBOT Holdings	13.0mm
Equity Origination:			
National Cinemedia	0.7	• IPO, joint lead	7.8mm
Edgen Murray	0.2	• IPO, joint lead	4.5mm
Duncan Energy Partners	0.3	• IPO, lead	4.0mm
Leveraged Finance:			
Linde Material (KKR)	0.9	• Bank loan, joint lead	13.6mm
Univision	8.3	• Bank loan, joint lead	12.4mm

Global Market Share

	Rank		Lehman Share (%)		Mkt Volume (\$ billion)		
	CY 2006	CY 2005	CY 2006	CY 2005	CY 2006	CY 2005	Ytd
Fee Share	9	9	4.6	5.0			
Announced M&A	8	7	15.5	12.9	3,802	2,755	38%
Completed M&A	7	8	16.4	13.7	2,863	2,273	26%
Equity	9	9	4.0	5.1	695	527	32%
IPO	11	10	2.9	3.6	257	165	56%
Secondary	10	8	4.0	5.3	315	287	10%
Convertible	7	5	6.3	8.0	121	70	73%
Fixed Income	4	2	6.0	6.7	6,948	6,090	14%
Investment Grade	8	7	4.3	4.5	2,599	2,054	27%
High Yield	9	6	5.2	6.9	187	120	56%
ABS	4	2	6.2	7.7	1,494	1,374	9%
MBS	2	1	8.5	9.4	1,404	1,261	11%

CY represents Calendar Year

Asset Management / PIM / GTS & GPS / Regional

Asset Management

- ◆ Revenues of \$160 million were 12% ahead of budget.
 - Strong performance in both Alternative Investments and Private Equity.
 - Assets Under Management continued to grow during December, with a net increase of \$4 billion to \$229 billion, primarily due to net inflows.

Private Investment Management

- ◆ PIM revenues of \$96 million in December were 12% below budget.
- ◆ Performance reflects seasonally lower customer activity levels during the month.

Global Trading and Principal Strategies

- ◆ Global Trading and Principal Strategies both continued to make strong contributions, with total revenues of \$135 million.

Europe

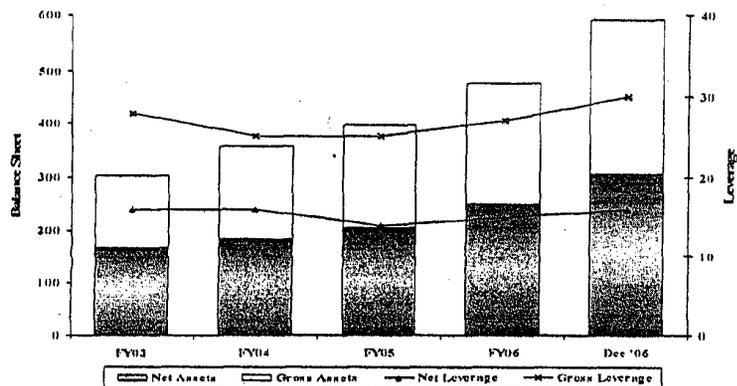
- ◆ Total European revenues of \$345 million were 7% behind budget.
- ◆ Fixed Income revenues were below budget due to the timing of securitizations and lower revenues in Interest Rate Products.
- ◆ Equities revenues were flat to budget despite strength in Execution Services.
- ◆ Banking revenues fell short of budget despite strong performance in Leveraged Finance as both Debt Capital Markets and Equity Origination were below budget.

Asia

- ◆ December revenues of \$194 million were 14% ahead of budget.
- ◆ Fixed Income revenues were flat to budget.
- ◆ Equities revenues were ahead of budget, driven by profitable trading strategies across most products.
- ◆ Banking trailed budget, primarily due to losses on a large block trade.

Balance Sheet, Capital and Risk

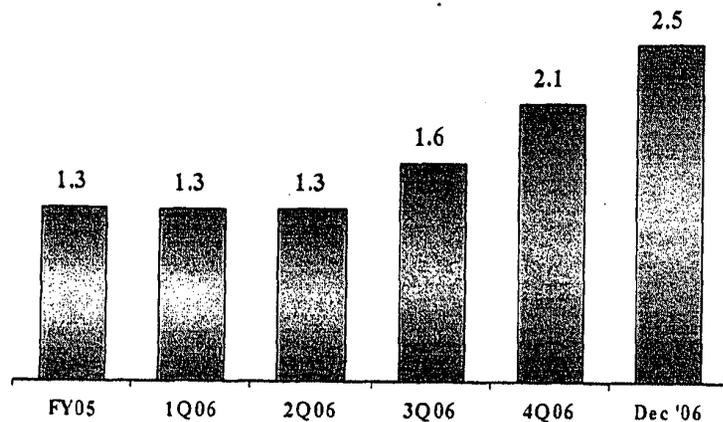
Balance Sheet (\$ billions) / Leverage



Figures represent average of month end usage.

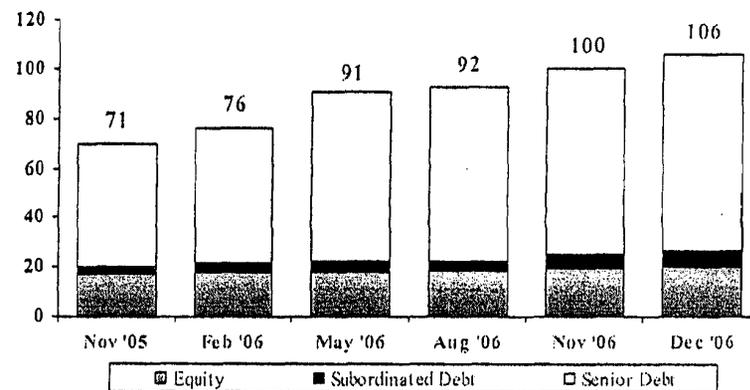
Average Risk Appetite Usage (\$ billions)

2007 Limit: \$3.3 billion



Figures represent average of daily usage.

Long Term Capital (\$ billions)



Long Term Capital Roll Forward (\$ billions)

	Nov '06	YTD Activity			Dec '06
		Issuances	Maturities	Other / Earnings	
Senior Notes	75.2	5.8	(3.0)	(0.3)	77.7
Subordinated Debt	6.0	-	-	-	6.0
Chase Facility Drawdown	-	2.0	-	-	2.0
Total Long Term Borrowings	81.2	7.8	(3.0)	(0.3)	85.7
Preferred Stock	1.1	-	-	-	1.1
Common Equity	18.1	-	-	0.8	18.9
Total Long Term Capital	100.4	7.8	(3.0)	0.6	105.7

Competitor Information

	LEH	GS	MS	MER	BSC	C	BAC	JPM
<i>Financial Statistics</i>								
Price to Tangible Book ¹	2.9x	3.5x	2.8x	2.5x	2.0x	3.1x	3.5x	3.1x
Price to Book ¹	2.4x	2.9x	2.5x	2.3x	1.9x	2.2x	1.8x	1.5x
Price to Earnings ²	11.1x	11.2x	11.2x	12.4x	11.0x	11.9x	10.8x	12.4x
Dividend Yield	0.6%	0.7%	1.5%	1.2%	0.8%	4.0%	4.2%	2.9%
Book Value per Share ¹	\$33.87	\$72.62	\$32.67	\$41.37	\$86.39	\$24.18	\$29.52	\$33.45
Market Cap (billions)	\$43	\$95	\$86	\$84	\$24	\$265	\$235	\$174
<i>Share Price Performance</i>								
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
Calendar Year 2005	47%	23%	2%	13%	13%	1%	-2%	2%
Full Year ROE ³	23.4%	32.8%	23.6%	21.3%	19.1%	18.8%	16.7%	12.0%
Full Year ROTE ³	29.1%	39.8%	26.0%	24.2%	19.8%	26.3%	33.6%	20.0%
<i>Ten Year Debt Spreads (Basis Points)</i>								
Spread vs. 1 Month Libor (12/31/06)	37	42	40	29	35	25	25	30
Spread vs. 1 Month Libor (11/30/06)	37	40	42	29	35	25	25	29
Spread vs. 10 Year UST (12/31/06)	85	90	88	77	83	73	73	78
Spread vs. 10 Year UST (11/30/06)	89	92	94	81	87	77	77	81
<i>Long Term Debt Credit Ratings</i>								
Standard & Poors	A+	AA-	A+	AA-	A+	AA-	AA-	A+
Moody's	A1	Aa3	Aa3	Aa3	A1	Aa1	Aa2	Aa3
Fitch	A+	AA-	AA-	AA-	A+	AA+	AA-	A+

1. Book and tangible book values are latest externally reported quarters

2. Based on analysts' consensus 2007 earnings estimates

3. Represents externally reported full year results; MER excludes SFAS 123R and BlackRock and BAC excludes the MBNA merger related charges

Monthly Financial Performance Trend

<i>\$ millions, except per share data</i>	December 2005	January 2006	February 2006	March 2006	April 2006	May 2006	June 2006	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006
Segment Revenues													
Investment Banking	324	303	208	220	195	326	230	249	247	206	293	359	290
Capital Markets	752	1,223	1,071	1,119	906	1,054	1,018	782	1,047	794	958	1,283	1,178
Investment Management	165	217	198	200	180	212	181	218	206	200	217	223	215
Total Revenues	1,241	1,743	1,477	1,539	1,281	1,592	1,429	1,249	1,500	1,200	1,468	1,865	1,683
Expenses													
Personnel	612	861	726	759	631	785	705	616	739	592	724	920	830
Non Personnel	222	231	258	239	239	260	258	252	241	267	269	273	275
Pre Tax Income	407	651	493	541	410	547	466	381	519	342	475	672	578
Income Taxes	132	217	164	179	136	182	154	126	170	113	157	215	191
Net Income Before Accounting Change	275	434	329	363	275	365	312	255	349	229	318	457	387
Cumulative Effect of Accounting Change	47	-	-	-	-	-	-	-	-	-	-	-	-
Net Income After Accounting Change	322	434	329	363	275	365	312	255	349	229	318	457	387
Additional Data													
Earnings per Common Share	\$0.54	\$0.73	\$0.56	\$0.61	\$0.46	\$0.62	\$0.53	\$0.44	\$0.60	\$0.39	\$0.54	\$0.79	\$0.66
Return on Common Equity	24.1%	32.1%	23.8%	26.0%	19.4%	25.6%	21.7%	17.5%	23.9%	15.4%	21.2%	30.2%	24.7%
Return on Tangible Equity	30.4%	40.4%	29.9%	32.5%	24.1%	31.8%	26.9%	21.7%	29.6%	19.1%	26.2%	37.2%	30.2%
Pre Tax Margin	32.8%	37.3%	33.4%	35.2%	32.0%	34.4%	32.6%	30.5%	34.6%	28.5%	32.4%	36.0%	34.3%
Compensation / Revenue	49.3%	49.4%	49.2%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	32.4%	33.3%	33.3%	33.0%	33.0%	33.3%	33.1%	33.1%	32.8%	33.1%	33.1%	32.0%	33.0%
Divisional Revenues													
Fixed Income	618	884	862	737	709	1,052	888	546	647	618	562	907	840
Equities	289	392	318	464	286	354	333	251	330	237	339	439	407
Banking	190	420	198	247	169	326	203	245	262	206	429	442	225
Asset Management	97	186	138	111	139	118	119	143	148	127	142	185	160
Global Trading and Principal Strategies	58	77	20	72	16	(43)	32	27	78	47	88	106	135
Banking Elimination / Other	(11)	(216)	(59)	(92)	(37)	(215)	(147)	38	35	(36)	(92)	(214)	(82)
Total Revenues	1,241	1,743	1,477	1,539	1,281	1,592	1,429	1,249	1,500	1,200	1,468	1,865	1,683
Shadow Revenues													
Private Investment Management	80	99	78	101	77	105	92	114	92	85	128	120	96
Europe	154	426	427	330	261	358	398	238	389	275	283	528	345
Asia	217	140	199	151	161	101	232	77	54	50	117	159	194

LEHMAN BROTHERS

Quarterly and Annual Financial Performance Trend

<i>\$ millions, except per share data</i>	2005				2006				Full Year	
	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	Q4 '06	2005	2006
Segment Revenues										
Investment Banking	683	579	815	817	835	741	726	858	2,894	3,160
Capital Markets	2,690	2,227	2,526	2,364	3,046	3,078	2,847	3,035	9,807	12,006
Investment Management	437	472	511	509	580	592	605	640	1,929	2,417
Total Revenues	3,810	3,278	3,852	3,690	4,461	4,411	4,178	4,533	14,630	17,583
Segment Revenues										
Personnel	1,886	1,623	1,907	1,798	2,199	2,175	2,060	2,235	7,213	8,669
Non Personnel	618	642	653	675	711	738	751	809	2,588	3,009
Pre Tax Income	1,305	1,014	1,293	1,217	1,551	1,498	1,367	1,489	4,829	5,905
Income Taxes	431	330	414	394	513	496	451	485	1,569	1,945
Net Income Before Accounting Change	874	684	879	823	1,038	1,002	916	1,004	3,260	3,960
Cumulative Effect of Accounting Change	-	-	-	-	47	-	-	-	-	47
Net Income After Accounting Change	874	684	879	823	1,085	1,002	916	1,004	3,260	4,007
Additional Data										
Earnings per Common Share	\$1.45	\$1.13	\$1.47	\$1.38	\$1.83	\$1.69	\$1.57	\$1.72	\$5.43	\$6.81
Return on Common Equity	24.5%	18.2%	23.0%	20.9%	26.7%	23.7%	21.0%	22.3%	21.6%	23.4%
Return on Tangible Equity	32.0%	23.5%	29.5%	26.5%	33.5%	29.5%	26.1%	27.6%	27.8%	29.1%
Pre Tax Margin	34.3%	30.9%	33.6%	33.0%	34.8%	34.0%	32.7%	32.8%	33.0%	33.6%
Compensation / Revenue	49.5%	49.5%	49.5%	48.7%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	33.0%	32.6%	32.0%	32.4%	33.1%	33.1%	33.0%	32.5%	32.5%	32.9%
Divisional Revenues										
Fixed Income	2,397	2,052	2,221	1,859	2,364	2,497	2,081	2,087	8,529	9,029
Equities	662	614	914	927	999	1,103	914	1,015	3,117	4,031
Banking	722	683	851	879	808	742	711	1,077	3,135	3,338
Asset Management	297	270	306	344	421	368	410	454	1,217	1,653
Global Trading and Principal Strategies	105	(74)	72	(48)	154	46	136	241	55	577
Banking Elimination / Other	(373)	(267)	(512)	(270)	(285)	(344)	(74)	(342)	(1,423)	(1,045)
Total Revenues	3,810	3,278	3,852	3,690	4,461	4,411	4,178	4,533	14,630	17,583
Shadow Revenues										
Private Investment Management	224	249	285	286	258	283	298	333	1,045	1,172
Europe	883	750	767	757	1,007	949	1,025	1,086	3,157	4,066
Asia	305	370	358	483	557	413	364	326	1,516	1,659

LEHMAN BROTHERS

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 8

**Holdings
Board of Directors
1/31/07**

RESOLVED, that the Board of Directors hereby determines that the following directors are independent as such term is defined under the listing standards of the New York Stock Exchange:

Michael L. Ainslie
John F. Akers
Roger S. Berlind
Thomas H. Cruikshank
Marsha Johnson Evans
Christopher Gent
Roland A. Hernandez
Henry Kaufman
John D. Macomber

FURTHER RESOLVED, that the Board of Directors hereby determines that each member of the Audit Committee is independent in accordance with the requirements of the Securities Exchange Act of 1934.

HOLDINGS

1/31/2007 BOARD MEETING

ITEM 9

RESOLVED, that the Board of Directors hereby authorizes and directs the proper officers of the Corporation: (i) to prepare a notice of meeting, proxy statement, proxy card, annual report to stockholders, annual report on Form 10-K and such other materials and documents as may be necessary or appropriate (collectively, the "Annual Meeting Materials") in connection with the 2007 Annual Meeting of Stockholders (the "Annual Meeting"); (ii) after review by the Board, to file the Annual Materials on behalf of the Corporation with the Securities and Exchange Commission, the New York Stock Exchange and any other applicable or appropriate regulatory bodies; (iii) to distribute the Annual Meeting Materials to stockholders; and (iv) to take any other actions as may be necessary or appropriate in connection with the Annual Meeting.

FURTHER RESOLVED, that Thomas A. Russo, Joseph Polizzotto and Jeffrey A. Welikson are hereby designated as proxies for the Annual Meeting.

FURTHER RESOLVED, that the following proposals be submitted to the stockholders of the Corporation at the 2007 Annual Meeting:

(i) Elect each of the following Director nominees for a one-year term:

Michael L. Ainslie	Richard S. Fuld, Jr.
John F. Akers	Sir Christopher Gent
Roger S. Berlind	Roland A. Hernandez
Thomas H. Cruikshank	Henry Kaufman
Marsha Johnson Evans	John D. Macomber

(ii) Ratify the selection of Ernst & Young LLP as the independent registered public accounting firm for the fiscal year ending November 30, 2007 by the Audit Committee of the Board of Directors.

(iii) Approve an amendment to the 2005 Stock Incentive Plan.

(iv) Consider a stockholder proposal.

(v) Act on any other business which may properly come before the Annual Meeting or any adjournment thereof.

Confidential Presentation to:

The Board of Directors

2007 Financial Plan Summary

January 31, 2007

LEHMAN BROTHERS

2007 Budget Summary (I)

Budget

- ◆ The Firm achieved another record for financial performance in 2006. We generated record revenues in each of our businesses and regions
 - Revenue and Net Income were up 20% and 22% respectively versus prior year operating results
 - Third year in a row in which Revenues have grown by approximately \$3 billion

- ◆ In 2007 we are budgeting the following:
 - Revenues of \$19.65 billion, up 12% versus 2006
 - EPS of \$7.41, up 10% versus 2006 operating results and ahead of First Call Estimate of \$7.30, on net income of \$4.3 billion

- ◆ 2007 Revenue growth is projected to come from all main business segments and geographic regions
 - Investment Banking Segment up 14% versus 2006
 - Capital Markets Segment up 10% versus 2006
 - Investment Management Segment up 16% versus 2006
 - European Region up 14% versus 2006, and
 - Asian Region up 30% versus 2006

2007 Budget Summary (II)

Budget

- ◆ Total expenses are budgeted to increase by 13% (or \$1.5 billion)
 - Maintain personnel expense to revenue ratio at 49.3%
 - Non-personnel expenses are budgeted to increase by 16% to \$3.5 billion from \$3.0 billion in 2006 primarily due to:
 - Increase in Real Estate / Occupancy charges as Firm expands globally
 - Increase in variable expenses (brokerage and clearance) related to volume growth
 - Technology initiatives including building out new business lines, improving existing business systems, strengthening infrastructure, and costs related to capacity growth
 - Full year effect of Firm growth in 2006

- ◆ Pretax margin of 32.9% versus 33.6% in 2006

- ◆ ROE and ROTE of approximately 21.7% and 26.3%, respectively (versus 23.4% and 29.1% in 2006)

- ◆ Book value per share estimated to grow to \$38.29, up 13% from \$33.87 in 2006

2007 Overall Financial Performance

Budget

- ◆ The 2007 business plan projects double digit revenue growth from all segments.

Financial Performance

<i>\$ millions, except per share data</i>	2005	2006	2007B	vs. 2006
Investment Banking	2,894	3,160	3,600	14%
Capital Markets	9,807	12,006	13,250	10%
Investment Management	1,929	2,417	2,800	16%
Net Revenues	14,630	17,583	19,650	12%
Personnel Expenses	7,213	8,669	9,687	12%
Non-Personnel Expenses	2,588	3,009	3,500	16%
Special Charges	-	-	-	-
Total Expenses	9,801	11,678	13,187	13%
Pretax Income	4,829	5,905	6,463	9%
Income Tax	1,569	1,945	2,133	10%
Impact of Accounting Change	-	47	-	-
Net Income	3,260	4,007	4,330	8%
Performance Indicators				
EPS	\$5.44	\$6.73	\$7.41	10%
First Call Estimate			\$7.30 ²	
ROE	21.6%	23.4%	21.7%	(1.6)pp
ROTE	27.8%	29.1%	26.3%	(2.8)pp
Average Common Equity	14,741	16,876	19,611	16%
Diluted Share Count	587.2	578.4	574.8	-1%
Compensation / Revenue	49.3%	49.3%	49.3%	-
NPE / Revenue	17.7%	17.1%	17.8%	+0.7pp
Pretax Margin	33.0%	33.6%	32.9%	(0.7)pp
Book Value Per Share	\$28.75	\$33.87	\$38.29	13%

1. 2006 EPS excludes \$0.08 from one time accounting gain from the adoption of FAS 123R
 2. First Call estimate as of January 24, 2007

LEHMAN BROTHERS

2007 Revenue Details

Budget

◆ Revenue growth is projected to come from all main businesses and regions.

Revenue Detail

<i>\$ millions</i>	2005	2006	2007B	vs. 2006
Fixed Income	8,531	9,029	9,800	9%
Equities	3,117	4,032	4,500	12%
Banking	3,135	3,338	3,700	11%
Asset Management	1,217	1,653	1,950	18%
Global Trading & Principal Strategies	55	577	800	39%
Banking Elimination / Other	(1,425)	(1,045)	(1,100)	nm
Total Revenues	14,630	17,583	19,650	12%
Regional				
Europe	3,157	4,066	4,650	14%
Asia	1,532	1,659	2,150	30%

1. Baseline based on 2006 year-end headcount.
 2. New Initiatives include incremental resources

2007 Budget – Business Segments

Budget

Fixed Income

- ◆ Revenue increase of 9% in 2007 versus record performance in 2006
- ◆ Key 2007 strategic initiatives include:
 - Extending origination and securitization businesses (insurance, middle market, infrastructure and non-performing loans)
 - Building out energy and commodity business globally
 - Growing the derivatives business
 - Building presence in emerging markets

Equities

- ◆ Revenue increase of 12% in 2007 versus record performance in 2006
- ◆ Key 2007 strategic initiatives include:
 - Grow derivatives and convertibles business
 - Expand Prime Services
 - Continue to expand electronic trading platform
 - Leverage expertise in research

Banking

- ◆ Revenue increase of 11%, with global fee share expected to increase to 5.3% from 4.6% in 2006
- ◆ Key 2007 strategic initiatives include:
 - Increase in M&A market share in both Europe and Asia
 - Increased wallet share among large financial sponsor clients
 - Sale of derivative products to corporate clients
 - Focus on hedge fund opportunities

Asset Management

- ◆ Revenue increase of 18% versus 2006, with 23% AUM growth by year-end
- ◆ Key 2007 strategic initiatives include:
 - Achieve strong net flows from higher fee-generating products
 - Roll out new alternative investment funds
 - Minority stakes in alternative asset managers
 - Build out European asset management platform

2007 Budget – Geographic Regions

Budget

Europe

- ◆ Increase in revenues of 14% versus prior year with strong outlooks for all divisions
- ◆ Key 2007 strategic initiatives include:
 - Build scale and capacity into existing businesses
 - Capitalize on newly established businesses (e.g., Energy and Asset Management)
 - Expand geographically, including emerging markets

Asia

- ◆ Increase in revenues of 30% versus record performance in 2006
- ◆ Key 2007 strategic initiatives include:
 - Build franchise in India
 - Continue to develop Asia Capital Markets client franchise
 - Grow mortgage platforms in Japan and Korea
 - Increase focus on prime services (hedge funds)
 - Grow IBD market share

Balance Sheet

Capital Plan

- ◆ To support the 2007 Business Plan, we intend to deploy approximately \$58.7 billion of additional net balance sheet
 - Significant growth is expected in the proprietary businesses, as well as investments in the asset management business

Year-End Balance Sheet Summary

(\$ Billions)	2005	2006	2007B	2007 Growth	
				\$	%
Fixed Income	133.0	174.3	198.4	24.1	14%
Equities	53.5	67.8	84.3	16.5	24%
Global Trading & Principal Strategies	2.6	7.4	15.0	7.6	103%
Other	22.4	19.5	30.0	10.5	54%
Total Net Assets	211.4	268.9	327.6	58.7	22%
Financing and Other	198.6	234.6	285.1	50.5	22%
Total Assets	410.1	503.5	612.7	109.1	22%
Other Liabilities	339.4	403.2	490.9	87.8	22%
Long-term Borrowings ¹	53.9	81.2	99.8	18.7	23%
Total Liabilities	393.3	484.4	590.8	106.4	22%
Common Equity	15.7	18.1	20.8	2.7	15%
Traditional Preferred	1.1	1.1	1.1	-	0%
Stockholders' Equity	16.8	19.2	21.9	2.7	14%
Total Liabilities and Stockholders' Equity	410.1	503.5	612.7	109.1	22%
Total Long-Term Capital	70.7	100.4	121.7	21.4	21%

1. Long-term Borrowings includes Hybrid Equity

LEHMAN BROTHERS

Impact of Share Repurchases and Equity Awards on Equity

Capital Plan

- ◆ We project the net impact of share repurchases and equity awards on equity to be approximately \$830 million. The actual cost will be affected by the number of options exercised in 2007 and the share price dynamics.

Net Impact of Equity Awards and Share Repurchases On Equity

(\$ millions)	2005	2006	2007		
			2007F	Δ	%
Impact on Stockholders' Equity					
RSU Amortization / Option Expense	1,054	923	1,895	972	105%
Options Exercised (Proceeds)	1,245	637	877	240	38%
Tax Benefit on Options Exercised	537	385	387	2	0%
Tax Benefit on RSU Issuances	467	451	667	216	48%
Increase in Equity from Employee Awards	3,304	2,396	3,826	1,430	60%
Cost of Share Repurchases	(4,157)	(3,681)	(4,656)	(975)	26%
Net Impact on Equity	(853)	(1,285)	(830)	455	-35%
Number of Shares Repurchased, millions	81	53	55	2	4%
Average Purchase Price Per Share, \$	\$52	\$70	\$85	\$15	22%

2007 Dividend Increase Recommendation

Capital Plan

- ◆ Similar to previous years, we propose to continue our approach of maintaining our strong record of dividend increases while preserving financial flexibility to support business growth and offset dilution by keeping a low payout ratio
 - Signal management’s confidence in the financial health of the Firm.
 - Position Lehman Brothers as a “growth” stock.

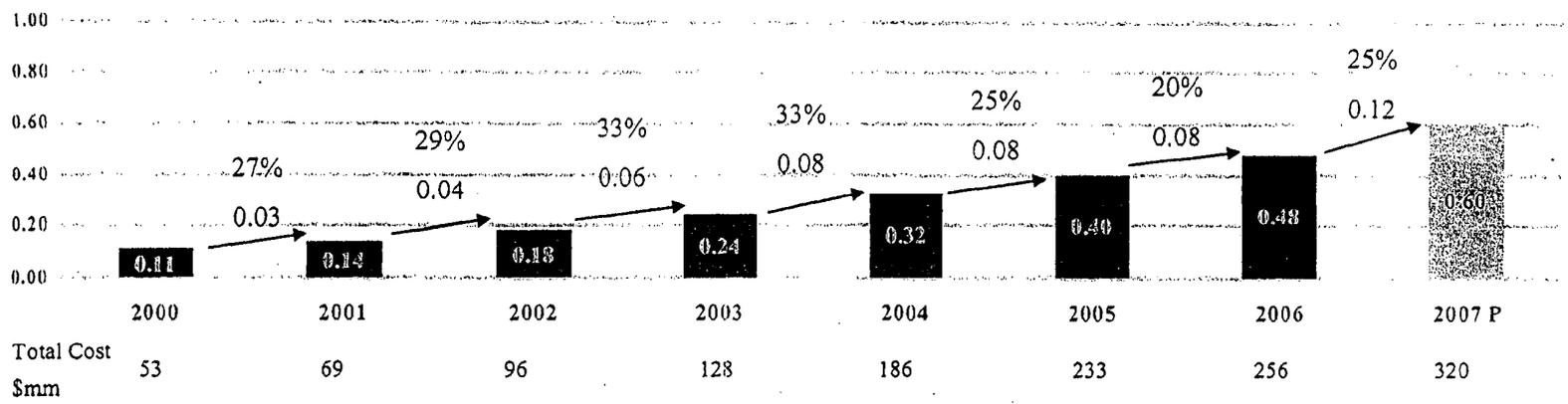
- ◆ We recommend increasing Lehman Brothers’ annual common stock dividend from \$0.48 in 2006 (\$0.12 per quarter) to \$0.60 in 2007 (\$0.15 per quarter), a 25% increase. The proposed dividend would return approximately \$320 million of retained earnings to shareholders
 - Projected dividend payout ratio¹ of approximately 7.5%, amongst the lowest in our peer group where the average payout ratio is 10.2%.
 - Projected dividend yield of 0.7% is the lowest, with the peer average of 1.1%.
 - Dividend growth consistent with revenue and income growth.

1. Payout ratio calculated as a ratio of common dividends to net income applicable to common. 2007 is \$320mm/\$4,294mm = 7.5%
2. Dividend yield calculated as a ratio of dividends per share / projected average stock price. 2007 is \$0.60/\$85 = 0.71%

2007 Dividend Increase Recommendation (\$0.12 increase)

Capital Plan

Lehman's Dividend Trend and 2007 Recommendation, \$ / Share



Peer Group Dividend Benchmarking

	Lehman Brothers	Goldman Sachs	Morgan Stanley	Merrill Lynch	Bear Stearns	
Dividend per Share	January 19, 2006	March 14, 2006	December 19, 2006	January 18, 2007	December 14, 2006	
	Increase of	20%	40%	0%	40%	14%
Dividend CAGR	5 Year 2001 - 2006	28%	22%	3%	9%	13%
						Average
Payout Ratio¹	2006	6.5%	7.2%	16.4%	13.9%	6.9%
	Lehman 2007B	7.5%				10.2%
Dividend Yield²	2006	0.7%	0.8%	1.7%	1.3%	0.8%
	Lehman 2007B	0.7%				1.1%

¹ Calculated as: Common Dividends Paid / Net Income Applicable to Common. Since 2006 full year data is not yet available, 2006 data is Q3 2006 YTD.
² Dividend Yield calculated based on average stock price during period.

Risk Appetite Limit

Risk

- ◆ We propose to establish a 2007 Risk Appetite limit of \$3.3 billion

Risk Appetite Limit Allocation

<i>\$ millions</i>	2004	2005	2006	2007 Proposed
Fixed Income	1,400	1,550	1,625	2,200
Equities	400	450	550	800
Capital Markets Prime Services ¹	-	-	100	150
Investment Management	250	325	325	650
Global Trading Strategies	300	450	450	600
Global Principal Strategies ²	-	-	300	500
Principal Investing / IBD	-	-	-	100
Strategic Investing	-	-	-	150
India Operations	-	-	-	250
Diversification %	23.4%	24.3%	31.3%	38.9%
Total	1,800	2,100	2,300	3,300

1. Prior to 2006 Capital Markets Prime Services were part of FID and Equities.
 2. Global Principal Strategies group was formed in 2006. It was part of FID prior to 2006.

Talking Points for Finance Committee Report to the Board

January 30, 2007

The Finance Committee met:

- To review the Firm's 2007 Budget and Capital Plan
- To set the 2007 Dividend and Stock Repurchase Plan, and

2007 Budget Highlights

In 2007, revenue is budgeted to grow to **\$19.7 billion**, up 12% versus 2006 and net income is forecasted to be **\$4.3 billion**, up 8% versus 2006.

- Growth will come from all main businesses and regions.
- Total expenses are budgeted to increase by 13%.

In 2007, EPS is forecast to be **\$7.41**, up 10% versus 2006. This is ahead of the analysts' consensus estimate of \$7.30. ROE is projected to be **21.7%** (ROTE of 26.3%) slightly lower than the 23.4% (ROTE of 29.1%) recorded in 2006.

Capital Plan

- The net balance sheet increase required to support the business plan is \$59 billion, which represents 22% growth
- This will be supported by a common equity growth of \$2.7 billion, and long-term debt growth of \$19 billion, which includes \$0.8 billion of hybrid equity issuance.
- Consistent with the business plan and the growth in tangible equity over the past year, we will also be increasing our risk appetite from \$2.3 billion to \$3.3 billion.

Stock Repurchase and Dividend Recommendations

The Finance Committee recommends a total stock repurchase authorization of up to 100 million common shares for the management of the Firm's equity capital, including offsetting dilution from employee awards, subject to market conditions. This authorization supersedes the previous share repurchase authorization.

The Finance Committee recommends a 25 percent dividend increase from 48¢ in 2006 to 60¢ per share in 2007.

- 25% dividend growth consistent with 2006 earnings growth.
- The 25% dividend growth is at the high end of the historical peer range, however our payout ratio and dividend yield remain below our peers.
- The increase signals management confidence in the financial health of the Firm, and also maintains our position as a "growth" stock.

LEHMAN BROTHERS

MEMORANDUM

TO: Members of the Board of Directors of Lehman Brothers Holdings Inc.

FROM: Tom Russo

DATE: January 26, 2007

SUBJECT: Proposed Amendments to Committee Charters

At the upcoming Board meeting, you will be asked to consider proposed amendments to the Nominating and Corporate Governance Committee Charter and the Compensation and Benefits Committee Charter. The proposed amendments are primarily additions to the responsibilities of each of these committees to reflect policies recently adopted by the Board of Directors.

Each of these committee charters has proposed revisions to incorporate additional responsibilities arising from the policy regarding transactions with related persons which was adopted by the Board at its November meeting. That policy requires that any "related person transaction" (as defined under SEC rules) must be approved or ratified by (i) the Compensation and Benefits Committee in the case of transactions involving executive officers or any of their immediate family members or (ii) the Nominating and Corporate Governance Committee in the case of a Director or nominee for Director of the Firm or any of their immediate family members.

In addition, another proposed revision to the Nominating and Corporate Governance Committee Charter reflects the Firm's recent adoption of majority voting in the election of Directors. Under the Firm's Corporate Governance Guidelines, if a Director is not elected by a majority vote, the Nominating and Corporate Governance Committee generally is responsible for making a recommendation to the Board whether to accept the resignation of such Director. The proposed revision to the Nominating and Corporate Governance Committee Charter reflects the addition of this responsibility.

Please call me at 212-526-0475, or Jeff Welikson at 212-526-0546, with any questions.

Confidential

CONFIDENTIAL

LB 008816

FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI_SEC07940_025726

BOARD OF DIRECTORS MEETING 1/31/07

1. NEED TO APPROVE MINUTES OF BOARD MEETING HELD ON NOVEMBER 14, 2006. (RESOLUTION IS BEHIND ITEM 1 IN FOLDER.) ASK FOR MOTION AND SECOND TO APPROVE RESOLUTION.

2. ASK MARTY EVANS TO GIVE A REPORT ON JANUARY 30, 2007 NOMINATING AND CORPORATE GOVERNANCE COMMITTEE MEETING. COMMITTEE WILL RECOMMEND THAT THE BOARD:
 - DESIGNATE EACH OF THE DIRECTORS AS A DIRECTOR NOMINEE FOR RE-ELECTION AT ANNUAL MEETING OF STOCKHOLDERS.

 - ADOPT AMENDMENTS TO THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER.

(RESOLUTIONS ARE BEHIND ITEM 2 IN FOLDER.) ASK FOR MOTION AND SECOND TO APPROVE RESOLUTIONS.

3. ASK HENRY KAUFMAN TO GIVE A REPORT ON JANUARY 30, 2007 FINANCE COMMITTEE MEETING, INCLUDING THE RECOMMENDED DIVIDEND INCREASE AND A DISCUSSION OF THE STOCK BUYBACK PROGRAM.

AFTER HENRY FINISHES, ASK FOR MOTION AND SECOND TO APPROVE RESOLUTIONS WITH RESPECT TO THE NEW DIVIDEND POLICY, THE DIVIDEND FOR THE FIRST QUARTER AND THE STOCK BUYBACK PROGRAM. (RESOLUTIONS ARE BEHIND ITEM 3 IN FOLDER.)

4. ASK JOHN AKERS TO GIVE A REPORT ON COMPENSATION AND BENEFITS COMMITTEE MEETINGS HELD ON NOVEMBER 30, 2006, DECEMBER 8, 2006 AND JANUARY 30, 2007. COMMITTEE WILL RECOMMEND THAT THE BOARD ADOPT AMENDMENTS TO THE COMPENSATION AND BENEFITS COMMITTEE CHARTER. (RESOLUTION IS BEHIND ITEM 4 IN FOLDER.)

5. ASK TOM CRUIKSHANK TO GIVE A REPORT ON AUDIT COMMITTEE MEETINGS HELD ON DECEMBER 13, 2006 AND EARLIER TODAY.
6. ASK CHRIS O'MEARA TO GIVE THE FINANCIAL REPORT. (MATERIALS ARE BEHIND ITEM 6 IN FOLDER.)
7. ASK CHRIS O'MEARA TO GIVE THE 2007 BUDGET PRESENTATION.
8. ASK TOM TO PRESENT MATERIALS FOR DIRECTOR INDEPENDENCE DETERMINATIONS. (RESOLUTIONS ARE BEHIND ITEM 8 IN FOLDER.) (MATERIALS ARE IN A SEPARATE FOLDER AT EACH DIRECTOR'S SEAT.)
9. ASK TOM TO GIVE UPDATE ON ANNUAL MEETING. (RESOLUTIONS ARE BEHIND ITEM 9 IN FOLDER.) *[TOM WILL PRESENT, THEN ASK FOR A MOTION TO PASS THE RESOLUTIONS.]*
10. ASK TOM TO GIVE LEGAL UPDATE.
11. ASK JAMI MISCIK TO GIVE COUNTRY RISK UPDATE.
12. JOHN AKERS WILL ASK MANAGEMENT TO LEAVE WHILE THE BOARD MEETS IN EXECUTIVE SESSION TO DISCUSS CEO COMPENSATION.
13. ASK FOR MOTION AND SECOND TO ADJOURN MEETING.

SUMMARY OF BOARD AND BOARD COMMITTEE CONSENTS FOR LEHMAN BROTHERS HOLDINGS INC. ("HOLDINGS")

<u>DATE</u>	<u>SUMMARY</u> (Executive Committee Action by Written Consent unless otherwise noted)
1. <u>November 15, 2006</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
2. <u>November 27, 2005</u> (Neuberger Berman Founders Shares)	Authorized certain individuals the ability to accelerate the transferability of restricted shares of Holdings held by former Neuberger Berman founders who meet certain stipulated requirements.
3. <u>December 14, 2006</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
4. <u>December 19, 2006</u> (Titles)	Appointed George H. Walker IV a Senior Vice President and Global Head of the Investment Management Division of Holdings.
5. <u>December 21, 2006</u> (Board of Directors - Majority Voting)	Adopted majority voting standard in the election of Directors and amended Holdings' By-Laws and Corporate Governance Guidelines accordingly.
6. <u>December 21, 2006</u> (Spinnaker Capital Group)	Authorized acquisition of 25% non-controlling minority interest in Spinnaker Asset Management Ltd. and Spinnaker Financial Services Ltd., a London-based hedge fund that manages approximately \$5.2 billion of assets in emerging markets investments.

7. December 27, 2006
(D.E. Shaw & Co.)

Authorized acquisition of 20% non-controlling minority interest in D.E. Shaw & Co., L.P. and D.E. Shaw & Co., L.L.C., a New York based asset management firm specializing in quantitative trading and managing approximately \$27 billion of primarily hedge fund assets across numerous strategies.

8. January 16, 2007
(Dividend Committee)

Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.

9. January 17, 2007
(Grange Securities)

Authorized acquisition of 100% of Grange Securities Limited, a private broker in Australia which specializes in fixed income businesses, with other smaller businesses in equities, hybrids, corporate finance, private investor services and asset management.

10. January 19, 2007
(Dividend Committee)

Declared a regular quarterly dividend on Holdings' Cumulative Preferred Stock, Series C, D and F.

SUMMARY OF BOARD AND BOARD COMMITTEE CONSENTS FOR LEHMAN BROTHERS INC. ("LEHMAN")

<u>DATE</u>	<u>SUMMARY</u> (Executive Committee Action by Written Consent unless otherwise noted)
1. <u>November 27, 2006</u> (Dividend Committee)	Authorized the payment of a dividend to Holdings on Lehman's common stock, out of retained earnings, in the amount of \$700,000,000.
2. <u>December 15, 2006</u> (Titles)	Appointed George H. Walker IV a Managing Director and Global Head of the Investment Management Division of Lehman.
3. <u>January 12, 2007</u> (Titles)	Approved annual titles.

TAR TALKING POINTS
NOVEMBER 14, 2006

HOLDINGS BOARD MEETING

ITEM 7: UPDATE ON ANNUAL MEETING

1) Resolutions

- ❖ The 2007 Annual Meeting will be conducted in the same manner and at the same location as last year's meeting.
- ❖ It will be held on April 12, 2007 at 10:30 a.m. in the Allan S. Kaplan Auditorium in this building.
- ❖ The Annual Meeting record date will be February 12, 2007.
- ❖ At the January 2007 Board and Committee meetings, the Director nominees, independent auditors and Annual Meeting agenda will be approved. An update on the Annual Meeting will be given then.

[Make motion to pass resolutions relating to the Annual Meeting which are behind Item 7 in the folder.]

2) Stockholder Proposals *[Note: This section is optional.]*

[SEE ATTACHED ISSUE SUMMARY]

- ❖ The Firm has received two stockholder proposals regarding majority voting for directors, which I will discuss in detail shortly.
- ❖ In addition, the Firm has received four other stockholder proposals for inclusion in the Firm's 2007 proxy statement.

➤ Political Contributions (Evelyn Davis)

- Requests (i) a detailed description of political contributions made by the Company and (ii) that the initial political contributions disclosure be published in newspapers in major cities, as well as the Wall Street Journal and USA Today, and that this disclosure be included in the annual report to shareholders in subsequent years.
- Proposals on this topic received a 20% "for" vote in 2006.

- Political Contributions (Central Laborers' Pension, Welfare & Annuity Funds)
 - Requests (i) that the Company provide a semi-annual report disclosing the Company's political contributions, including the Firm's policies and procedures for political contributions and expenditures made with corporate funds and (ii) that the report be presented to the Board of Directors' Audit Committee or other relevant oversight committee, and posted on the Company's website.
 - We are optimistic that the SEC will permit us to exclude this proposal from the proxy on the basis that it is substantially duplicative of the Davis proposal.
 - Sarbanes-Oxley Right to Know Report (Free Enterprise Action Fund)
 - Requests that the Firm prepare a Sarbanes-Oxley Right-to-Know Report, which includes an assessment of (i) the costs and benefits of SOX on the Company's in-house operations and (ii) the impacts of SOX on the Company's investment banking business.
 - This is a new proposal, and so there is no voting history.
 - Diversity Disclosure (Walden Asset Management)
 - Requests that the Firm prepare a diversity report to be made available to investors which (i) categorizes employees by gender and race and (ii) summarizes affirmative action programs and programs oriented towards increasing managers who are females or minorities.
 - Proposals on this topic received a 24% "for" vote in 2006.
- ❖ The Firm is evaluating its responses to these proposals and plans to engage the proponents (except for Evelyn Davis) in a dialogue regarding their issues, in the hopes that they will withdraw their proposals.

ITEM 8: POLICY REGARDING TRANSACTIONS WITH RELATED PERSONS

- ❖ The SEC's new executive compensation disclosure rules will require the Firm to include a description in its proxy statement of its policies and procedures for the review, approval or ratification of related person transactions that would be required to be reported in the proxy statement.
 - "Related persons" include Directors and executive officers and their respective immediate family members.
- ❖ The proposed Policy requires that related party transactions must be approved or ratified by:

- the Compensation and Benefits Committee in the case of transactions involving executive officers or any of their immediate family members; or
- the Nominating and Corporate Governance Committee in the case of a Director or nominee for Director of the Firm or any of their immediate family members.
- ❖ The proposed Policy also pre-approves certain ordinary course transactions between the Firm and related persons, such as transactions involving financial products and services provided by the Firm.
- ❖ To transition to the proposed Policy, we are asking the Board to ratify
 - the transactions of the type pre-approved under the Policy that have been entered into since the beginning of the Firm's 2006 fiscal year; and
 - the investments made by Directors and their immediate family members prior to 2002 in employee investment funds sponsored by the Firm (which investments have been disclosed in the Firm's proxy statements).

[Note: The full Board is being asked to ratify rather than the NCG Committee, since Cruikshank and Macomber participated in the employee partnerships.]

[Discuss. Make motion to pass resolutions which are behind Item 8 in the folder.]

ITEM 9: UPDATES—MAJORITY VOTING IN DIRECTOR ELECTIONS

- ❖ The Firm is recommending that the Board of Directors adopt a majority voting by-law. The proposed by-law would provide for a majority vote standard in the election of directors, except that the plurality vote standard would be retained for contested elections. The materials are behind Item 9 in the folder.
- ❖ Majority voting is widely viewed as a corporate governance best practice, and our adoption of a majority voting by-law will be viewed as a positive development by corporate governance ratings evaluators.
 - Over 36% of S&P 500 companies now have majority voting policies or by-laws.
- ❖ In addition, each of the American Federation of State, County and Municipal Employees ("AFSCME") and the United Brotherhood of Carpenters and Joiners of America has submitted a stockholder proposal relating to majority voting for inclusion in the Firm's 2007 proxy statement.
 - The Carpenters' proposal requests that the Board of Directors amend the By-laws to provide for majority voting in the election of directors, with a plurality vote standard retained for contested director elections.

- The AFSCME proposal is similar, but requests that the *shareholders* amend the By-laws to provide for majority voting in the election of directors in which case any further change to this by-law provision must be adopted *by the shareholders*.
- ❖ We believe that both proponents will withdraw these proposals in the event that the Board of Directors voluntarily adopts a majority voting by-law.
- ❖ A number of our peer firms (Citigroup, JPMorgan, Merrill Lynch and Morgan Stanley) have adopted director resignation policies within the past year.
- ❖ A director resignation policy provides that in an uncontested election, any nominee who receives a greater number of “withhold” votes than “for” votes must promptly offer to resign, even though such director would have been elected by plurality vote.
 - The board would typically then have 90 days, after the recommendation of the nominating and corporate governance committee, to take action on the resignation.
- ❖ The Firm is recommending a majority voting by-law, rather than a director resignation policy, for the following reasons:
 - Director resignation policies are not considered to be the best practice in majority voting. AFSCME and the Carpenters will not withdraw their proposals if the Firm adopts a director resignation policy rather than a majority voting by-law.
 - Similarly, adoption of a director resignation policy will not protect the Firm from receiving future stockholder proposals for adoption of a majority voting by-law.
 - ISS generally opposes director resignation policies and supports majority voting by-laws, so we expect ISS would support stockholder proposals to adopt a majority voting by-law even if the Firm adopted a director resignation policy.
 - There is very little practical difference between plurality voting coupled with a resignation policy and a majority voting by-law.
 - Although a majority voting by-law generally provides that in an uncontested election, each director who fails to obtain a majority of votes is not elected, Delaware corporate law provides that an incumbent director will remain in office until such director resigns.
 - A majority voting by-law would be coupled with resignation procedures, which would be similar to a director resignation policy. We have included the proposed resignation procedures in the Board’s Corporate Governance Guidelines.
- ❖ Current projections by our proxy solicitor, Georgeson Shareholder, indicate that we can defeat these stockholder proposals.

- Georgeson Shareholder currently projects that the Carpenters' proposal would be supported by approximately 42% of votes cast by our stockholders, assuming the Firm has not taken any action to adopt majority voting.
- If the Firm adopts a director resignation policy, Georgeson Shareholder projects the Carpenters' stockholder proposal would be supported by approximately 24% of votes cast by our stockholders.
- ❖ Such projections, however, should be viewed in the context of support for these proposals continuing to increase over time, particularly given the momentum behind this issue.
 - More than 150 majority vote stockholder proposals were filed in the 2006 proxy season, and there are rumors suggesting that 200 or more majority voting stockholder proposals will be submitted in the 2007 proxy season.
- ❖ Again, we believe that both proponents will withdraw these proposals in the event that the Board of Directors voluntarily adopts a majority voting by-law.
 - However, we would like to maintain the ability to request SEC relief if the Board adopts a majority voting by-law but a proponent does not withdraw the proposal, in which case we would argue that the proposal should be excluded from the proxy statement on the basis that it has been substantially implemented. We are confident that the SEC would accept this argument with respect to the Carpenters' proposal, but we are not confident that it would be accepted with respect to the AFSCME proposal.
- ❖ Since requests for SEC relief must be submitted by December 5th, it therefore would be optimal if the Board reached a decision on this issue before early December.
 - Even if the Board decided not to adopt a majority voting by-law and put this issue to a stockholder vote, we would attempt to argue that the AFSCME proposal should be excluded on the grounds that it is substantially duplicative of the Carpenters' proposal. However, we are not confident that the SEC would accept this argument.
- ❖ Assuming the Board is in favor of adopting a majority voting by-law, our plan would be to approach the proponents and ask them to confirm that they will withdraw their proposals if we do so. At that point (and optimally before December 5th), we would ask the Board to execute a Unanimous Written Consent approving a majority voting by-law, at which time we would be required to file a Form 8-K reporting the change.
- ❖ [Discuss]

ITEM 9: UPDATES—LITIGATION (UNDER SEPARATE COVER)

ITEM 10: BOARD OF DIRECTORS SELF-ASSESSMENT

- ❖ In the separate folders at your seats, you will find a composite document reflecting the responses to the Board of Directors self-evaluation questionnaire. Please take a moment to review the document.

[Discussion of responses]

**TAR TALKING POINTS
NOVEMBER 14, 2006**

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE MEETING

ITEM 4: CORPORATE GOVERNANCE UPDATES

1) Majority Voting

- ❖ The Firm is recommending that the Board of Directors adopt a majority voting by-law. The proposed by-law would provide for a majority vote standard in the election of directors, except that the plurality vote standard would be retained for contested elections. The materials are behind Item 9 in the folder.
- ❖ Majority voting is widely viewed as a corporate governance best practice, and our adoption of a majority voting by-law will be viewed as a positive development by corporate governance ratings evaluators.
 - Over 36% of S&P 500 companies now have majority voting policies or by-laws.
- ❖ In addition, each of the American Federation of State, County and Municipal Employees ("AFSCME") and the United Brotherhood of Carpenters and Joiners of America has submitted a stockholder proposal relating to majority voting for inclusion in the Firm's 2007 proxy statement.
 - The Carpenters' proposal requests that the Board of Directors amend the By-laws to provide for majority voting in the election of directors, with a plurality vote standard retained for contested director elections.
 - The AFSCME proposal is similar, but requests that the *shareholders* amend the By-laws to provide for majority voting in the election of directors in which case any further change to this by-law provision must be adopted *by the shareholders*.
- ❖ We believe that both proponents will withdraw these proposals in the event that the Board of Directors voluntarily adopts a majority voting by-law.
- ❖ A number of our peer firms (Citigroup, JPMorgan, Merrill Lynch and Morgan Stanley) have adopted director resignation policies within the past year.
- ❖ A director resignation policy provides that in an uncontested election, any nominee who receives a greater number of "withhold" votes than "for" votes must promptly offer to resign, even though such director would have been elected by plurality vote.
 - The board would typically then have 90 days, after the recommendation of the nominating and corporate governance committee, to take action on the resignation.

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 - Director resignation policies are not considered to be the best practice in majority voting. AFSCME and the Carpenters will not withdraw their proposals if the Firm adopts a director resignation policy rather than a majority voting by-law.
 - Similarly, adoption of a director resignation policy will not protect the Firm from receiving future stockholder proposals for adoption of a majority voting by-law.
 - ISS generally opposes director resignation policies and supports majority voting by-laws, so we expect ISS would support stockholder proposals to adopt a majority voting by-law even if the Firm adopted a director resignation policy.
 - There is very little practical difference between plurality voting coupled with a resignation policy and a majority voting by-law.
 - Although a majority voting by-law generally provides that in an uncontested election, each director who fails to obtain a majority of votes is not elected, Delaware corporate law provides that an incumbent director will remain in office until such director resigns.
 - A majority voting by-law would be coupled with resignation procedures, which would be similar to a director resignation policy. We have included the proposed resignation procedures in the Board's Corporate Governance Guidelines.
- ❖ Current projections by our proxy solicitor, Georgeson Shareholder, indicate that we can defeat these stockholder proposals.
 - Georgeson Shareholder currently projects that the Carpenters' proposal would be supported by approximately 42% of votes cast by our stockholders, assuming the Firm has not taken any action to adopt majority voting.
 - If the Firm adopts a director resignation policy, Georgeson Shareholder projects the Carpenters' stockholder proposal would be supported by approximately 24% of votes cast by our stockholders.
- ❖ Such projections, however, should be viewed in the context of support for these proposals continuing to increase over time, particularly given the momentum behind this issue.
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- ❖ Again, we believe that both proponents will withdraw these proposals in the event that the Board of Directors voluntarily adopts a majority voting by-law.

- However, we would like to maintain the ability to request SEC relief if the Board adopts a majority voting by-law but a proponent does not withdraw the proposal, in which case we would argue that the proposal should be excluded from the proxy statement on the basis that it has been substantially implemented. We are confident that the SEC would accept this argument with respect to the Carpenters' proposal, but we are not confident that it would be accepted with respect to the AFSCME proposal.
- ❖ Since requests for SEC relief must be submitted by December 5th, it therefore would be optimal if the Board reached a decision on this issue before early December.
 - Even if the Board decided not to adopt a majority voting by-law and put this issue to a stockholder vote, we would attempt to argue that the AFSCME proposal should be excluded on the grounds that it is substantially duplicative of the Carpenters' proposal. However, we are not confident that the SEC would accept this argument.
- ❖ Assuming the Board is in favor of adopting a majority voting by-law, our plan would be to approach the proponents and ask them to confirm that they will withdraw their proposals if we do so. At that point (and optimally before December 5th), we would ask the Board to execute a Unanimous Written Consent approving a majority voting by-law, at which time we would be required to file a Form 8-K reporting the change.

[Discuss]

2) Stockholder Proposals

[FULL ISSUE SUMMARY IS ATTACHED]

- ❖ In addition to the two stockholder proposals on majority voting, the Firm has received four other stockholder proposals for inclusion in the Firm's 2007 proxy statement.
 - Political Contributions (Evelyn Davis)
 - Requests (i) a detailed description of political contributions made by the Company and (ii) that the initial political contributions disclosure be published in newspapers in major cities, as well as the Wall Street Journal and USA Today, and that this disclosure be included in the annual report to shareholders in subsequent years.
 - Proposals on this topic received a 20% "for" vote in 2006.

- Political Contributions (Central Laborers' Pension, Welfare & Annuity Funds)
 - Requests (i) that the Company provide a semi-annual report disclosing the Company's political contributions, including the Firm's policies and procedures for political contributions and expenditures made with corporate funds and (ii) that the report be presented to the Board of Directors' Audit Committee or other relevant oversight committee, and posted on the Company's website.
 - We are optimistic that the SEC will permit us to exclude this proposal from the proxy on the basis that it is substantially duplicative of the Davis proposal.
 - Sarbanes-Oxley Right to Know Report (Free Enterprise Action Fund)
 - Requests that the Firm prepare a Sarbanes-Oxley Right-to-Know Report, which includes an assessment of (i) the costs and benefits of SOX on the Company's in-house operations and (ii) the impacts of SOX on the Company's investment banking business.
 - This is a new proposal, and so there is no voting history.
 - Diversity Disclosure (Walden Asset Management)
 - Requests that the Firm prepare a diversity report to be made available to investors which (i) categorizes employees by gender and race and (ii) summarizes affirmative action programs and programs oriented towards increasing managers who are females or minorities.
 - Proposals on this topic received a 24% "for" vote in 2006.
- ❖ The Firm is evaluating its responses to these proposals and plans to engage the proponents (except for Evelyn Davis) in a dialogue regarding their issues, in the hopes that they will withdraw their proposals.

3) **Term Limits/ Mandatory Retirement Ages for Directors**

[FULL ISSUE SUMMARY IS ATTACHED. Topic suggested by Evans]

- ❖ 78% of S&P 500 companies have a mandatory retirement age for directors (up from 58% in 2001).
- ❖ 11% of S&P 500 companies have director term limits.
- ❖ Principal arguments for:

- Term and age limits can help ensure that fresh ideas and new viewpoints are available to the board. Excessively long director tenures can lead to staleness and less innovation.
- Directors with long tenures on a board may become less independent from management and therefore less effective advocates for shareholders.
- Directors who are very advanced in age may not be best equipped to deal with the increasingly complex financial and technological challenges faced by financial firms.
- Term and age limits can be a mechanical way to cull less productive or otherwise problematic members from a board.
- ❖ Principal arguments against:
 - Term and age limits are arbitrary bright-line tests, and a director's effectiveness does not necessarily correlate with the length of his or her board service or age.
 - Term and age limits may remove directors who have been able to develop, over a period of time, increasing knowledge about and insight into the corporation and its business.
 - Older directors may have more time to devote to the board than younger directors, who may have additional time constraints.
- ❖ There are a number of possible adaptations to mandatory retirement ages/ term limits, including:
 - Requiring a director to submit a resignation letter upon reaching the term or age limit, which the board (or nominating and governance committee) could accept or reject.
 - To minimize disruption to the board upon the adoption of term or age limits, the existing board could be "grandfathered", or the affected directors phased out over time; however, with rare exceptions, term and age limits become effective immediately upon adoption.
- ❖ Overall, corporate governance ratings groups are in favor of mandatory retirement ages/ term limits.
 - In 2003, Moody's raised the age of the Firm's Board as "a possible point of concern". The Firm has not yet received Moody's 2006 corporate governance evaluation, but Moody's has indicated that this is a key point of concern for them.