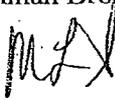


LEHMAN BROTHERS

DATE: September 7, 2007
TO: Members of the Board of Directors of Lehman Brothers Holdings Inc.
FROM: Madeline L. Shapiro, Assistant Secretary 
RE: **SEPTEMBER 11, 2007 MEETING OF THE BOARD OF DIRECTORS**

Enclosed please find an Agenda for the September 11, 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 June 19, 2007 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 12:00 p.m. to 2:30 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

AGENDA

LEHMAN BROTHERS HOLDINGS INC. ("Holdings")

BOARD OF DIRECTORS MEETING

September 11, 2007
745 Seventh Avenue
31st Floor - Board Room
12:00 p.m. – 2:30 p.m.

- 1) Approval of Minutes of Holdings' Board of Directors Meeting held on June 19, 2007. (Resolution and Minutes Attached) (Fuld)
- 2) Report of July 5, 2007 Audit Committee Meeting. (Cruikshank)
- 3) Report of September 10, 2007 Nominating and Corporate Governance Committee Meeting. (Evans)
- 4) Report of September 11, 2007 Finance and Risk Committee Meeting. (Kaufman)
- 5) Financial Update. (Materials Attached) (O'Meara)
- 6) Market Update. (Materials Attached) (Rieder)
- 7) Presentation on Liquidity, Leveraged Loan Commitments and Mortgage Positions. (O'Meara)
- 8) Presentation on Private Fund Investments Group. (Materials Attached) (Walker)
- 9) Legal Update. (Russo)
- 10) Country Risk Update. (Miscik)
- 11) Executive Session.

WORKING LUNCH

HOLDINGS

9/11/07 BOARD MEETING

Item 1

Holdings
Board of Directors
9/11/07

RESOLVED, that the Minutes of the meeting of the Board of Directors held on June 19, 2007 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.

HOLDINGS

9/11/07 BOARD MEETING

Item 5

LEHMAN BROTHERS

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

September 7, 2007

Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Tuesday, September 11. The materials include the estimated financial results for the third quarter, which will be discussed at the meeting.

At this meeting, Rick Rieder, Global Head of Principal Strategies, will deliver a market overview, Chris O'Meara, Chief Financial Officer, will deliver a presentation on the Firm's liquidity and its positions in mortgages and leveraged loan commitments, and George Walker, Global Head of the Investment Management Division, will deliver a presentation on our Private Funds Investment Group.

I look forward to seeing you at our dinner on Monday.

Sincerely,



RSF:aj
Enclosures

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

CONFIDENTIAL

LB 009377

FOIA CONFIDENTIAL TREATMENT REQUESTED
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI_SEC07940_026287

Confidential Presentation to:

Lehman Brothers Board of Directors

Financial Information

Estimated Third Quarter 2007

LEHMAN BROTHERS

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LEHMAN BROTHERS

Executive Summary

Market Environment

- ◆ Both the equity and debt markets have been extremely volatile since mid-July, driven by continued challenges in the U.S. mortgage sector, as well as a pull back in demand for structured credit products as investors reassessed risk premiums.
- ◆ Global equity markets were down 4% during the quarter, led by a 5% reduction in Europe. The U.S. markets were down by 4%, Asia was flat as the Nikkei was down 7% while the Hang Sang Index was up 16% in the quarter.
- ◆ Fixed Income credit spreads widened significantly in the quarter across all indices. The Lehman Global High Yield Index widened 181 bps and the Global Investment Grade Index widened 45 bps.

Revenues / Expenses

- ◆ Estimated quarterly net revenues of \$4,308 million were 22% below record Q2 2007 and 3% above Q3 2006.
 - Fixed Income Division revenues of \$1,247 million trailed prior quarter results by 43% and were lower than prior year by 40%, as record results in Interest Rate Products and Commodities were more than offset by weaknesses in Securitized Products, Real Estate, and especially Credit Products where we recorded significant valuation reductions on loan commitments in the leveraged finance business.
 - Equities Division revenues of \$1,533 million were 14% lower than record Q2 2007 and 68% ahead of Q3 2006, driven by strong results in Execution Services and Derivatives but weaker results in Convertibles and Prime Services.
 - Banking Division revenues of \$247 million were 81% lower than record prior quarter and 65% lower than prior year. Record results in M&A were more than offset by valuation reductions on loan commitments in the leveraged finance business.
 - Record Investment Management Division revenues of \$775 million were 8% higher than prior quarter and 29% above prior year, due to higher Assets Under Management and record Private Investment Management (PIM) revenues.
 - Principal Investments reported losses of \$189 million as the volatile debt and equity markets negatively impacted our principal trading strategies, our investments in hedge fund managers, as well as seed investments in Lehman managed funds.
 - Other revenues included approximately \$800 million of gains from marking to market our structured note liabilities in accordance with FAS 157, as our credit spreads widened along with the broader credit markets.
 - Non-U.S. revenues of \$1,793 million trailed the record prior quarter by 26% but were 29% ahead of prior year.
- ◆ Personnel expenses were accrued at 49.3% of net revenues, consistent with prior periods.
- ◆ Non-personnel expenses (NPE) of \$979 million included \$43 million of charges from resizing our mortgage platforms (the "BNC charges").

Profitability

- ◆ Net income was \$883 million, and EPS was \$1.53. Excluding the above BNC charges, net income was \$920 million and EPS was \$1.60.
- ◆ Pretax margin was 28.0%, ROE was 17.0% and ROTC was 21.1%.

Estimated Third Quarter 2007 Financial Results

\$ millions, except per share data	Quarterly Performance							Year to Date Performance				
	Estimated Q3 '07	Q2 '07	% Δ	Q3 '06	% Δ	Budget	% Δ	Estimated 2007	Budget	% Δ	2006	% Δ
Segment Revenues												
Investment Banking	1,081	1,150	(6)%	726	49%	929	16%	3,081	2,700	14%	2,302	34%
Capital Markets	2,427	3,594	(32)%	2,847	(15)%	3,418	(29)%	9,523	9,938	(4)%	8,971	6%
Investment Management	800	768	4%	605	32%	722	11%	2,263	2,100	8%	1,777	27%
Total Revenues	4,308	5,512	(22)%	4,178	3%	5,068	(15)%	14,867	14,738	1%	13,050	14%
Expenses												
Personnel	2,124	2,718	(22)%	2,060	3%	2,499	(15)%	7,330	7,266	1%	6,434	14%
Non Personnel	979	915	7%	751	30%	903	8%	2,755	2,625	5%	2,200	25%
Pre Tax Income	1,205	1,879	(36)%	1,367	(12)%	1,667	(28)%	4,783	4,847	(1)%	4,416	8%
Income Taxes	321	606	(47)%	451	(29)%	550	(42)%	1,481	1,599	(7)%	1,460	1%
Net Income Before Accounting Change	883	1,273	(31)%	916	(4)%	1,117	(21)%	3,302	3,247	2%	2,956	12%
Cumulative Effect of Accounting Change	-	-	-	-	-	-	-	-	-	-	47	-
Net Income	883	1,273	(31)%	916	(4)%	1,117	(21)%	3,302	3,247	2%	3,003	10%
Additional Data												
Earnings per Common Share (EPS)	\$1.53	\$2.21	(31)%	\$1.57	(3)%	\$1.91	(20)%	\$5.70	\$5.56	3%	\$5.09	12%
EPS (Excluding Accounting Change)	\$1.53	\$2.21	(31)%	\$1.57	(3)%	\$1.91	(20)%	\$5.70	\$5.56	3%	\$5.01	14%
Return on Common Equity	17.0%	25.8%	-8.8pp	21.0%	-4.0pp	21.7%	-4.7pp	22.3%	21.7%	+0.6pp	23.8%	-1.5pp
Return on Tangible Equity	21.1%	31.6%	-10.6pp	26.1%	-5.0pp	26.3%	-5.2pp	27.5%	26.3%	+1.2pp	29.7%	-2.2pp
Pre Tax Margin	28.0%	34.1%	-6.1pp	32.7%	-4.8pp	32.9%	-4.9pp	32.2%	32.9%	-0.7pp	33.8%	-1.7pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	-	49.3%	-	49.3%	49.3%	-	49.3%	-
Effective Tax Rate	26.7%	32.3%	-5.6pp	33.0%	-6.3pp	33.0%	-6.3pp	31.0%	33.0%	-2.0pp	33.1%	-2.1pp
Divisional Revenues												
Fixed Income	1,247	2,207	(43)%	2,081	(40)%	2,528	(51)%	5,637	7,350	(23)%	6,942	(19)%
Equities	1,533	1,778	(14)%	914	68%	1,161	32%	4,608	3,375	37%	3,017	53%
Banking	247	1,314	(81)%	711	(65)%	954	(74)%	2,424	2,775	(13)%	2,259	7%
Investment Management	775	721	8%	602	29%	706	10%	2,170	2,052	6%	1,734	25%
Principal Investments	(189)	467	(141)%	217	(187)%	288	(166)%	805	837	(4)%	543	48%
Banking & PDM Eliminations / Other	695	(975)	nm	(346)	nm	(568)	nm	(777)	(1,652)	nm	(1,445)	nm
Total Revenues	4,308	5,512	(22)%	4,178	3%	5,068	(15)%	14,867	14,738	1%	13,050	14%
Regional Revenues												
Europe	1,162	1,693	(31)%	1,025	13%	1,205	(4)%	4,077	3,503	16%	2,982	37%
Asia	631	744	(15)%	361	75%	555	14%	1,915	1,613	19%	1,331	44%

LEHMAN BROTHERS

Capital Markets

Fixed Income

- ◆ Revenues of \$1,247 million trailed the prior quarter by 43% and were 40% behind prior year level.
- ◆ Credit Products incurred losses, driven primarily from valuation reductions on our loan commitments in the leveraged finance business.
- ◆ Securitized Products continued to underperform due to the challenging market conditions in the mortgage sector.
- ◆ Real Estate revenues were 27% lower than the prior quarter and 41% lower than prior year due to both decreased asset sales and securitization activity.
- ◆ Record quarterly results in Interest Rate Products and Commodities were driven by strong customer flow and successful trading strategies.

Fixed Income Market Conditions

- ◆ Yields on U.S., European, U.K. and Japanese government 10 year notes all declined during the quarter.
- ◆ The U.S. Treasury yields declined across the curve due to a flight to quality and on expectations that the Fed may lower interest rates in the coming months.
 - The 10 year yield fell 36 bps to 4.53% and the 2 to 10 year spread was at a positive 40 bps.
- ◆ Global investment grade and high yield spreads widened significantly during the quarter as did the various ABX, CMBS and US Fixed Rate Mortgage Backed indices.
- ◆ The Dollar weakened against the British Pound from \$1.98/£ to \$2.02/£, as well as the Euro from \$1.35/€ to \$1.36/€.

Equities

- ◆ Revenues of \$1,533 million were 14% behind the record prior quarter and 68% ahead of the prior year level.
- ◆ Customer activity continued to be strong with increased flows in Execution Services offset by decreases in Convertibles.
- ◆ Execution Services posted their second highest quarterly results on increased customer activity and successful trading strategies.
- ◆ Derivatives revenues continued to be strong and also posted their second highest quarterly results.
- ◆ Prime Services revenues were lower than Q2, which was seasonally higher due to the dividend yield enhancement business, but were higher than the prior year.
 - Prime broker client balances fell about 15% to \$180 billion, due to hedge fund deleveraging.

Equity Market Conditions

- ◆ Global equity markets declined 4% during the quarter.
 - The markets were volatile this quarter, across all regions, due to credit spread widening and deteriorating conditions in the U.S. housing market.
 - The U.S. was down 4% and Europe was down 5%. Asia was flat as the Nikkei was down 7% while the Hang Sang Index was up 16%.
- ◆ Global average daily trading volumes were up 14% versus prior quarter, and up 57% versus prior year level.
- ◆ The VIX index, which measures U.S. market volatility, was up significantly in the quarter from 13% to 23%.

Investment Banking

Revenue Summary

- ◆ Quarterly revenues of \$247 million were substantially lower, due to challenging market conditions, which dampened buyout activity as well as underwriting activity.
- ◆ Record M&A revenues were 36% ahead of prior quarter and nearly doubled prior year level.
- ◆ Equity Origination revenues trailed prior quarter by 17% but were 73% ahead of prior year level.
- ◆ Debt Origination revenues were substantially lower than both benchmark periods, due to valuation reductions on loan commitments in the leveraged finance business as well as lower origination activity.
- ◆ Fee pipeline of \$1.0 billion, down 36% from the prior quarter but up 28% since Q4 2006.

Market Environment

- ◆ Despite a significant drop in August, announced M&A volume reached the second highest quarterly level since 2000. On a year-to-date (YTD) annualized basis, announced volume is on pace to be 43% higher than 2006 levels.
- ◆ Completed M&A volume was down 6% versus the prior fiscal quarter, but is 16% ahead of 2006 on an annualized calendar basis.
- ◆ YTD annualized Equity Origination volume is 19% higher than 2006, with a significant increase in Convertibles.
- ◆ Fixed Income Origination volume declined 29% during our fiscal quarter resulting from credit spread widening. On a YTD annualized basis, origination volume is 4% higher than 2006, with increases in corporate and mortgage backed issuances offsetting declines in asset backed issuances.

Significant Deals in Pipeline

	Value \$Bn	Description	Gross Fees (Estimated)
Advisory:			
Tishman Speyer Properties	21.7	• Acquisition of Archstone-Smith	\$28.8mm
Global Santa Fe Corporation	17.6	• Merger with Transocean Inc.	25.5mm
Actis Capital	0.5	• Sale of Gobeleg	21.6mm
Kohlberg Kravis Roberts & Co.	44.4	• Acquisition of TXU Corporation	20.0mm
Equity Origination:			
Project Genesis	n/a	• Private Placement, joint books	\$ 45.0mm
Liberty Acquisition Holdings	1.75	• IPO, co-nnaged	18.5mm
Dupont Fabros	0.6	• IPO, joint books	16.5mm
OZ Management LLC	1.5	• IPO, joint books	15.0mm
Fixed Income Origination:			
Applebee's International	6.4	• ABS, joint lead	\$49.6mm
GlobalSantaFe Corp	12.5	• Corporate/Bridge loan, lead	16.2mm
Kinder Morgan	3.4	• Senior note issuance, joint lead	12.8mm
Houghton Mifflin Riverdeep	8.0	• Bank loan, joint lead	7.7mm

Global Market Share

	Rank		Lehman Share (%)		Mkt Volume (\$ billion)		
	YTD 2007*	CY 2006	YTD 2007*	CY 2006	Annualized 2007	CY 2006	Var.
Fee Share**	9	9	4.3	4.6			
Announced M&A	7	8	20.2	15.7	5,166	3,611	43%
Completed M&A	8	7	14.2	15.8	3,459	2,994	16%
Equity	9	9	3.7	3.8	851	718	19%
IPO	9	11	3.6	2.8	274	265	3%
Secondary	9	10	2.8	3.8	388	329	18%
Convertible	7	8	5.6	6.2	185	122	52%
Fixed Income	7	4	5.4	6.2	7,423	7,116	4%
Investment Grade	8	8	4.3	4.5	2,781	2,643	5%
High Yield	7	9	6.3	5.2	192	185	4%
ABS	8	5	5.1	6.2	1,364	1,544	-12%
MBS	1	2	8.3	8.9	1,569	1,452	8%

* 2007 is calendar year-to-date through 8/31/2007

** Through July 2007

Investment Management / Principal Investments / Regional

Investment Management

- ◆ Record revenues of \$775 million were 8% ahead of prior quarter and 29% ahead of prior year.
- ◆ Revenues were higher than prior quarter, on higher Assets Under Management (AUM).
 - AUM grew to \$275 billion, a net increase of \$12 billion (+5%) in the quarter, with net inflows of \$13 billion, inflows from an acquisition of \$3 billion, and market depreciation of \$4 billion.
- ◆ Record PIM revenues of \$407 million were 6% higher than prior quarter, with increases across Fixed Income, Equity and Asset Management products.

Principal Investments

- ◆ Losses of \$189 million for the quarter as difficult market conditions negatively impacted our principal strategies.
- ◆ Global Trading and Principal Strategies' losses were mainly within M&A Arbitrage and Distressed Investing.
- ◆ Investments in hedge fund managers, as well as seed investments in Lehman managed funds were down substantially versus prior periods.

Europe

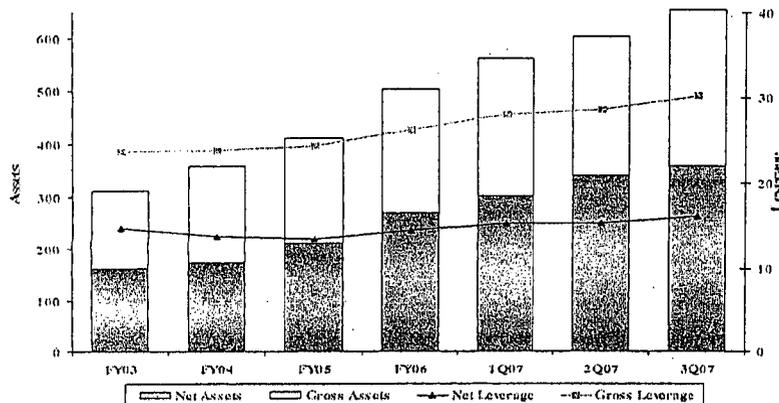
- ◆ Europe revenues of \$1,162 million were 31% lower than prior record quarter and 13% higher than prior year level.
- ◆ Fixed Income results were 24% lower than prior quarter, as record results in Interest Rate Products were more than offset by weaker results in Securitized Products and Credit Products.
- ◆ Performance in Equities was also lower than prior quarter despite record results in Derivatives. Prime Services revenues were lower than prior quarter due to the seasonal dividend yield enhancement business in Q2 2007.
- ◆ Banking posted record results for the quarter, led by record results in Equities Origination.

Asia

- ◆ Asia revenues of \$631 million were 15% lower than record prior quarter but 75% higher than prior year level.
- ◆ Fixed Income revenues were 15% lower than prior quarter driven by lower revenues in Credit Products, partially offset by record performance in Interest Rate Products.
- ◆ Equities and Banking revenues were down versus the prior quarter but continued to be strong versus prior year levels.

Balance Sheet, Capital and Risk

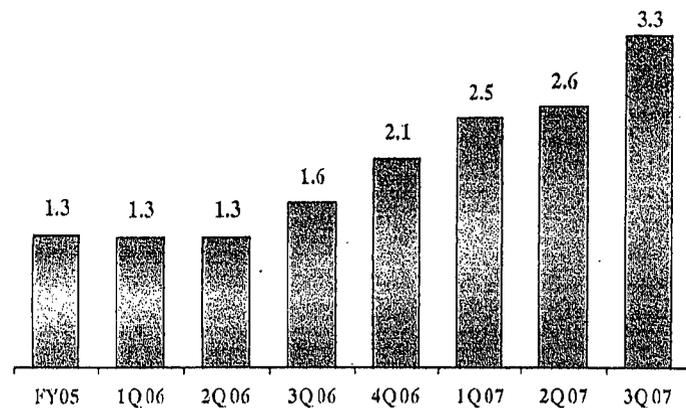
Balance Sheet (\$ billions) / Leverage



Figures represent period end amounts.

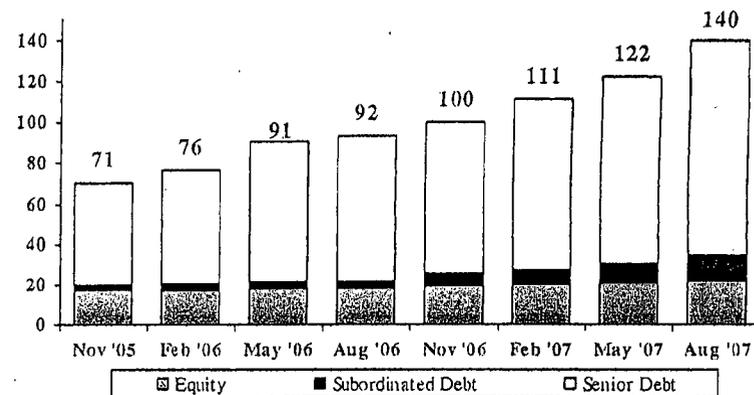
Average Risk Appetite Usage (\$ billions)

2007 Limit: \$3.5 billion



Figures represent average of daily usage.

Long Term Capital (\$ billions)



Long Term Capital Roll Forward (\$ billions)

	Q2 '07	Q3 '07 Activity			Estimated Q3 '07
		Issuances	Maturities	Other / Earnings	
Senior Notes	91.4	23.0	(10.2)	0.7	104.9
Subordinated Debt	9.4	4.1	(0.1)	-	13.4
Total Long Term Borrowings	100.8	27.1	(10.3)	0.7	118.3
Preferred Stock	1.1				1.1
Common Equity	20.0			0.6	20.6
Total Long Term Capital	121.9	27.1	(10.3)	1.3	140.0

Competitor Information

	LEH	GS	MS	MER	BSC	C	BAC	JPM
<i>Financial Statistics</i>								
Price to Tangible Book ¹	1.8x	2.5x	1.9x	1.9x	1.2x	3.6x	3.4x	2.6x
Price to Book ^{1,2}	1.5x	2.2x	1.7x	1.7x	1.2x	1.8x	1.7x	1.3x
Price to Earnings ^{1,4}	7.5x	8.3x	8.1x	8.4x	9.7x	9.8x	10.0x	9.7x
Dividend Yield	1.1%	0.8%	1.7%	1.9%	1.2%	4.6%	5.1%	3.4%
Book Value per Share ²	\$37.15	\$81.30	\$36.52	\$43.55	\$92.50	\$25.56	\$29.95	\$35.08
Market Cap (billions)	\$29	\$71	\$66	\$63	\$13	\$233	\$225	\$151
<i>Share Price Performance</i>								
2007 Calendar Year to Date ¹	-30%	-12%	-23%	-21%	-33%	-16%	-5%	-8%
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
Calendar Year 2005	47%	23%	2%	13%	13%	1%	-2%	2%
Average ROE ^{3,5}	23%	33%	26%	23%	18%	18%	17%	14%
Average ROTC ^{3,5}	29%	36%	29%	26%	18%	33%	33%	23%
<i>Ten Year Debt Spreads (Basis Points)</i>								
Spread vs. 1 Month Libor (8/31/07)	140	110	110	110	155	60	60	80
Spread vs. 1 Month Libor (5/31/07)	39	42	46	41	41	29	28	31
Spread vs. 10 Year UST (8/31/07)	210	180	180	180	225	130	130	150
Spread vs. 10 Year UST (5/31/07)	97	100	104	99	99	87	86	89
<i>Long Term Debt Credit Ratings</i>								
Standard & Poors	A+	AA-	AA-	AA-	A+	AA	AA	AA-
Moody's	A1	Aa3	Aa3	Aa3	A1	Aa1	Aa1	Aa2
Fitch	AA-	AA-	AA-	AA-	A+	AA+	AA	AA-

1. Share price as of August 31, 2007.

2. Book and Tangible Book values are per latest externally reported quarter.

3. Average of last four externally reported quarters.

4. Based on forward looking estimates, updated as of September 7, 2007.

5. Excludes the impact of BlackRock in 3Q06 for Merrill Lynch and the effect of a non-cash charge related to the write-down of Bear Wagner Specialists in 2Q07 for Bear Stearns.

Monthly Financial Performance Trend

<i>\$ millions, except per share data</i>	August 2006	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	Estimated August 2007
Segment Revenues													
Investment Banking	247	211	293	354	291	294	265	278	413	459	373	394	314
Capital Markets	1,048	784	958	1,293	1,184	1,139	1,179	1,117	1,075	1,401	1,329	953	146
Investment Management	206	204	217	219	209	283	203	235	259	274	277	314	209
Total Revenues	1,500	1,200	1,468	1,866	1,683	1,716	1,647	1,631	1,747	2,134	1,978	1,661	669
Expenses													
Personnel	740	592	724	920	830	846	812	804	861	1,052	975	819	330
Non Personnel	241	267	269	273	275	287	297	307	306	302	313	318	349
Pre Tax Income	520	342	474	673	578	583	538	520	580	779	690	524	(9)
Income Taxes	171	113	157	215	191	192	170	166	186	254	221	157	(56)
Net Income	349	229	318	458	387	391	368	353	395	525	469	367	47

Additional Data													
Earnings per Common Share	\$0.60	\$0.39	\$0.54	\$0.79	\$0.66	\$0.67	\$0.63	\$0.61	\$0.68	\$0.91	\$0.81	\$0.64	\$0.08
Return on Common Equity	23.9%	15.4%	21.2%	30.3%	24.6%	24.3%	22.9%	21.9%	24.1%	31.5%	27.4%	21.0%	2.4%
Return on Tangible Equity	29.6%	19.0%	26.2%	37.3%	30.1%	29.5%	28.0%	26.9%	29.6%	38.6%	33.7%	26.0%	3.0%
Pre Tax Margin	34.7%	28.5%	32.3%	36.1%	34.3%	34.0%	32.6%	31.9%	33.2%	36.5%	34.9%	31.6%	-1.4%
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	32.9%	33.1%	33.0%	31.9%	33.0%	33.0%	31.5%	32.0%	32.0%	32.6%	32.0%	30.0%	NM

Divisional Revenues													
Fixed Income	646	618	565	904	840	650	694	593	655	960	935	481	(169)
Equities	330	238	339	438	407	469	422	610	526	642	545	533	455
Banking	262	206	429	444	224	319	319	286	532	496	471	(112)	(111)
Investment Management	211	178	216	221	199	260	215	225	239	257	255	252	268
Principal Investments	96	96	102	190	181	214	133	68	130	269	60	(62)	(188)
Banking & PIM Eliminations / Other	(46)	(136)	(183)	(331)	(167)	(194)	(136)	(151)	(334)	(489)	(288)	569	414
Total Revenues	1,500	1,200	1,468	1,866	1,683	1,716	1,647	1,631	1,747	2,134	1,978	1,661	669
Regional Revenues													
Europe	388	278	283	523	345	442	436	525	511	657	569	353	240
Asia	52	64	117	146	194	168	179	181	257	305	264	315	52

Quarterly and Annual Financial Performance Trend

	2005				2006				2007			Full Year		Budget
	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q2 '07	Estimated Q3 '07	2005	2006	2007
<i>\$ millions, except per share data</i>														
Segment Revenues														
Investment Banking	683	579	815	817	835	741	726	858	850	1,150	1,081	2,894	3,160	3,600
Capital Markets	2,690	2,227	2,526	2,364	3,046	3,078	2,847	3,035	3,502	3,594	2,427	9,807	12,006	13,250
Investment Management	437	472	511	509	580	592	605	640	695	768	800	1,929	2,417	2,800
Total Revenues	3,810	3,278	3,852	3,690	4,461	4,411	4,178	4,533	5,047	5,512	4,308	14,630	17,583	19,650
Segment Revenues														
Personnel	1,886	1,623	1,906	1,798	2,199	2,175	2,060	2,235	2,488	2,718	2,124	7,213	8,669	9,687
Non Personnel	618	642	653	675	711	738	751	809	860	915	979	2,588	3,009	3,500
Pre Tax Income	1,306	1,013	1,293	1,217	1,551	1,498	1,367	1,489	1,699	1,879	1,205	4,829	5,905	6,463
Income Taxes	431	330	414	394	513	496	451	485	553	606	321	1,569	1,945	2,133
Net Income Before Accounting Change	875	683	879	823	1,038	1,002	916	1,004	1,146	1,273	883	3,260	3,960	4,330
Cumulative Effect of Accounting Change	-	-	-	-	47	-	-	-	-	-	-	-	47	-
Net Income After Accounting Change	875	683	879	823	1,085	1,002	916	1,004	1,146	1,273	883	3,260	4,007	4,330
Additional Data														
Earnings per Common Share	\$1.45	\$1.13	\$1.47	\$1.38	\$1.83	\$1.69	\$1.57	\$1.72	\$1.96	\$2.21	\$1.53	\$5.43	\$6.81	\$7.41
Return on Common Equity	24.5%	18.2%	23.0%	20.9%	26.7%	23.7%	21.0%	22.3%	24.4%	25.8%	17.0%	21.6%	23.4%	21.7%
Return on Tangible Equity	32.0%	23.5%	29.4%	26.5%	33.3%	29.5%	26.1%	27.6%	29.9%	31.6%	21.1%	27.8%	29.1%	26.3%
Pre Tax Margin	34.3%	30.9%	33.6%	33.0%	34.8%	34.0%	32.7%	32.8%	33.7%	34.1%	28.0%	33.0%	33.6%	32.9%
Compensation / Revenue	49.5%	49.5%	49.5%	48.7%	49.3%	49.3%	49.3%	49.3%	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%	32.3%	26.7%	32.5%	32.9%	33.0%
Divisional Revenues														
Fixed Income	2,397	2,053	2,222	1,860	2,365	2,497	2,081	2,086	2,184	2,207	1,247	8,531	9,029	9,800
Equities	661	615	915	927	1,000	1,103	914	1,015	1,297	1,778	1,533	3,117	4,032	4,500
Banking	720	680	847	874	808	740	711	1,079	862	1,314	247	3,121	3,338	3,700
Investment Management	443	486	518	532	554	578	602	615	674	721	775	1,979	2,349	2,736
Principal Investments	191	(58)	138	83	241	86	217	389	528	467	(189)	354	932	1,116
Banking & PIM Eliminations / Other	(602)	(497)	(788)	(586)	(506)	(593)	(346)	(651)	(498)	(975)	695	(2,472)	(2,096)	(2,202)
Total Revenues	3,810	3,278	3,852	3,690	4,461	4,411	4,178	4,533	5,047	5,512	4,308	14,630	17,583	19,650
Regional Revenues														
Europe	883	750	767	757	1,007	949	1,025	1,084	1,222	1,693	1,162	3,157	4,065	4,670
Asia	305	370	358	483	557	413	361	328	541	744	631	1,516	1,659	2,150

LEHMAN BROTHERS

HOLDINGS

9/11/07 BOARD MEETING

Item 6

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Market Update

Rick Rieder

September 11th, 2007

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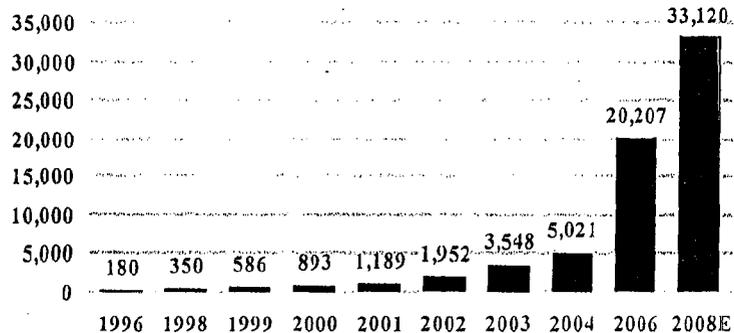
LEHMAN BROTHERS

Outline

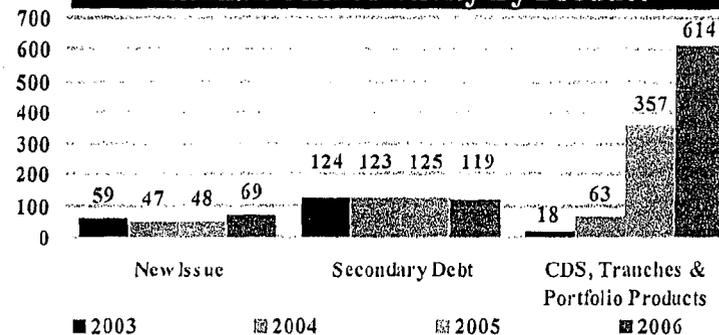
- ◆ Background – The Explosive Growth of Structured Products
- ◆ Where the Cracks Have Emanated From
- ◆ The Subprime Market... The Impact on the Structured Markets and on the Broader Mortgage Universe
- ◆ The Subprime Influence on the Market for Structured Credit (Corporate Liabilities)
- ◆ The Ratings Agency Performance
- ◆ Transparency / Liquidity
- ◆ Conclusion

The Structured Credit Market Today Has Dwarfed the Cash Markets in Terms of Size, Trading Volumes and Liquidity (in Normal Times)... The Growth of These Products Has Radically Changed the Complexion of Trading in the Credit Markets vs. a Couple of Years Ago...

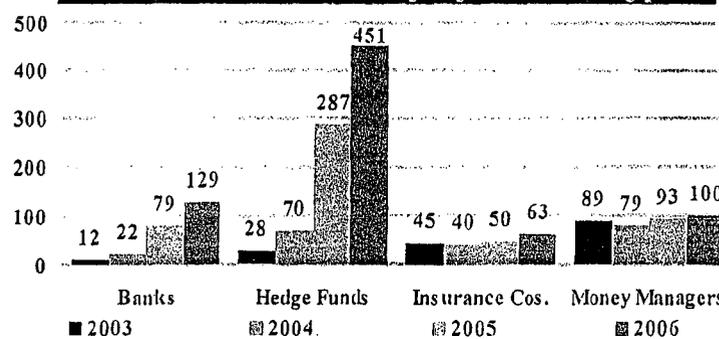
Global Credit Derivatives Market (\$bn)



Lehman Client Activity By Product



Lehman Client Activity By Account Type

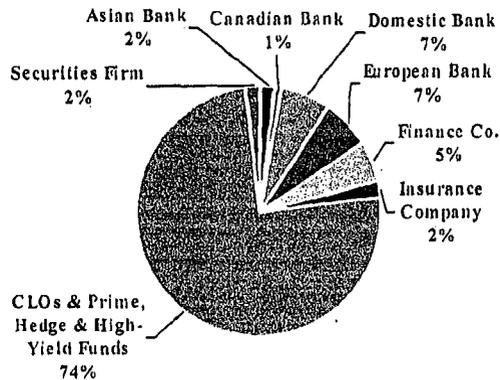


Type	2000	2002	2004	2006
Basket products	6.0%	6.0%	4.0%	1.8%
Credit linked notes	10.0%	8.0%	6.0%	3.1%
Credit spread options	5.0%	5.0%	2.0%	1.3%
Equity linked credit products	n/a	n/a	1.0%	0.4%
Full index trades	n/a	n/a	9.0%	30.1%
Single-name credit default swaps	38.0%	45.0%	51.0%	32.9%
Swaptions	n/a	n/a	1.0%	0.8%
Synthetic CDOs – full capital	n/a	n/a	6.0%	3.7%
Synthetic CDOs – partial capital	n/a	n/a	10.0%	12.6%
Tranched index trades	n/a	n/a	2.0%	7.6%
Others	41.0%	36.0%	8.0%	5.7%

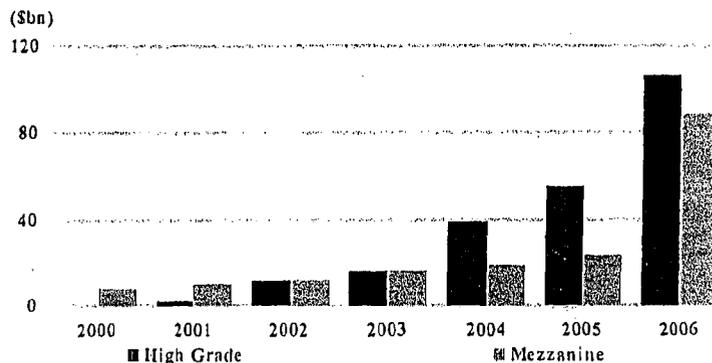
Source: British Bankers Association

As Structured Products Have Become Mainstream Investment Vehicles, They are, in Many Cases, the Most Efficient Investment Pools for Numerous Assets... The Global Demand for "High Quality-Rated" Assets (Created in Tranche Form through Structured Vehicles) Has Created an Insatiable Demand for Assets (Like Leveraged Loans or Subprime Mortgages) Which Historically Were Held Almost Exclusively in the Banking System...

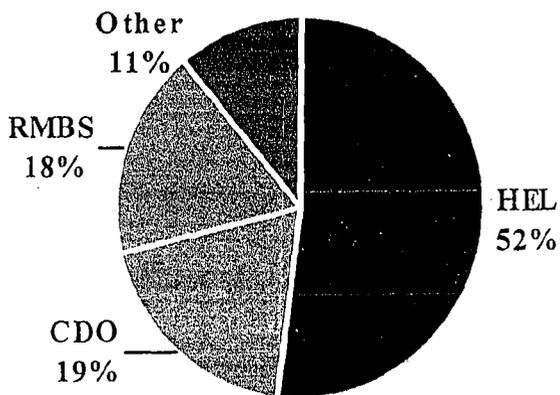
Leveraged Loan Primary Market – 2007 YTD



ABS CDO Issuance (2000–2006)



ABS CDO Collateral Composition (50 to 60% exposure to HEL)



Source: Lehman Brothers

This Dynamic Has Been Driven by Global Investors' Ability to Get High Quality Product (as Rated by the Agencies) at Generous Spreads... However, the Current Strains in the Financial and Mortgage Markets Are Challenging Holders of These "Risk-Free" Assets...

Indicative Spread (to LIBOR) of Various Asset Classes (bp)*

	Jan '06					Dec '06					July '07				
	AAA	AA	A	BBB	BB	AAA	AA	A	BBB	BB	AAA	AA	A	BBB	BB
IG Synthetic CDO (Managed)	90	125	190	450	650	60	90	130	350	550	90	140	225	650	
HG ABS CDO	28	55	153	290		30	50	130	305		53	170	455	800	
CLO	26	45	80	185	481	26	42	74	165	375					
HEL	24	43	63	190		15	31	44	115		40	100	300	1000	
Corporates	10	27	42	77	212	7	28	40	81	200	20	30	51	87	248
ABX.HE 06-2 Prices*	\$100.10	\$100.11	\$100.00	\$100.17		\$100.09	\$100.09	\$99.27	\$96.35		\$96.43	\$92.67	\$75.28	\$54.00	
5-yr CDS (Avg levels, Sr. Unsecured)	9	17	25	41		7	13	21	44		10	19	36	58	

* June 2006 used as a proxy for Jan 2006.

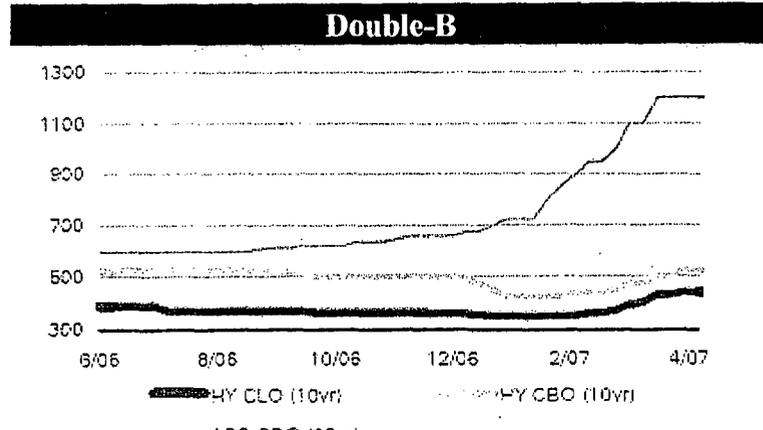
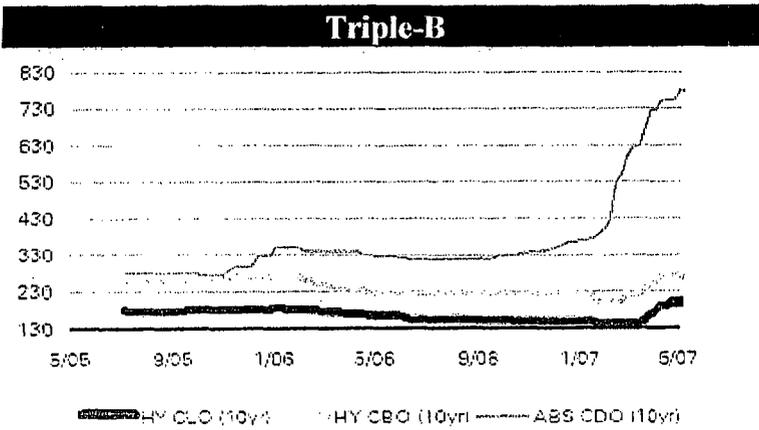
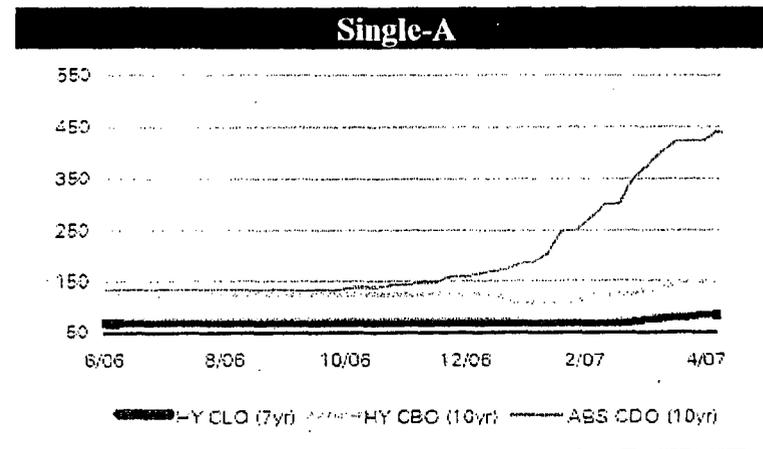
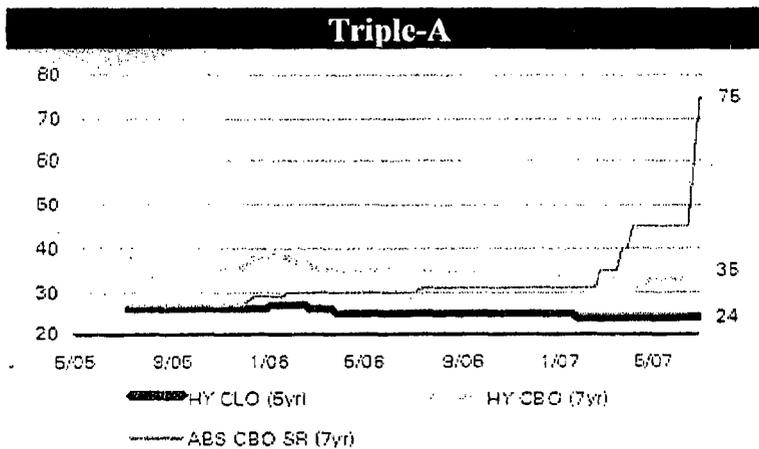
End Holders of AAA CDO Liability Risk

End Holders of Risk	Exposure, \$bn	Sensitivity Factors
Financial Guarantors + Insurance	75	Need to post capital on asset/company downgrade, MTM
Accounts		
CDO CP Put Providers	60	Provide 100% liquidity if CP is not rolled
ABCP Conduits	30	Impaired assets are removed, no forced sale
SIVs	15	Sensitive to severe MTM which might lead to forced liquidation
Other CDOs	10	Not MTM sensitive, cashflows sensitive to sub-IG downgrades
Total Accounted	190	
Unaccounted	131	

Source: Lehman Brothers

AA and AAA Assets Have Been Able to Be Levered Very Aggressively to Generate "Sufficient Returns." That Leverage, Coupled with Any Significant Spread Widening, Can Create Tangible Viability Issues for Some of the Smaller, Single-Asset Class, Less Well-Capitalized Financial Entities...

CDO Secondary Spreads, by Rating



Source: Deutsche Bank

High Levels of Leverage Can Be Attached to High Quality Assets, Which Exacerbates the Stress Caused by Outsized Market Moves...

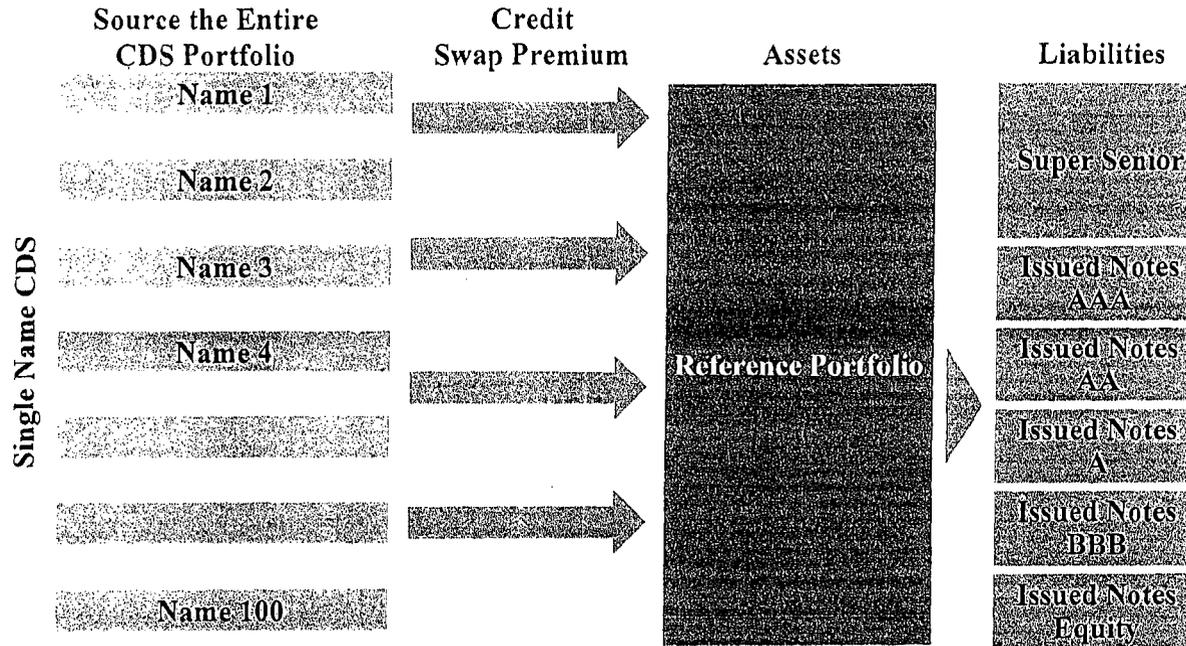
The more volatile and wider credit markets have resulted in a repricing of margin requirements

	May '07		July '07	
	Margin	Rate	Margin	Rate
<i>AAA CDO</i>	3-5% (At most 3 month term)	FF + 10	5-10% (At most 1 month term)	FF + 15
<i>Non-Rated CDO</i>	50%	L + 100	50%+ (All priced moved to 18% IRR)	L + 100
<i>MBS Alt-A "AAA"</i>	3-5%	L + 3-5	5-7%	L + 5-7
<i>High Yield Loans (mezzanine)</i>	35-50%	L + 45-55	35-50%	L + 45-55
<i>High Grade Credit</i>	2-5%	FF + 0-15	2-5%	FF + 0-15

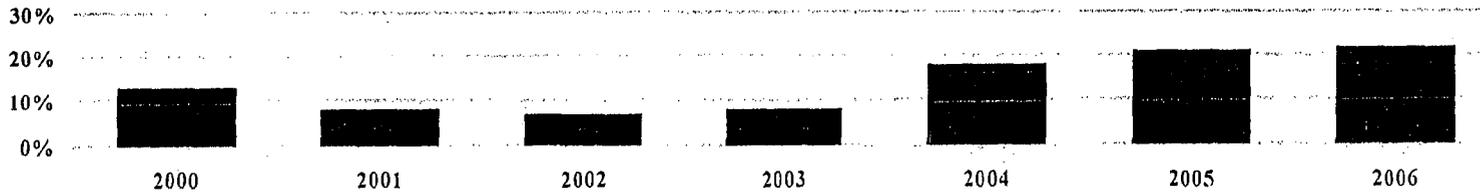
Indicative Levels for Industry Margin Requirements

The Concept of Sourcing Assets, Pooling Those Assets, and then Placing an Entire Capital Structure to Appeal to a Variety of Investor Bases Worked until there was Severe Pressure on the Mortgage Market (Emanating from Subprime). This Forced a Revaluation of Pricing, and the Anticipation (and Ultimate Realization) of Ratings Changes...

Source the Assets and Place the Entire Capital Structure

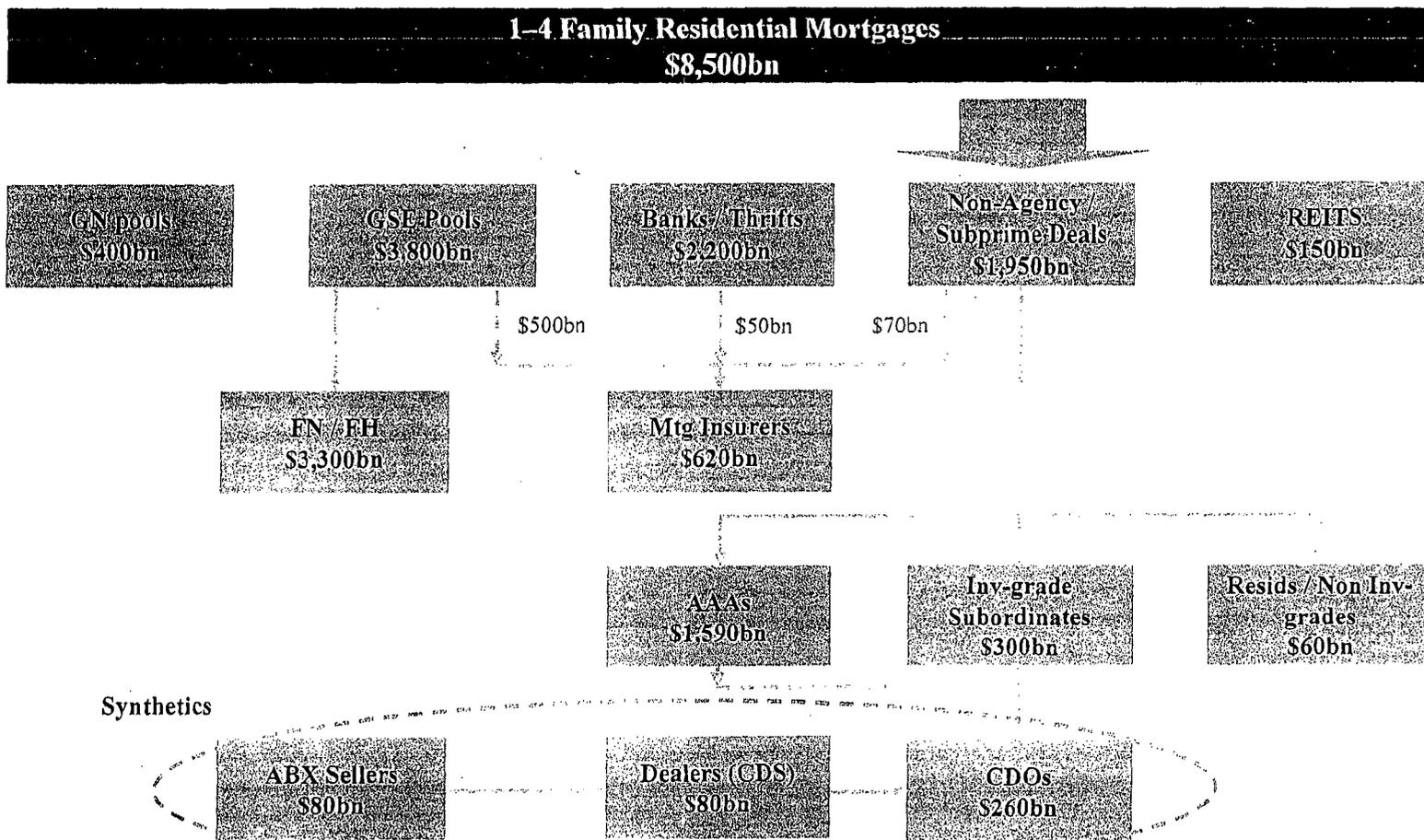


Subprime Issuance as a Percentage of the Residential Mortgage Market



Source: Lehman Brothers

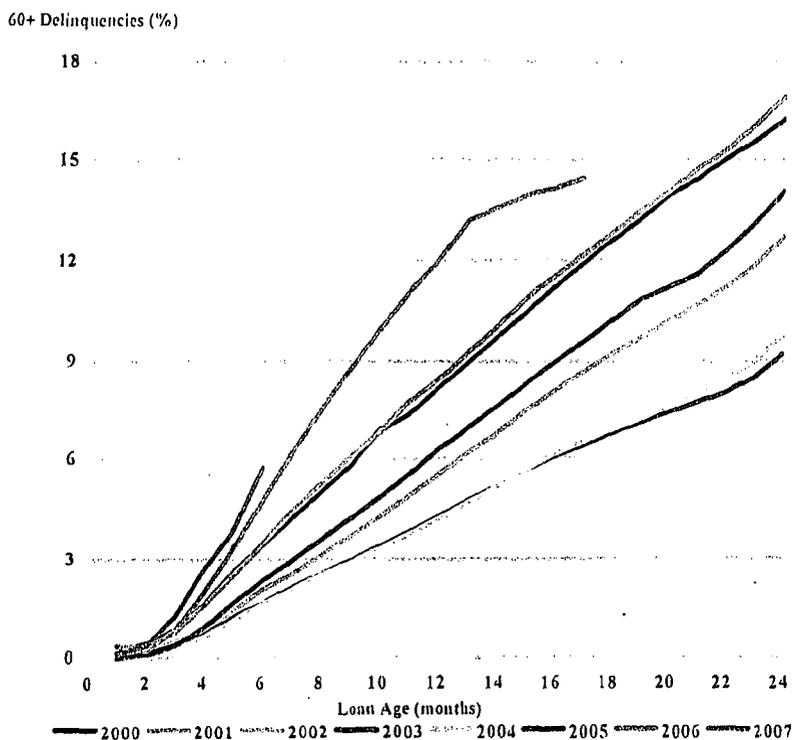
Although only 20–25% of the Residential Mortgage Market, the Yield Availability in Subprime Allowed for Tranching of a Pool of Assets, to Fit the Risk/Reward Parameters (Return vs. Leverage Employed) of Different Investors in This Product...



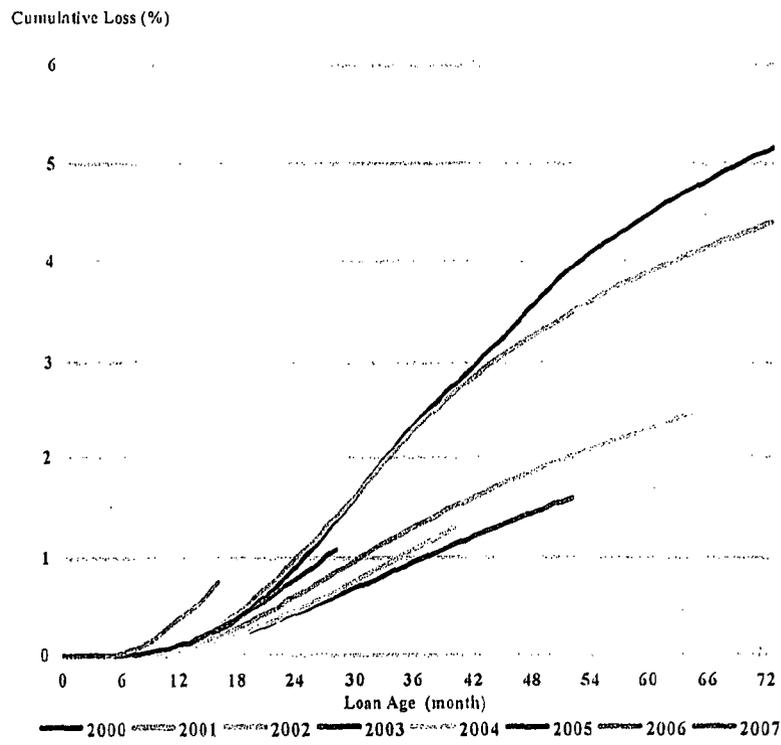
Source: Lehman Brothers

The Rapid Deterioration in All, But Especially the Recent, Vintages of Subprime Caused the Initial Stress in the Structured Markets...

Subprime 60+ Delinquencies by Vintage



Subprime Cumulative Losses by Vintage

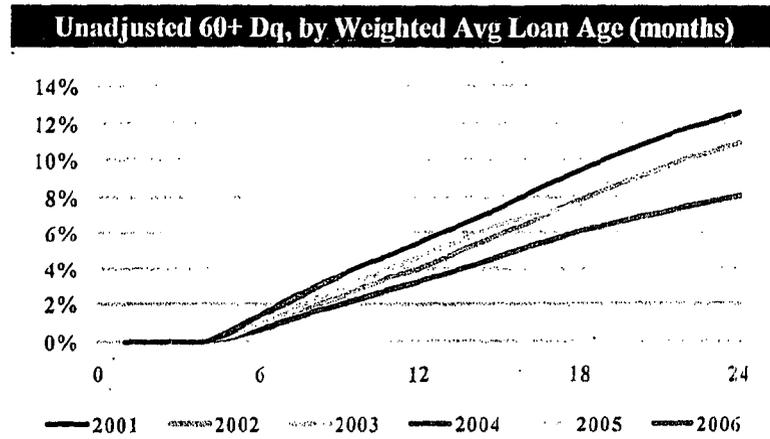


- ◆ Lehman Brothers estimates about \$225bn of defaults in '07/'08 mostly from Subprime, as well as some from prime borrowers
- ◆ In a stressful refinancing environment these defaults could be as much as \$300bn
- ◆ This would equal 1.5 to 2.0 million units of homes
- ◆ As of March, existing and new single family homes for sale were 4.35 million

Source: Lehman Brothers

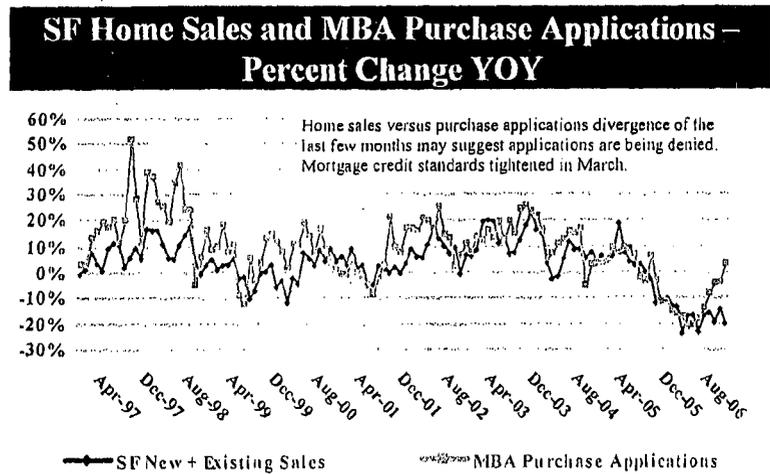
Loose Underwriting Standards on Recent Vintages Have Started to Show Up in Higher Delinquencies Out of the Gate. Losses are Creating a Systemic Reevaluation of Lending Standards...

2005 Vintage Adjusted 60+ Dq Look 25%-50% Worse than 2003



Recent Subprime Headlines

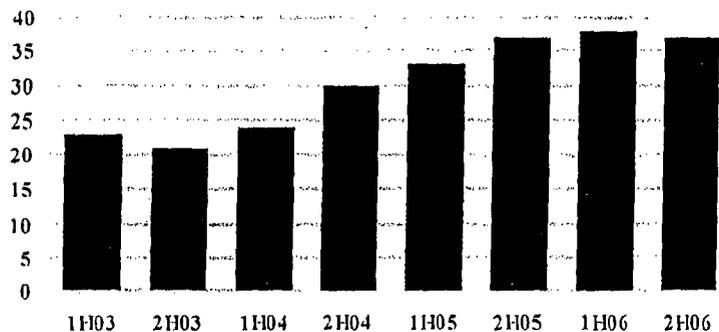
- ◆ GE, however, is scoring points among some analysts and investors for getting out of Subprime rather than trying to revitalize its WMC Mortgage Corp. Any fallout from WMC is just a blip on the industrial behemoth's balance sheet.
 "We appreciate GE saying 'enough is enough' on WMC"
- ◆ CIT reported a \$0.70/share loss for 2Q07, as the company announced that it would look to exit the Subprime lending business.
- ◆ Wells Fargo & Co., the biggest bank on the U.S. West Coast, said it stopped issuing some Subprime loans to homebuyers last week, in response to "industry guidance" and downgrades of bonds linked to mortgages.
- ◆ Countrywide is studying further tightening of loan standards.



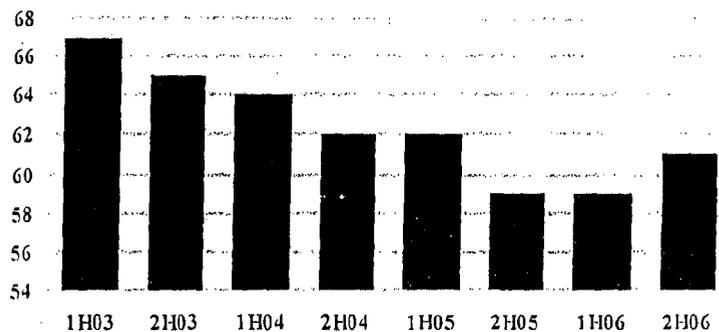
Source: Lehman Brothers, Bloomberg
 60+ delinquencies are adjusted for FICO, CLTV, SATO, amortization type, documentation, loan size, loan purpose, HPA, employment growth, foreclosure timelines, refi incentive & California concentration across vintages.

Undoubtedly Credit Conditions in This Space are Tightening...

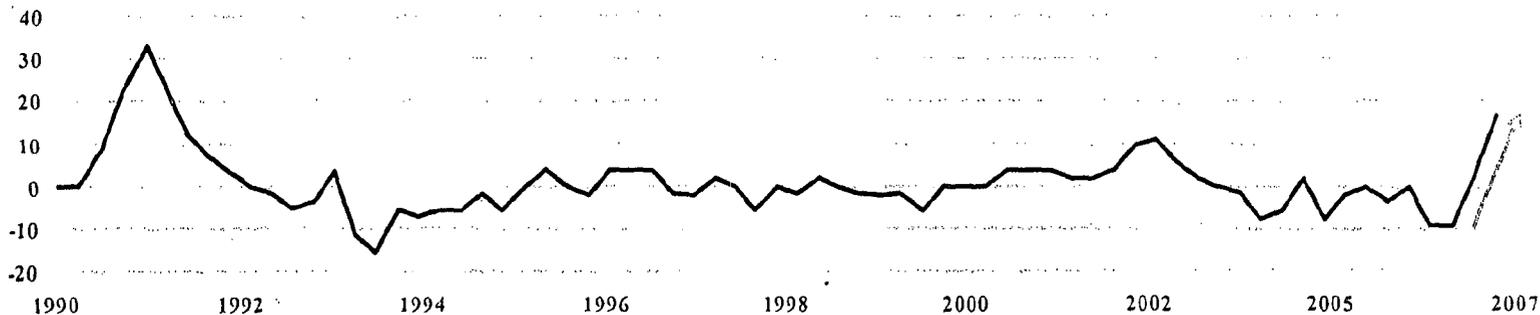
% of Subprime Loans with 80% LTV



% of Subprime Loans with Full Documentation

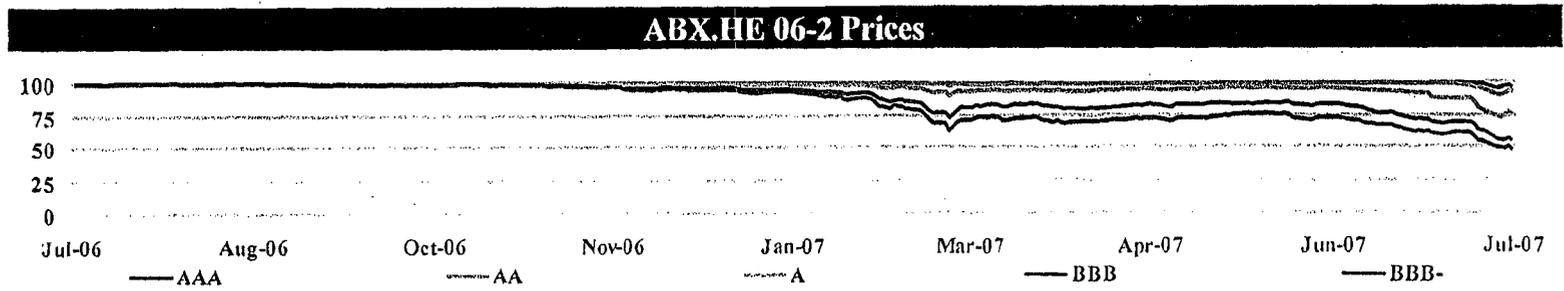
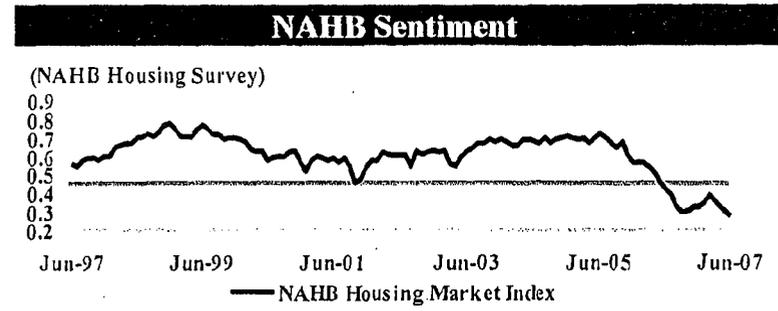
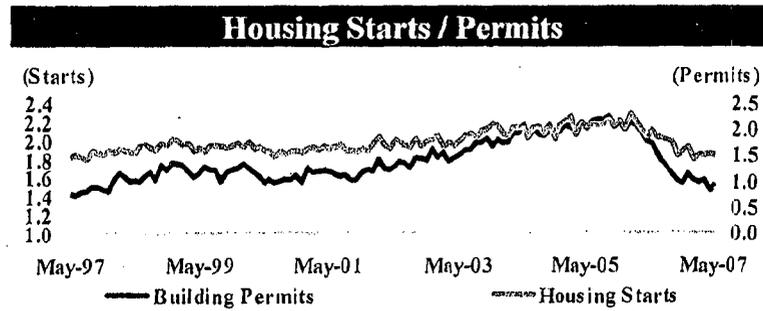
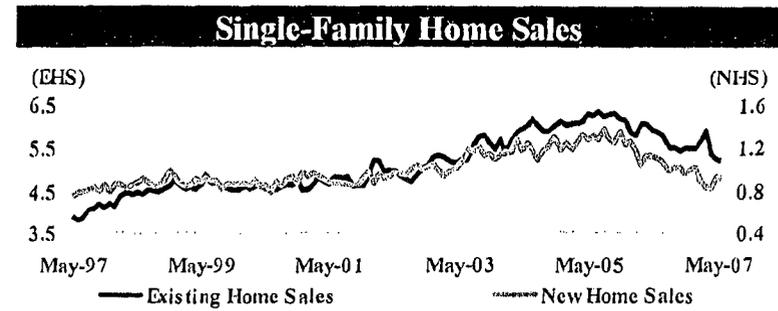
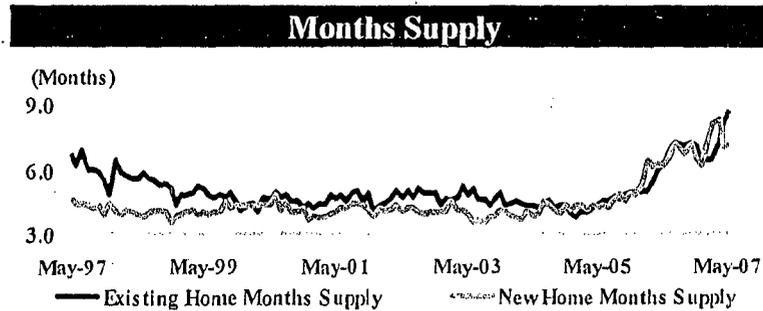


Net Percentage of Domestic Respondent Banks Tightening Standards for Mortgages to Individuals



Source: Lehman Brothers Securitized Products Strategy, Federal Reserve.

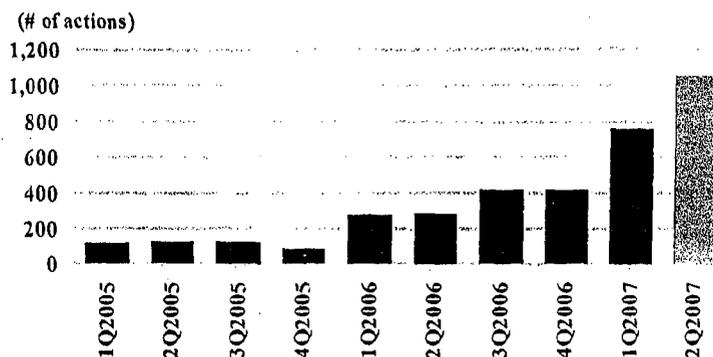
However, Residential Housing Markets Started to Soften Well Before this Stress in the Structured Market... The Length of This Softness Going Forward Will Clearly Be Exacerbated by Tougher Loan Standards and a Significantly More Difficult Securitization Market...How Much Longer is Impossible to Tell...



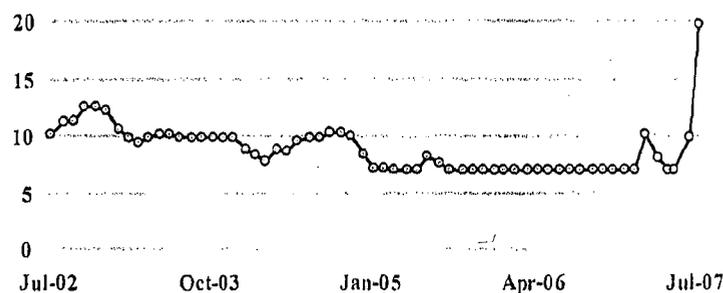
Source: Lehman Brothers, NAHB, Department of Commerce, National Association of Realtors

While Housing Has Been Softening for a Couple of Years, ABS CDO Downgrades Have Tangibly Picked Up This Year... The Market Is Now Building in the Anticipation of Extremely Severe Deterioration Going Forward... The Market Has Moved to Levels Which Seem to Have Limited Downside, Given the Severe Assumptions Built into these Spreads...

ABS CDO Asset Downgrade and Negative Watch Actions by Quarter



AA Implied Cumulative Losses (%)



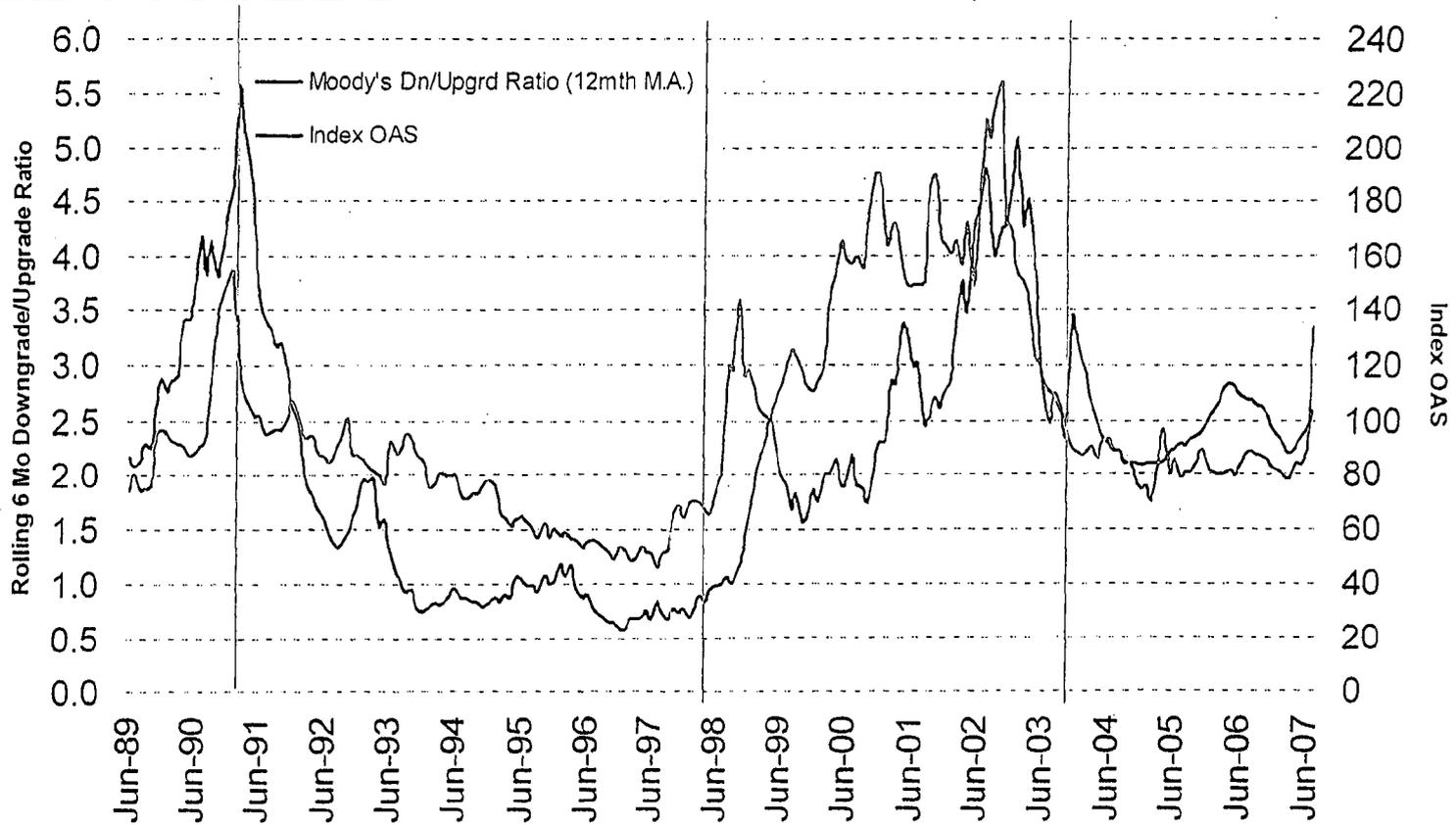
Note: The chart shows % cumulative loss on Subprime collateral assuming similar collateral composition as the ABX 07-1 Index

- ◆ The latest rating agency changes have 3 broad implications for the Subprime market:
 - The increase in loss stresses for rating new issues will likely worsen whole loan execution due to higher subordination requirements
 - Actual downgrades provide further confirmation to Repo (Financing) desks to lower marks and could increase margin requirements for Subprime bonds further
 - Any dislocation in the CDO market due to the rating changes is likely to worsen demand technicals & push spreads wider

Source: Lehman Brothers, Intex.
 For all CDOs with exposure to downgraded securities.

The Infection in the ABS Market has Now Spread into the Credit (Corporate Credit) Market. Markets, Over the Past Few Years, Have Tended to Anticipate Ratings Agency Actions Prior to the Events Taking Place... Arguably, this Has Been the Case over the Past Few Months.. However, the Immense Growth of the Structured Markets, and the Concurrent "Ratings-Regulated" Leverage Allowed, Is Having an Almost Unprecedented Impact on the ABS and Corporate Credit Markets...

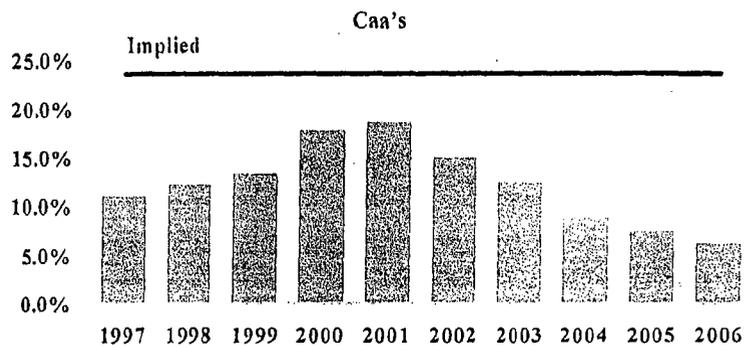
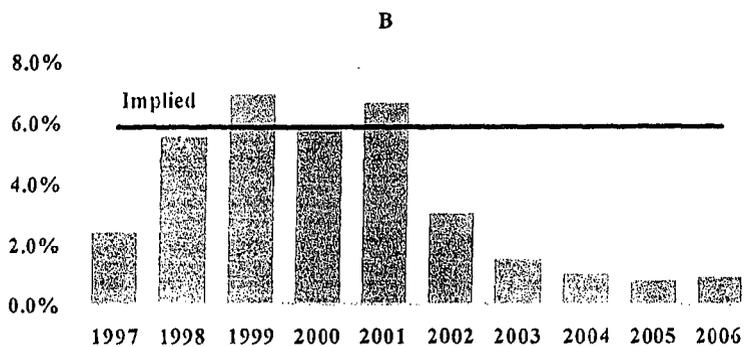
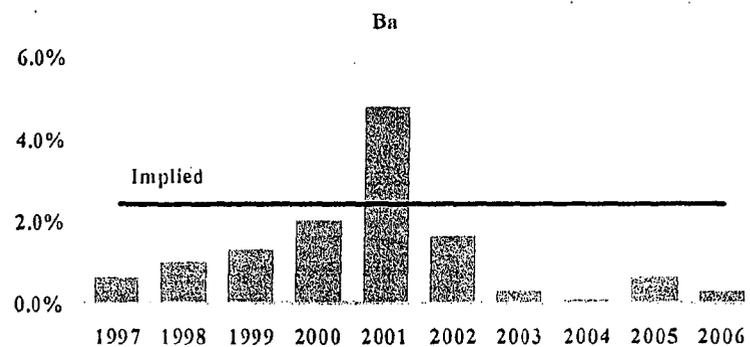
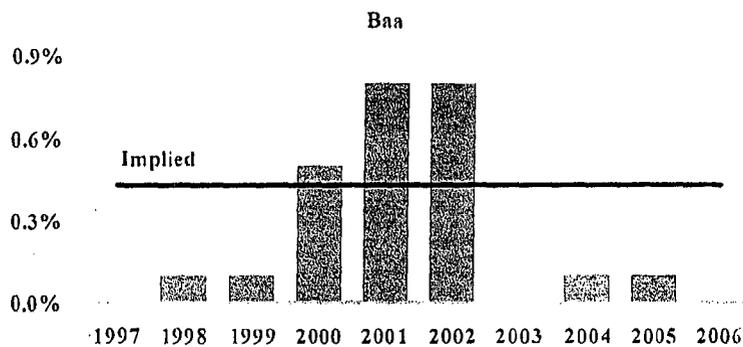
Credit Index OAS vs. Moody's Downgrade / Upgrade Ratio



Source: Moody's, Lehman Brothers.

Arguably, the Ratings Agencies' Opinions Have Been Conservative Barometers of Potential Defaults over the Past Few Years. Witness Actual vs. Expected Defaults in Corporate Debt...

Annual Corporate Default Rate vs. Rating Agency Implied Annual Default Rate



Yet, the Speed at Which Subprime has Deteriorated has Called Into Question the Entire Structured Market - A Market which has Been Built on Ratings Agencies' Opinions as Barometers for Portfolio Construction and Leverage Capacity

Source: Lehman Brothers, Moody's

The CDO Market's Growth Surged via the Adoption of Ratings Agency Models and the Subsequent Search for "Efficient Assets" to Create Marketable Structures... For Many Years There Has Been an Arbitrage Created by the Benchmark that the Ratings Agencies Established vs. Where the Market Priced Default Potential, Correlation, Capital Structure, etc...

Pricing Models and Rating Agencies Differ in their Assumptions

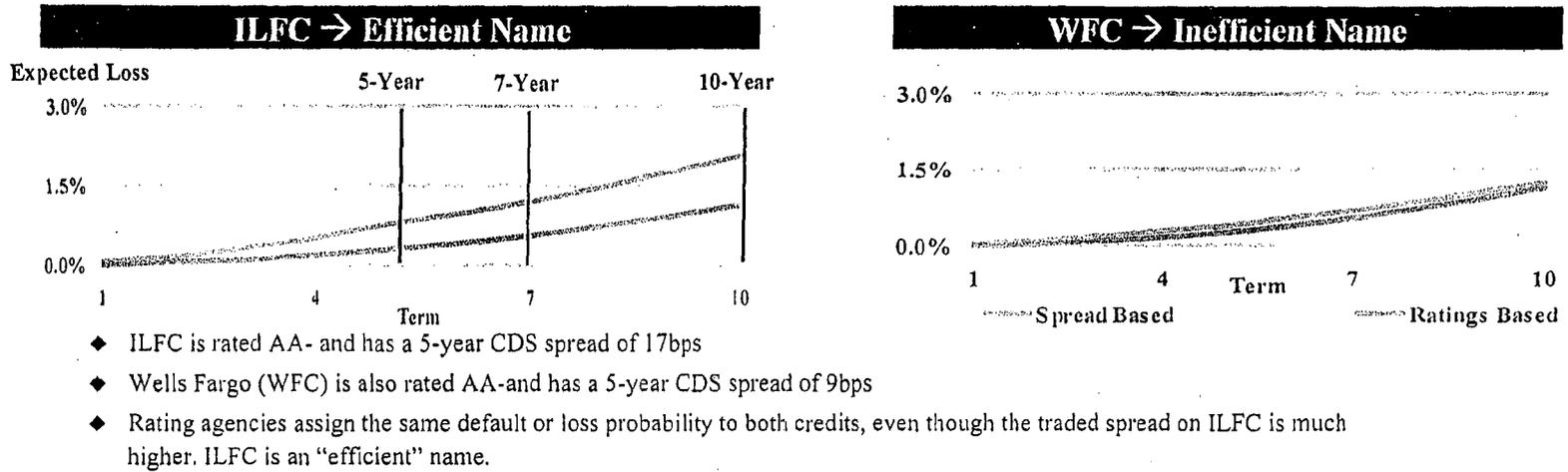
Parameter	Rating Agency Models	Pricing Models
Default Risk of the underlying portfolio	Rating of the underlying credit as mapped to idealized or historical long-term default probabilities for similar rated issuers	Hazard rates derived from issuer spread curves
Loss Given Default	Debt subordination, secured vs. unsecured, region (U.S. / Eur. / EM). Stochastic recovery is now the norm	Recovery is based on market data. Less critical input in risk neutral pricing as default probabilities offset minor changes in recovery
Correlation or Diversity	Based on a matrix or several overlapping factors such as inter vs. intra industry correlation, region, local credits, etc.	Market implied (base correlation) or observed market data adjusted to reflect typical pricing
Capital Structure	S&P methodology depends on tranche subordination only, while Moody's requires tranche subordination as well as width	Attachment as well as detachment points are needed. For bespoke, how it "maps" to liquid tranches is also important
Maturity	Default or loss curves are a function of maturity, with longer maturity clearly increasing the risk of investment	Spreads and (base) correlations move with maturity. Typically much greater effect (steeper curves) than rating agency assumptions

◆ Therefore, ratings "efficiency" of a credit is higher if

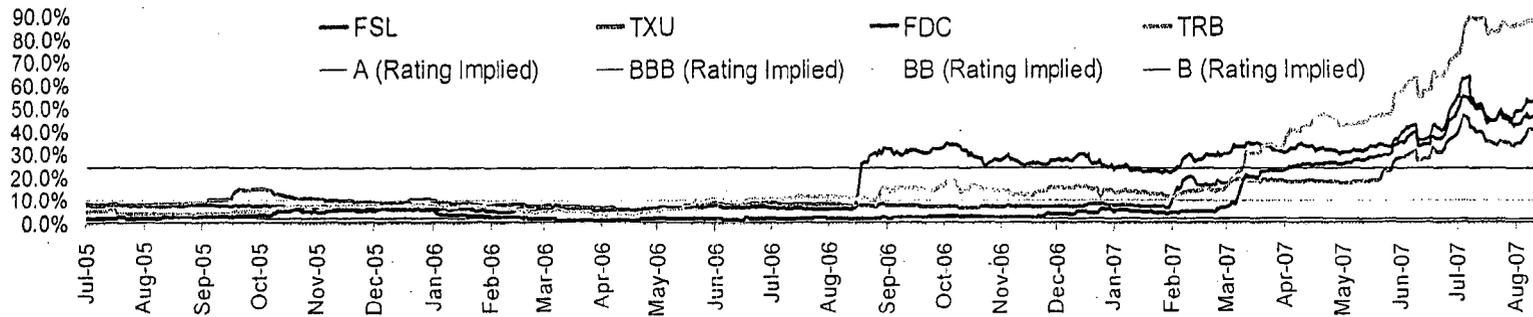
- It trades wide relative to its rating
- Belongs to an "off-the-run" sector or geography, thus helping diversity via lower correlation

CDO and CLO Structures Grew Based on Finding Names Which Could Be Employed in Structures in an Efficient Manner to Create Diversification; i.e., Higher Ratings → More Leverage

Efficient names have higher expected losses than their ratings imply



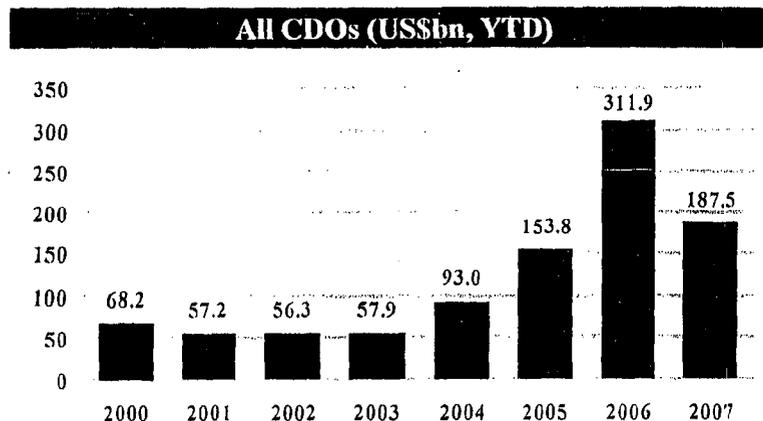
5-Year Cumulative Default Probability (40% Recovery Rate)



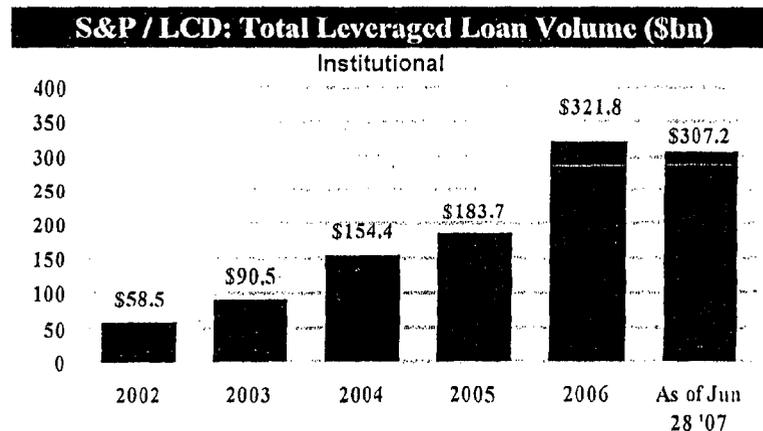
Source: Lehman Brothers, S&P

The Tremendous Growth of CDO's and CLO's, and the Subsequent Need for Product to Create These Structures, Resulted in Extreme Demand for Loan and Credit Products Broadly...

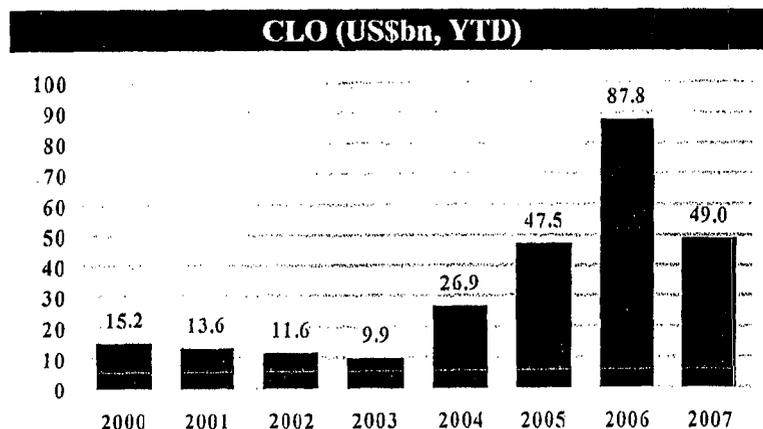
Issuance Trends



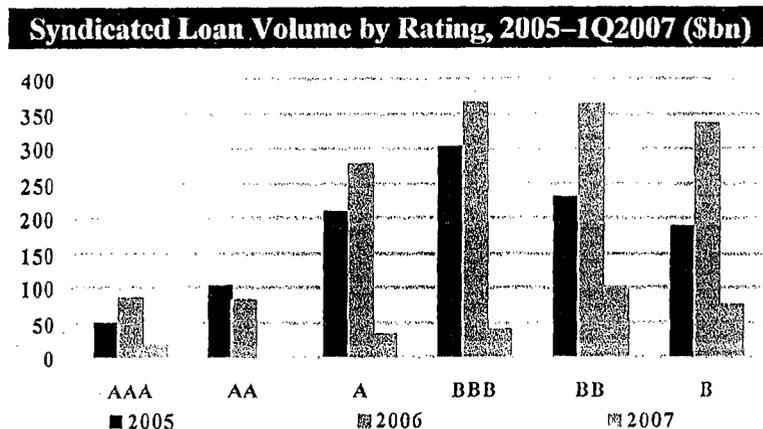
Source: Thomson Financial.



Source: S&P LCD, as of February 15, 2007.



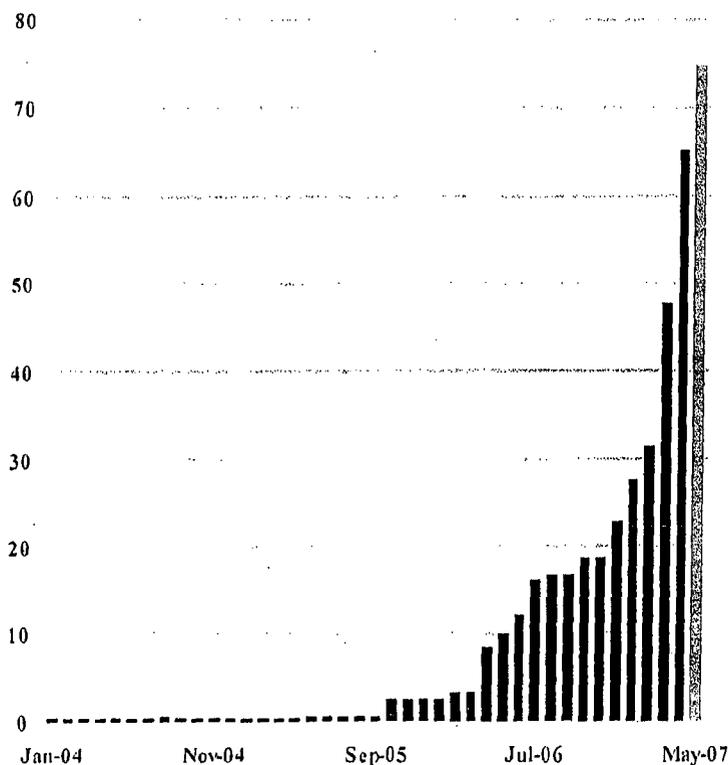
Source: Thomson Financial.



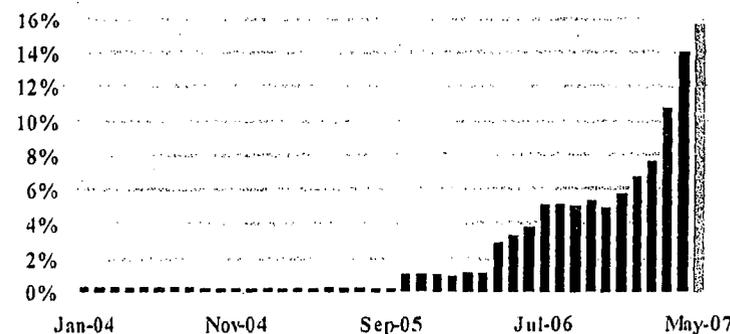
Source: Loan Pricing Corporation.

And Especially Standard (Less Covenant Stringent) Loans and Bonds... Even With PIK Toggle Features on Lower Rated Companies...

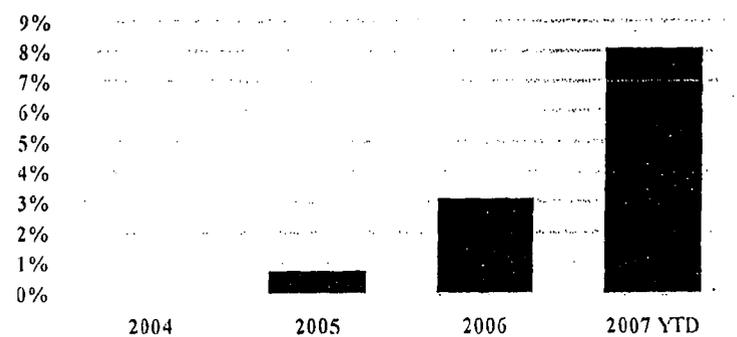
**Par Amount Outstanding of
 First-Lien Covenant-Lite Loans (\$bn)**



**First-Lien Covenant-Lite Outstandings
 as a Percent of All Leveraged Loans***

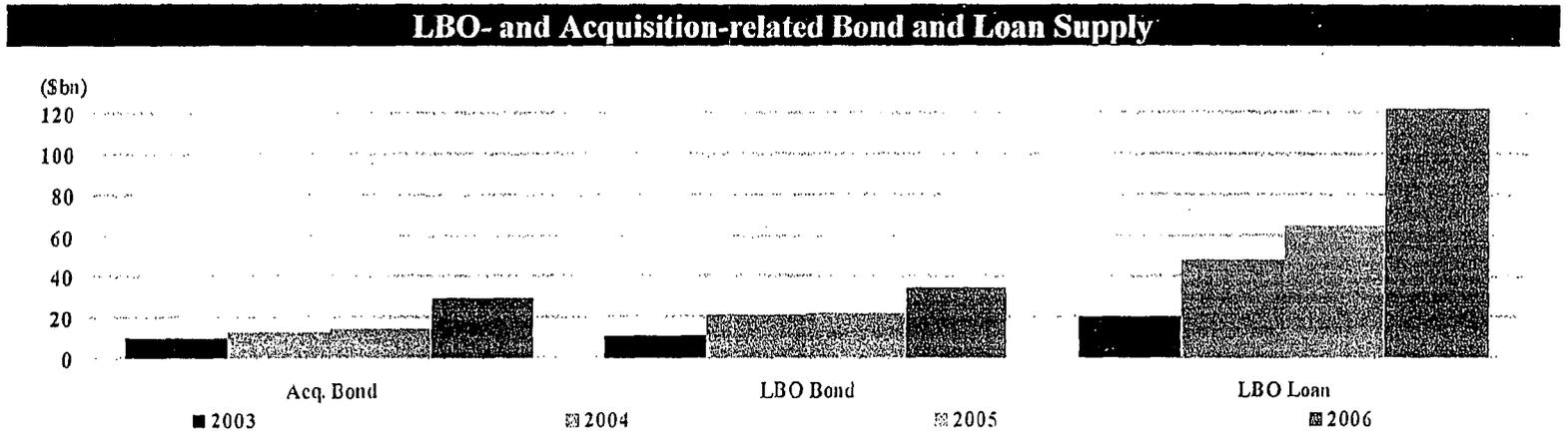
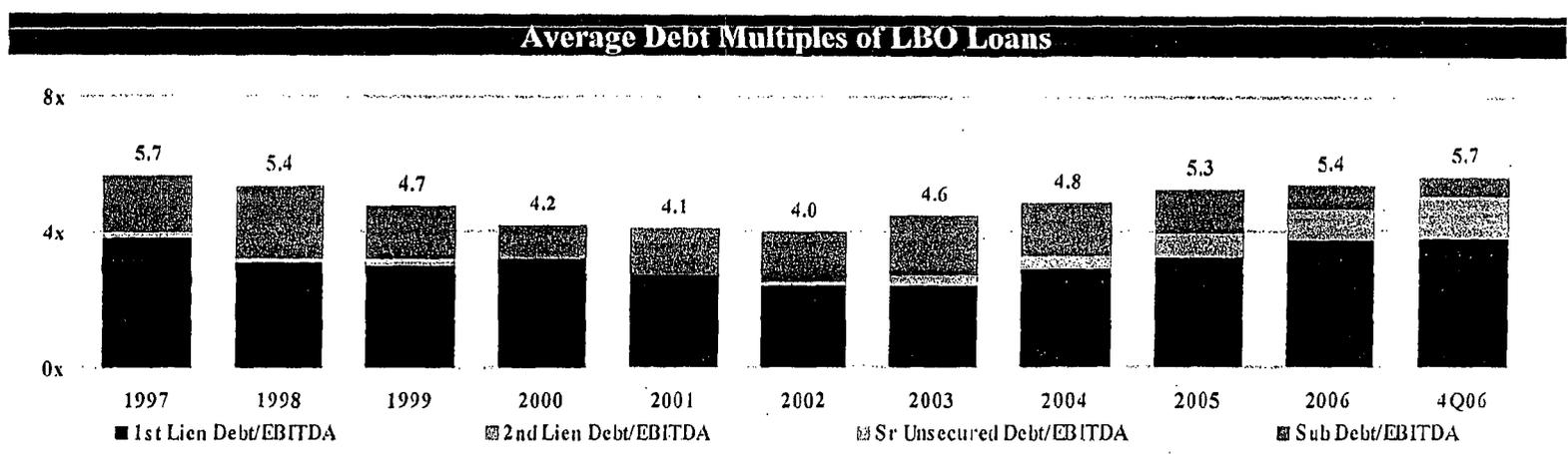


PIK Toggle as % of HY Bond Issuance



Source: S&P LCD and S&P LSTA Leveraged Loan Index.
 * Comprises all loans, including those not tracked in the LSTA LPI mark-to-market service. Fast majority are institutional tranches.

... Which Has Allowed Companies to Take on Increasing Amounts of Leverage, Fueling a Private Equity Boom of Unprecedented Proportion...

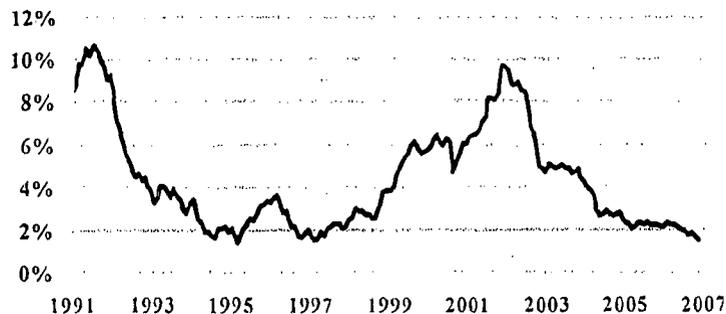


Source: S&P LCD.

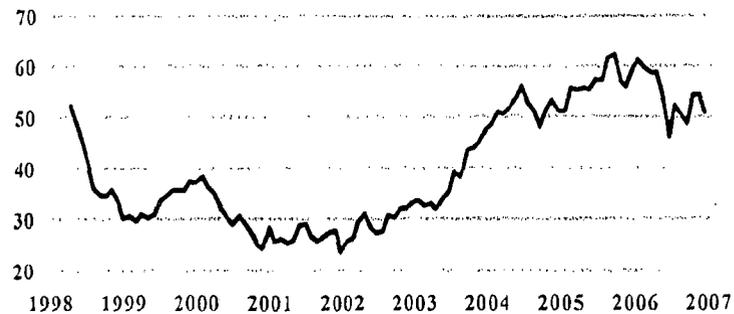
And So Now, with No Apparent Crack in Credit Quality, CLO / CDO Structures Are Being Called into Question...

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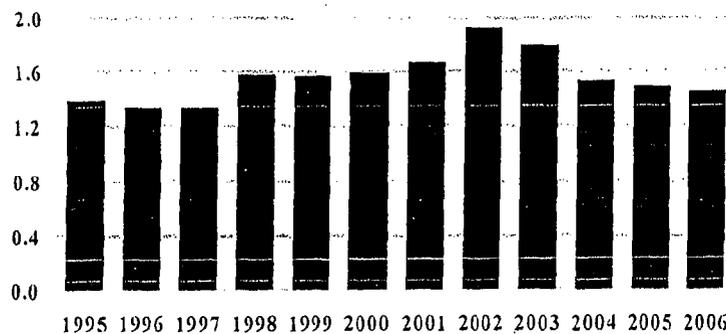
High Yield Default Rate



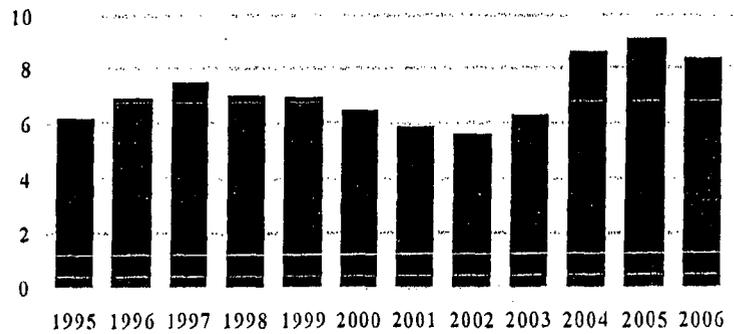
Defaulted Senior Unsecured Bond Prices



U.S. Credit Index Industrials Debt / EBITDA



U.S. Credit Index Industrials EBIT / Interest Expense



Source: Lehman Brothers, Moody's, FactSet

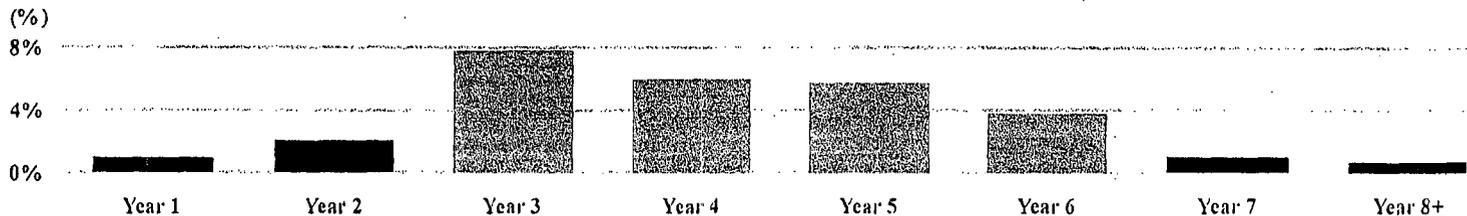
FOIA CONFIDENTIAL TREATMENT REQUESTED BY LEHMAN BROTHERS HOLDINGS INC.

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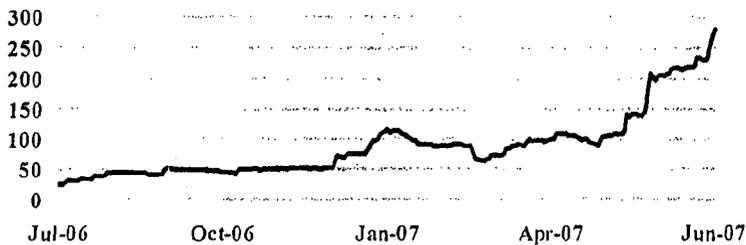
LB 009411

Cracks Usually Show Up in Economic Down-Turns or After Some Strain from High Levels of Corporate Leverage... But, the Rapid Loss of Confidence in Leverage for Structured Products Has Left an Excessive Amount of Loan Product Hung in Financial Institution Inventories...

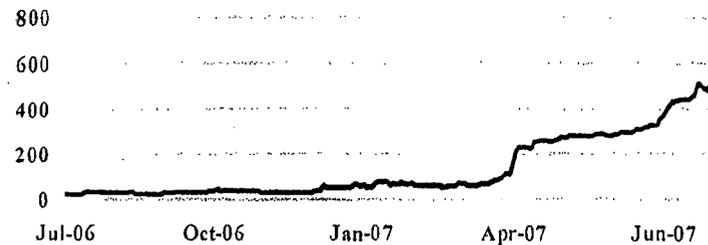
LBO Default Rates Peak 3 to 6 Years from Financing



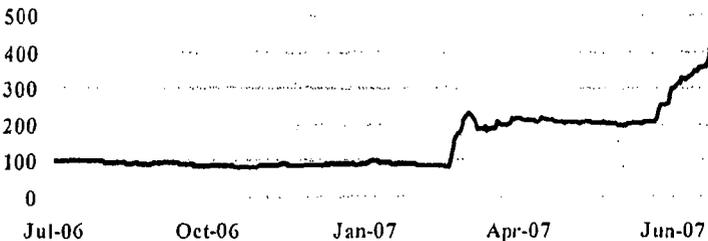
Alltel 5-yr CDS



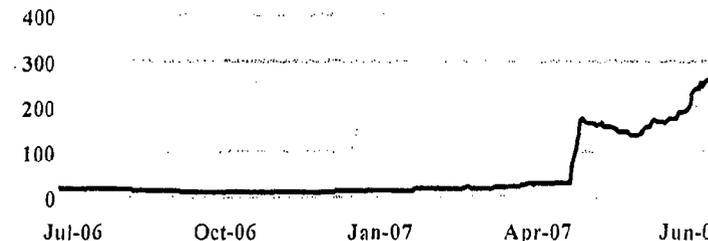
FDC 5-yr CDS



TXU 5-yr CDS

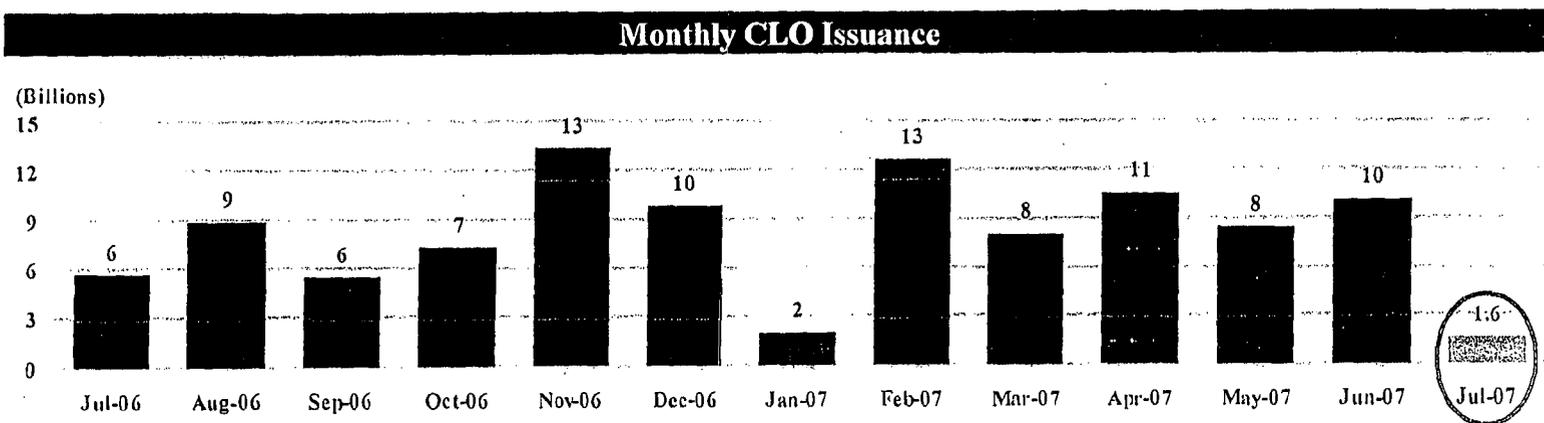
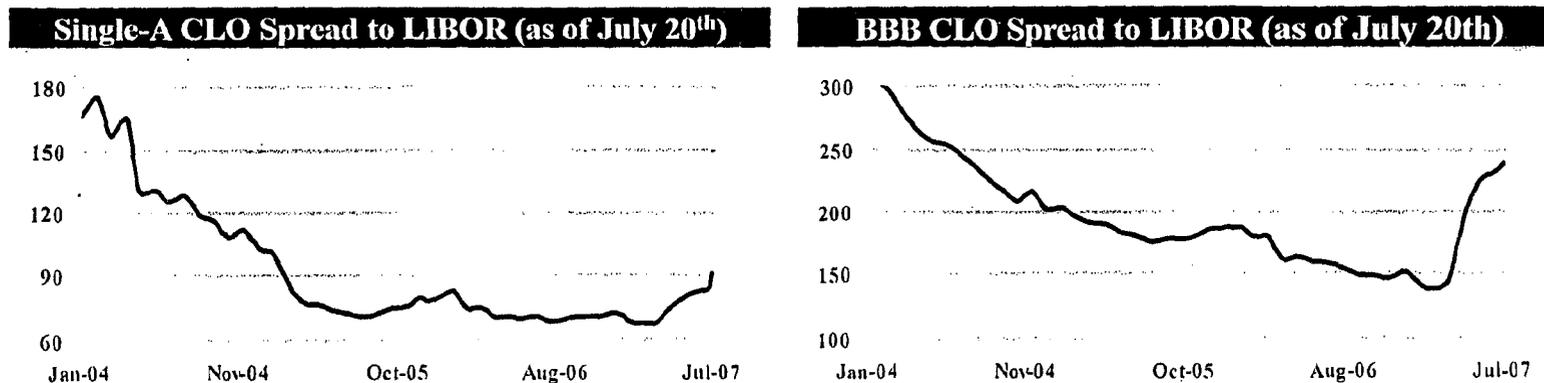


SLM 5-yr CDS



Source: Lehman Brothers High Yield Strategy.
* Average Default Rate by Par Amount for LBO-Related Issuance, 1995 - 2000.

The Tremendous Variability of Pricing (i.e., a Lack of Interest) in CLO Liabilities Has Dramatically Slowed the Pipeline of Product... Thus Stymieing the Issuance Calendar in High Yield Credit and Loans (Which Is also Impacting the Inv Grade Mkt)...

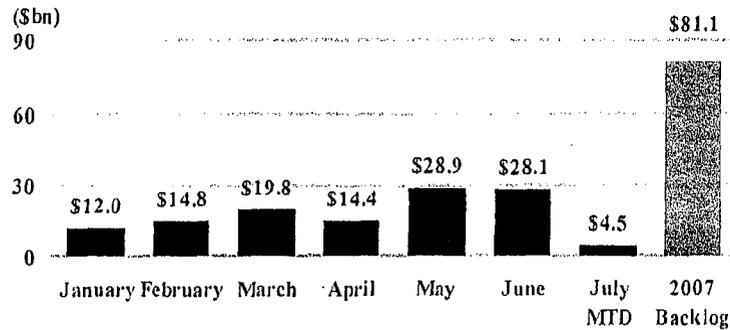


Source: Lehman Brothers, rolling one-month average.

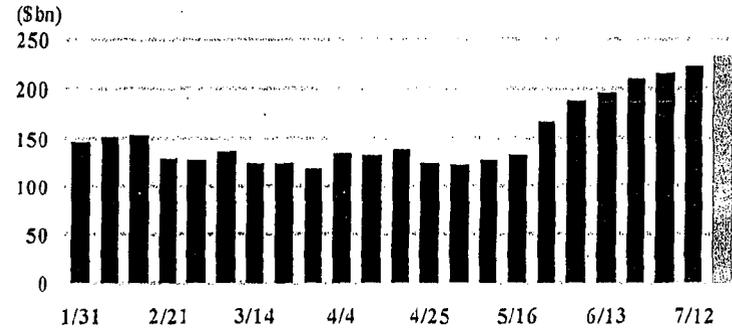
Resulting in a Large Backlog of Supply to Come to Market, in a Market that is Temporarily Frozen...

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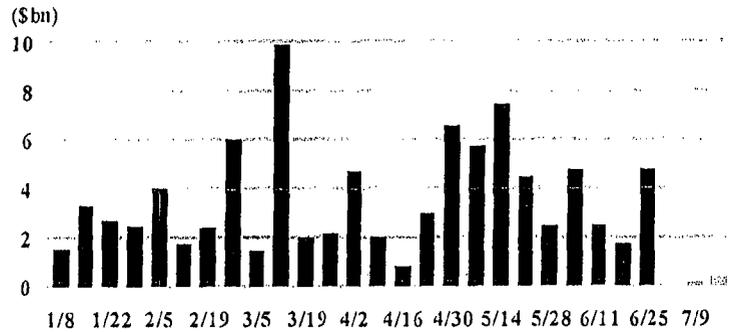
US HY Bond Supply



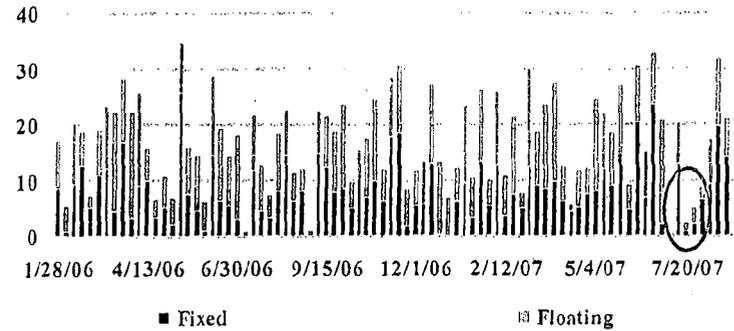
Institutional Loan Forward Calendar (\$bn)



High Yield Bond Weekly Issuance



Weekly Investment Grade Fixed and Floating Supply



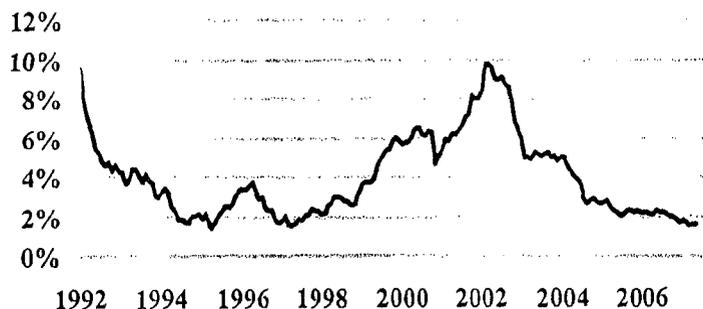
Source: Lehman Brothers High Yield Syndicate, S&P LCD.

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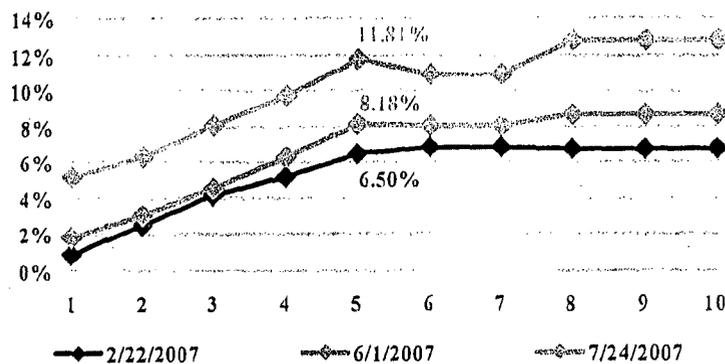
LB 009414

The Spread Levels in Today's Market Are Clearly a Function of the Structural Change in Technicals in the Market... There is Little to Suggest that Default Rates in Credit are Growing in any Tangible Way, Especially Given Recent Corporate Financial Results... Hence, the Credit and Equities Relationship Has Detached Until Last Week Until the Move in Credit was Large Enough to Impact All the Financial Markets...

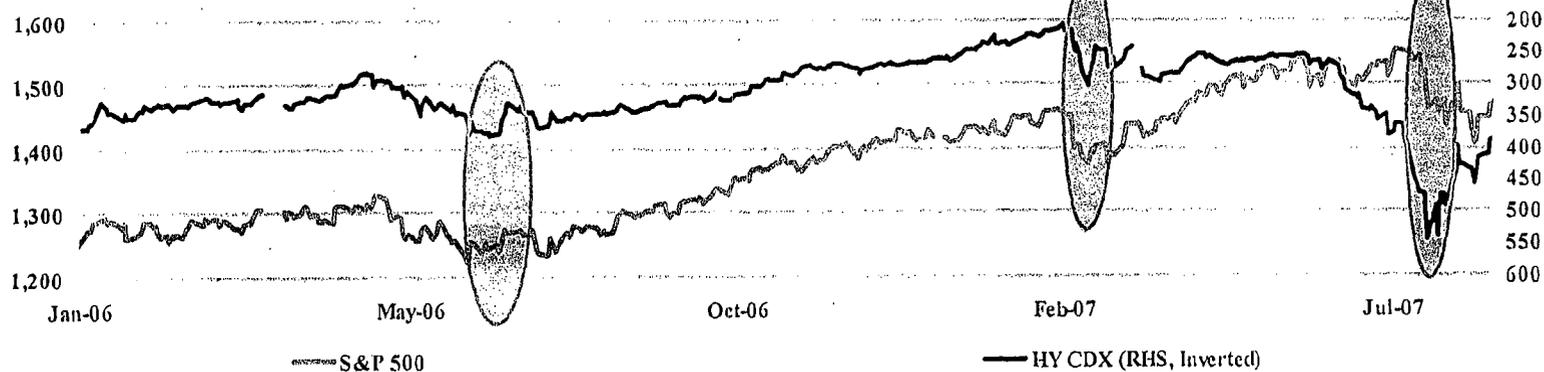
HY Trailing 12m Default Rate



HY CDX Implied Marginal Default Rate*



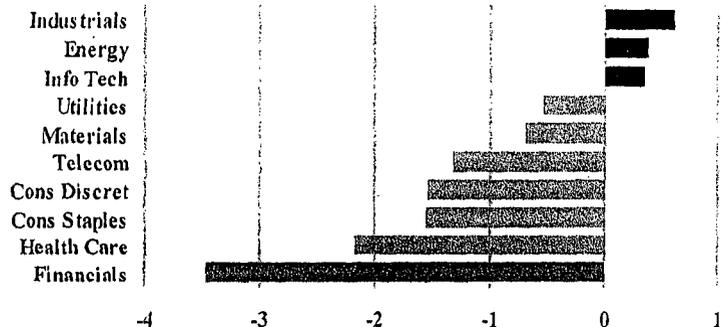
S&P 500 vs. HY CDX



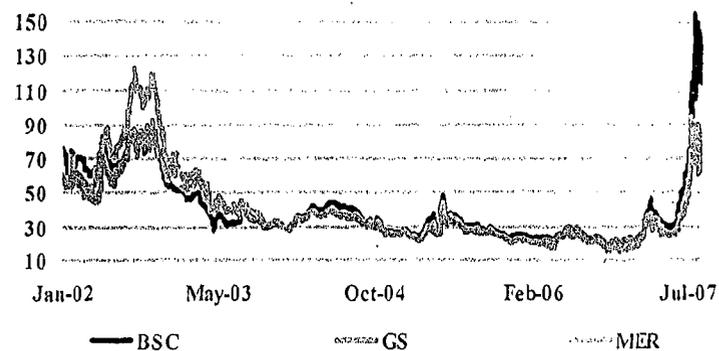
Source: Lehman Brothers, Moody's. *Assuming 40% recovery.

Although It Hasn't Detached in the Financial Space... The Two Markets Are Expressing Some Concern over Longer Term Profitability Potential in Financials, if Not Some Tangible Non-Transparent Issue...

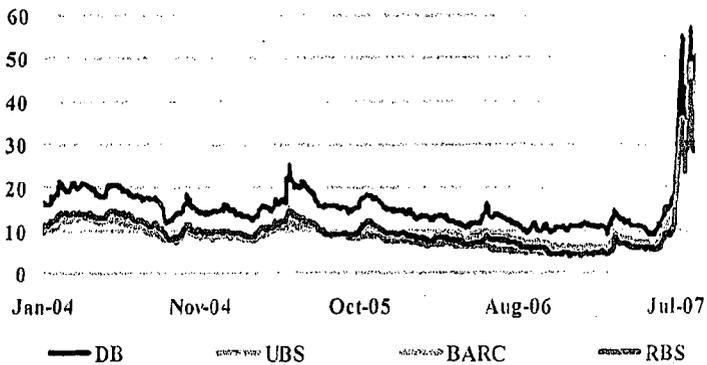
S&P 500 1 Wk Return by Sector



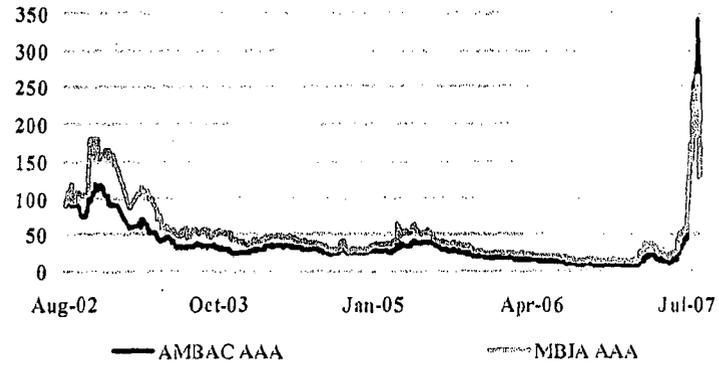
Broker 5-yr CDS



European Investment Bank 5-yr CDS



Financial Guarantor 5-yr CDS



Source: Lehman Brothers, Bloomberg

The Popular Press Likes to Paint this Volatility as Merely Subprime Risk... Yet, this Risk Is Generally Manageable for the Larger Mortgage Companies...

Subprime Risk is Manageable For Banks and Large Finance Companies

- ◆ A number of Subprime mortgage lenders have exited the business or closed in recent months leading to elevated concerns about this product for finance companies and banks
- ◆ We believe the risk profile of Investment Grade bank and finance companies are different than the small lenders who are primarily focused on Subprime mortgages
- ◆ We consider the financial effect of an increase in Subprime losses as manageable for companies such as ResCap, CIT, Countrywide, and Washington Mutual

Quantifying Subprime Mortgage Exposure (Held on Balance Sheet Net of Securitizations)

\$ million	CIT	Countrywide*	ResCap	Washington Mutual
Nonprime Home Loans	\$9,647	\$26	\$0	\$18,790
Nonprime Residual Exposure	\$0	\$442	\$1,000	\$0
Nonprime Home Loans % of Assets	13%	.03%	.8%	5%
ROE in Stress Test Scenario	14.0%	16.0%	7.0%	12.0%

Sources: Company Reports; Lehman Brothers.
* Loans and assets as of September 30, 2006.

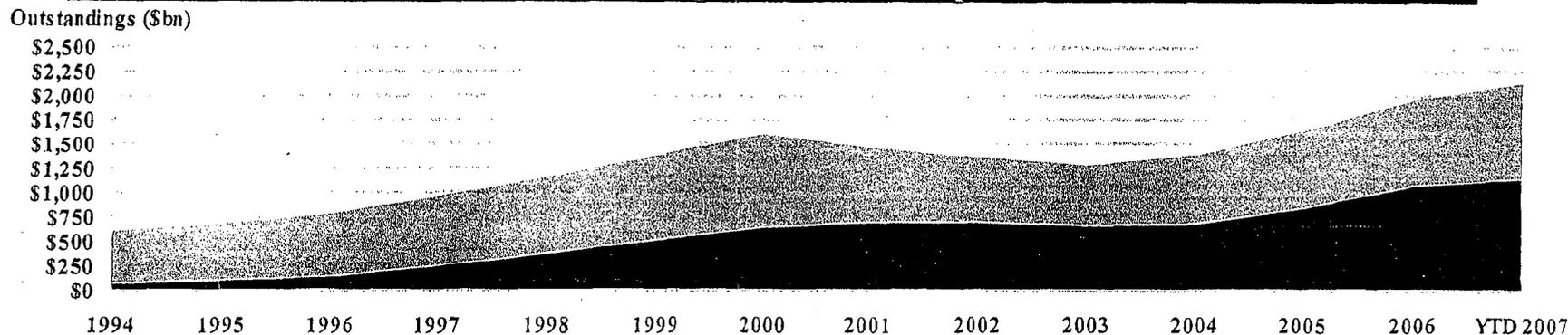
There Is However Some Generic Concern in the Market Regarding Some of the Financial Guarantors' Exposure to the Subprime Space, as Well as Some of the Funding Vehicles Holding High Quality Tranching (Primarily ABS) Product

Subprime Exposure Outstanding by Bond Insurer as of March 31, 2007

	ABK	AGO	FGIC	FSA	MBI	SCA	Average
Total Subprime Exposure within Insured Portfolio	\$18,684	\$6,542	\$12,500	\$4,978	\$7,800	\$3,790	\$9,049
RMBS Subprime Exposure	9,900	6,542	7,500	4,900	5,400	1,780	6,004
CDO Subprime Exposure	8,784	0	5,000	78	2,400	2,010	3,045
Insured Portfolio (Net)	530,524	138,853	303,145	\$391,211	635,248	127,672	\$354,442
Subprime as a % of Net Par Insured	3.6%	4.7%	4.1%	1.3%	1.2%	3.0%	2.6%
Qualified Statutory Capital	\$6,569	\$1,693	\$2,461	\$2,602	\$6,761	\$1,415	\$3,582
Subprime as a % of Qualified Statutory Capital	284.4%	386.4%	508.0%	191.4%	115.5%	267.8%	252.6%
Total Claims Paying Resources	13,240	3,466	4,831	6,119	13,763	2,745	7,361
Subprime as a % of Claims Paying Resources	141.1%	188.7%	258.7%	81.4%	56.7%	138.1%	122.0%
Subprime as a % of Tangible Book Value	322.1%	406.6%	514.9%	180.8%	119.3%	268.9%	264.3%

Sources: Company Reports

ABCP Outstandings vs. Unsecured Corporate CP

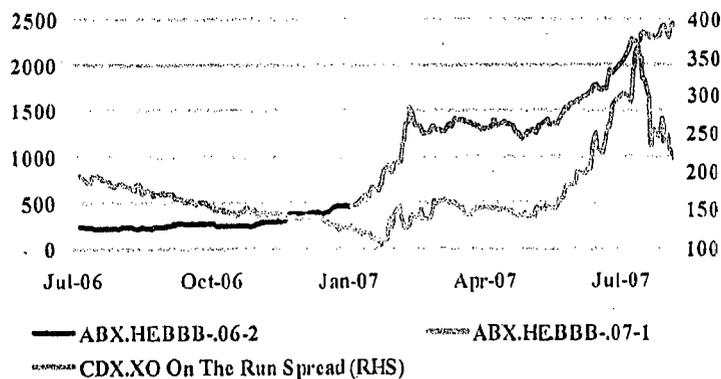


Debt Instrument	■ Asset-Backed Commercial paper													■ Unsecured Commercial paper	
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	CAGR ⁽¹⁾	YTD 2007
Total U.S. Commercial Paper (\$bn)	\$600	\$678	\$779	\$959	\$1,161	\$1,394	\$1,606	\$1,469	\$1,370	\$1,289	\$1,395	\$1,640	\$1,958	10%	\$2,156
Unsecured Commercial Paper (\$bn)	\$536	\$557	\$633	\$702	\$779	\$873	\$960	\$769	\$675	\$630	\$715	\$792	\$882	4%	\$1,012
Asset-Backed Commercial Paper (\$bn)	\$64	\$101	\$147	\$256	\$382	\$521	\$646	\$700	\$695	\$659	\$680	\$848	\$1,076	24%	\$1,144
Year-Over-Year ABCP Growth Rate (%)	23%	58%	45%	75%	49%	37%	24%	8%	-1%	-5%	3%	25%	26%		

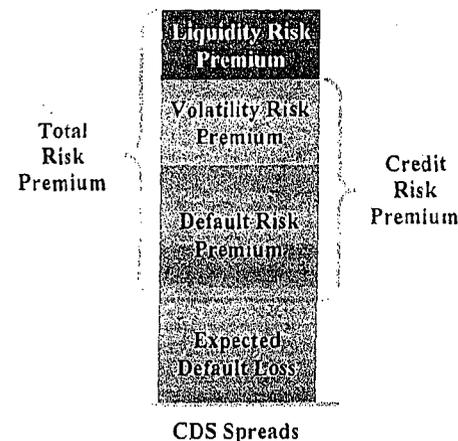
Sources: Federal Reserve

For a Few Months the Market Resigned Itself to Structured Asset Risk Being Exclusively in the Doman of the Subprime (ABS) Market... Spread Risk in Credit is Made Up of Expected Loss, the Default Risk Premium, Plus Volatility and Liquidity Risk... There is No Evidence of Expected Loss and Default Risk Premiums Changing on a Fundamental Basis in Credit, Yet Volatility and Liquidity Risk Have Now Changed – Possibly for a Long Time...

ABX.HE.BBB vs. XO Index- Index



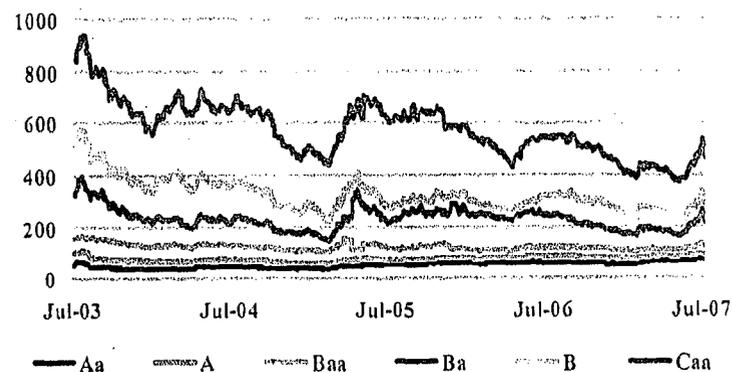
Spread Decomposition



ABX.HE.07-2

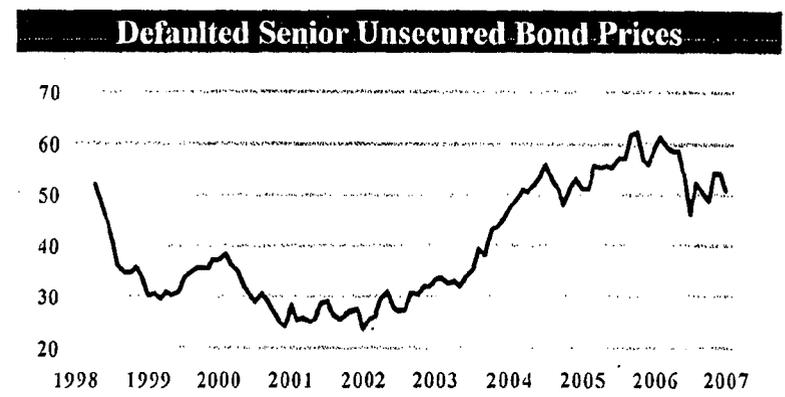
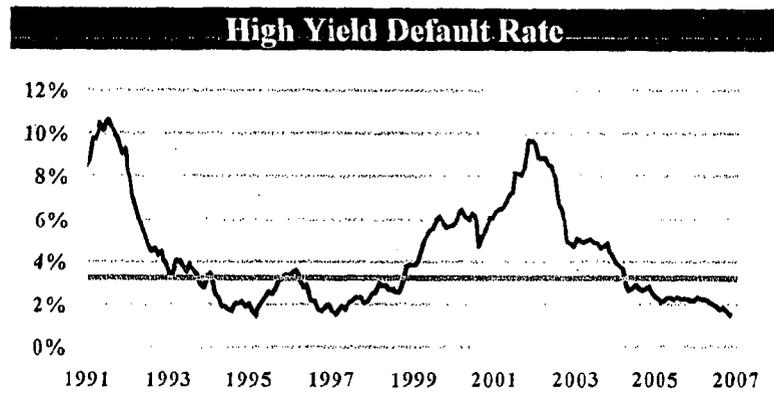
Rating	Coupon	Price (bid)	Implied Spread
AAA	76 bp	\$94	196 bp
AA	192 bp	\$82	667 bp
A	369 bp	\$58	1,552 bp
BBB	500 bp	\$39	2,305 bp
BBB-	500 bp	\$36	2,440 bp

Lehman Corporate Bonds Index OAS

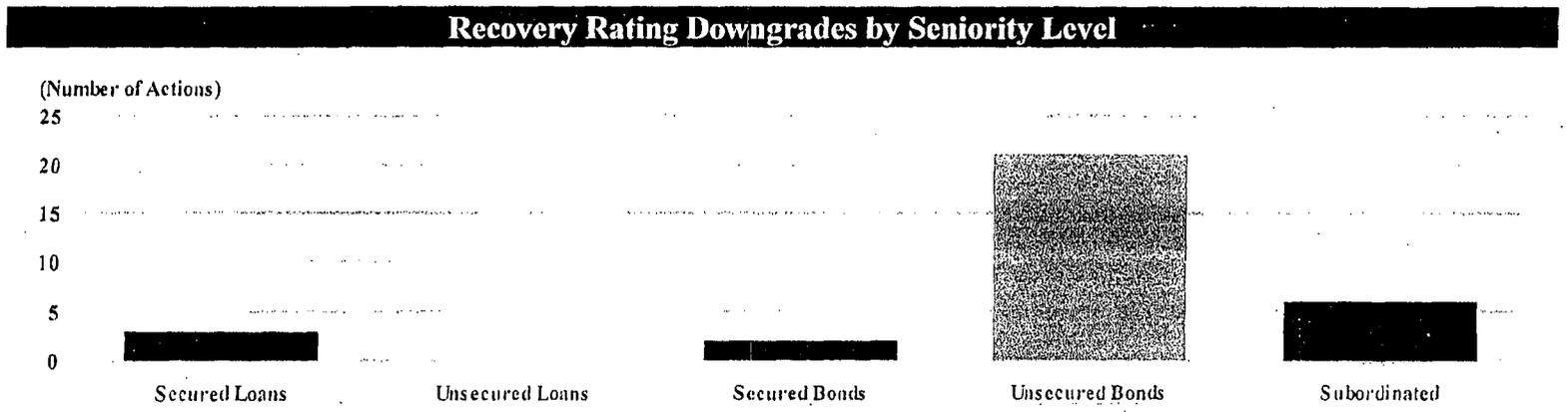


Sources: Lehman Brothers.

Is there Any Evidence that Ratings Agencies Opinions Have Been Wrong in Corporate Debt Product? Not at this Point. Clearly, Default Rates and Recovery Prices Aren't Changing Yet. Default Rates will Move Up and Recovery Levels will Decline over Time Due to Secured Debt Coming into Capital Structures in Front of Unsecured... However, *That* is a Secular Change that Needs to Be Measured Against a Fundamentally Solid Corporate Performance Picture Today...



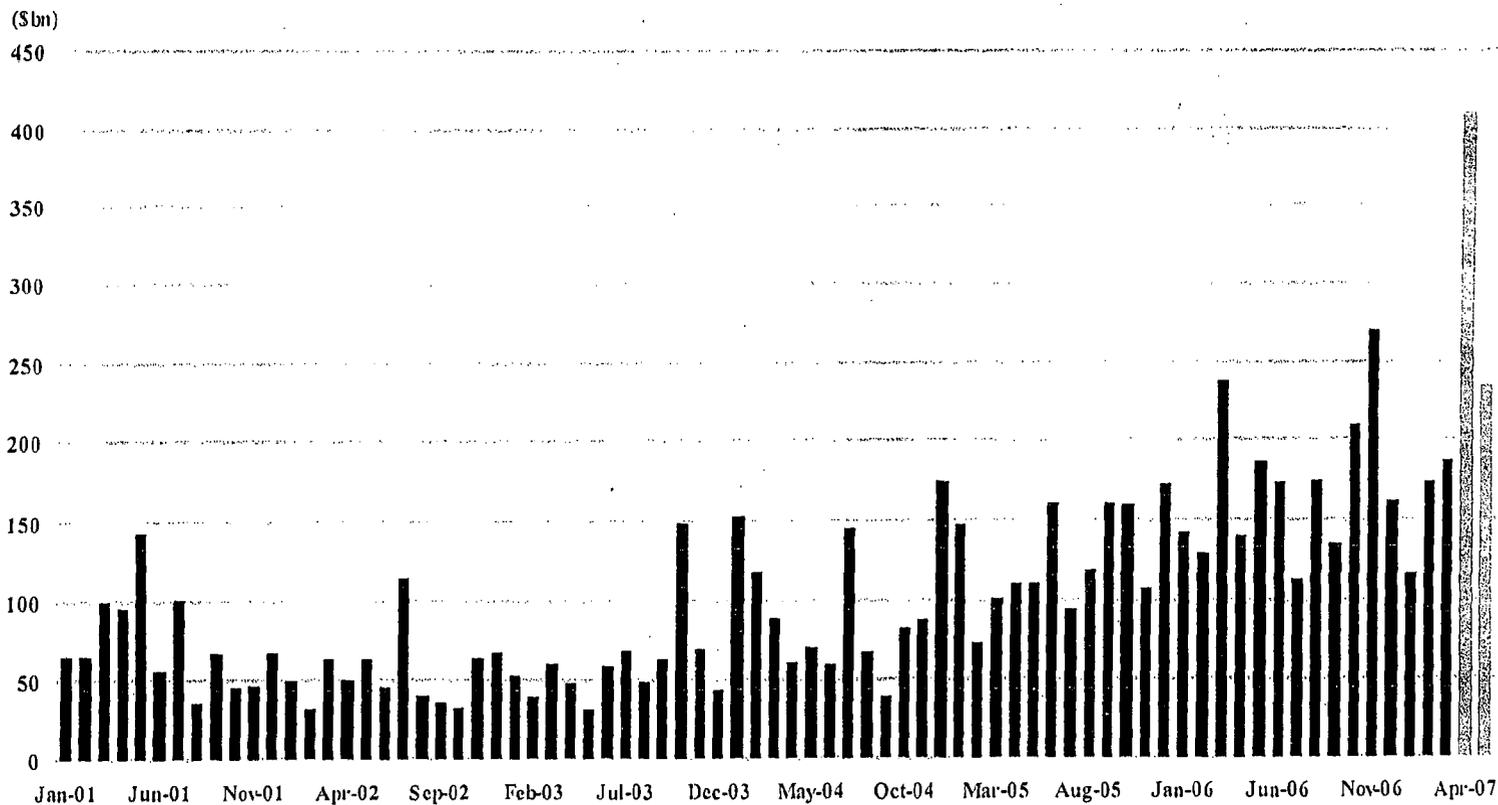
An analysis of Fitch's recovery rating changes over the August 2005–December 2006 period revealed that the vast majority of downgrades occurred among unsecured bonds, and that the driver in 75% of these downgrades was increased levels of secured debt in the capital structure



Sources: Fitch

The Implications for the Broader Economy and Financial Markets of these Events in Credit Will Be a Tangible Drop in M&A Volume, and Specifically Leverage-Financed M&A (and Take-Private Transactions)... This Clearly Has Broader Equity Market Implications and Possibly Global Competitiveness Implications...

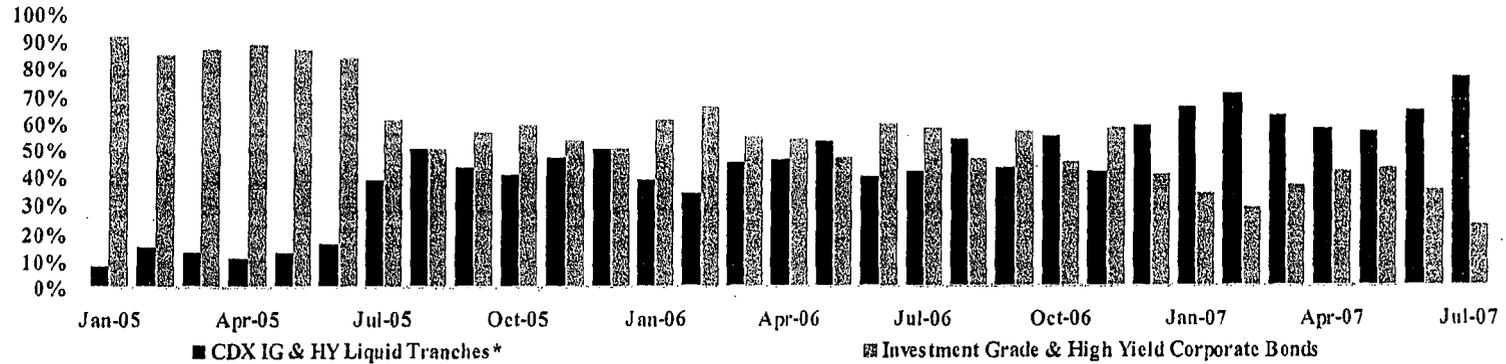
Global M&A Volume



Source: FactSet. May MTD data as of May 17th.

The Transparency of the Derivative Market is Less than in Some Markets... Yet, the Size and Trading Volume of Many of these Derivative Markets Dwarf the Liquidity and Execution Efficiency of the Cash Markets... Yet, as the Complexity of the Products Grow, Transparency and Liquidity do Diminish Somewhat...

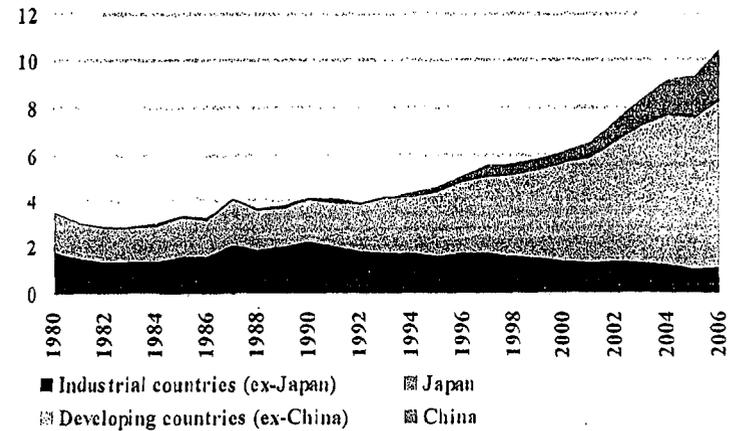
Lehman Brothers Flow Volumes



* Delta Equivalent Notionals.

However, The Immense Global Liquidity and Need for Quality-Rated Assets Has Created a Market-Wide Willingness to Sacrifice Transparency and Liquidity for the 'Right Assets' to Generate Returns

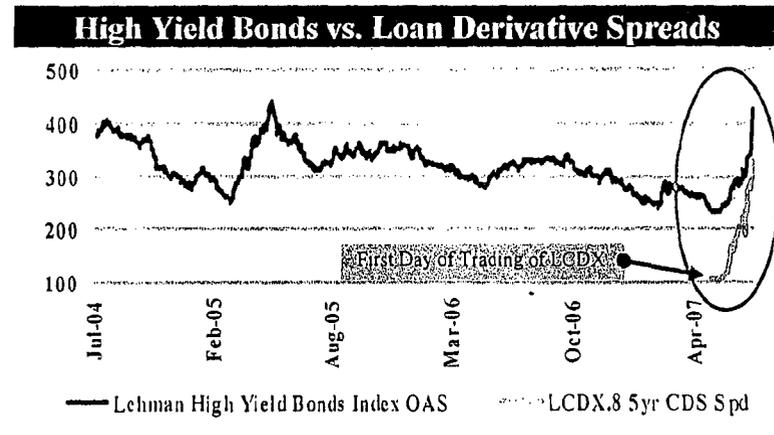
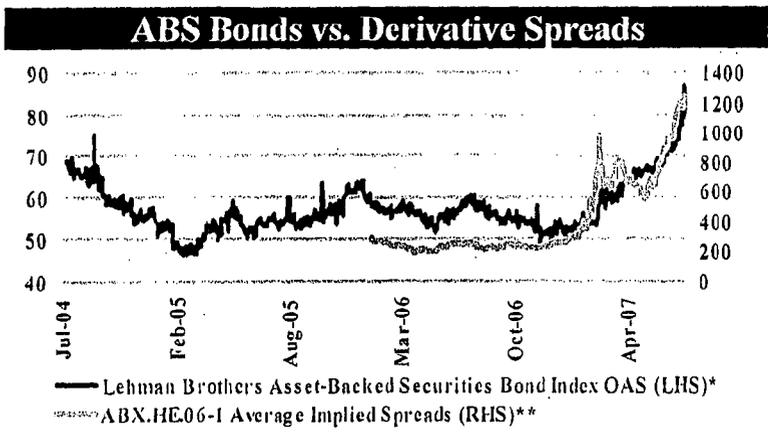
Global Foreign Exchange Reserves as Percent of Global GDP



Source: OECD, Lehman Brothers

The Concept of Transparency is Generally Viewed as a Positive for Market Efficiency and Subsequently, a Growth and Development of those Markets... However, *Transparency Can Actually Dramatically Increase the Volatility and Instability of Markets, at Least Temporarily.*

- ◆ The ABS CDO market would clearly have deteriorated due to the pressure on Subprime, which became evident through the monthly delinquency reports.
- ◆ However, the introduction of the ABX Index allowed those with exposure to attempt to hedge their positions
- ◆ Concurrently, others were provided the facility to speculate in this space with a "liquid" vehicle.
- ◆ The Combination of the selling from the two constituencies pressured this Index to distressed levels.
- ◆ This lead to a vicious cycle of holders of existing cash and structured products questioning the value of the collateral that backed those assets they held. This lead to widespread panic and the volatile re-pricing of the entire market.
- ◆ Incredibly, the exact same phenomenon occurred when the LCDX Index for Leveraged Loans was introduced.
- ◆ An entire Loan Market has been "bottled-up," not just because of supply and pressure on the CLO market, but the fact that the entire market has been re-pricing to an Index that has great visibility and "shorting" potential...
- ◆ *Again, this market would have softened, but all of the underlying collateral wouldn't have had to re-price in such a vicious manner without such transparency...*



Source: Lehman Brothers
 *Average Credit Quality of the Lehman ABS Bond Index is AAA-AA1. **Average spreads of AAA+ through BBB- indices used

Conclusions...

- ◆ The growth of structured credit markets has been profound.
- ◆ That growth has only been tested and checked through a few short-term, but at times, significant market specific events.
- ◆ A systematic deterioration in a major portion of the market place (Subprime) is testing the integrity of the market's models.
- ◆ The speed of that deterioration has created very high levels of market stress, derived from the reliance on ratings opinions acting as the regulator of the leverage that investors can take.
- ◆ Global liquidity, and the demand for assets, forced a search for underlying collateral with enough yield that could be included in derivative structures.
- ◆ These structures will continue to be efficient vehicles for this collateral. Yet, the leverage and types of collateral employed will change (maybe permanently).
- ◆ Transparency of these products varies by product complexity. Much of the structured market is dramatically more liquid and efficient today than the cash markets for active market participants. Published data will grow over time, yet the bespoke nature of most of the market will limit the demand for readership of this data.

Conclusions...

(cont'd.)

- ◆ Transparency however, in the short-term has created a tremendous phenomenon. Indices which are visible and trade-able microcosms of larger markets, can unilaterally change valuations in an entire markets, sometimes too quickly.
- ◆ Ratings agency opinions tend to be conservative. They certainly have been over the past few years in corporate liabilities. Yet, the speed of deterioration in Subprime probably caught the agencies, and most of the market, by surprise.
- ◆ The spillover to the other financial markets is quite clear in terms of the availability of Subprime credit over the foreseeable future. Availability of credit in the prime space will almost certainly be impacted by tougher structured markets, but probably more so by economic trends and fundamentals like Unemployment, Income levels and the Existing Inventory of homes on the market today.
- ◆ Finally, the ability to source inexpensive leveraged-financing in large scale will probably be diminished for the short to medium term. The impact on M&A and leverage-financed private equity will be tangible.

Appendix

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What is CDX?

- ◆ Investors can also trade portfolios of CDS: CDX is a family of CDS indices – they allow investors to take a macro view of credit (analogous to trading the S&P 500 vs. individual stocks)
 - IG: 125 inv. grade names
 - HVOL: 30 volatile inv. grade names
 - XO: 35 names between or “crossing over” to / from IG-HY
 - HY: 100 high yield names
 - LCDX: 100 loan-CDS (“LCDS”) names
- ◆ Each index is equal-weighted
- ◆ Also available in Europe, Asia and Emerging Markets
- ◆ Every 6 months, a new on-the-run index is created to account for M&A, defaults, etc.
- ◆ 15+ dealers make markets in CDX portfolios

What is LCDX?

LCDX Mechanics

- ◆ **Constituents**
 - 100 equally-weighted 1st lien leveraged loan credit default swaps
- ◆ **Roll**
 - Semi-annual portfolio rolls on April 3 and October 3
- ◆ **Coupon**
 - 120 bp
- ◆ **Coupon Payment**
 - Quarterly on March, June, September and December 20
- ◆ **Trading**
 - Will trade on a price basis
- ◆ **Cancellability**
 - Underlying contracts are only cancelable if all first lien secured debt is removed
- ◆ **Consequence of Prepayment**
 - Size of trade will reduce by 1% of original notional following each prepayment
- ◆ **Credit Event**
 - Bankruptcy or failure to pay any debt from issuer
- ◆ **Settlement**
 - Cash settled on default with dealer poll

Source: Lehman Brothers, Mark-It Partners.

LCDX Portfolio Characteristics

- ◆ **Average Spread**
 - 112 bp
- ◆ **WARF**
 - 2374 by PDR (slightly below B1)
- ◆ **Average LGD Recovery Estimate**
 - 71%

Likely Investor Base

Investor Type	Direction	Purpose
Long-Only CLO Investors	Long (Protection Seller)	Alternative to CLOs and Other Funds for Accessing Senior Secured Loans
Loan Warehouses for CLO Managers	Short (Protection Buyer)	Hedging
CLO Funds	Short (Protection Buyer)	Hedging
CLO Desks	Short (Protection Buyer)	Hedging
Hedge Funds	Both	Cheap Macro Shorts, Relative Value of Senior Secured vs. Unsecured Recoveries

ABS Market Is Now Fully “Derivatized”

What is the ABX Index?

- ◆ The ABX Index is made of 20 ABS CDS referencing Sub Prime Loan Transactions, referred to as Home Equity Loan (HEL) Deals
- ◆ Currently there are 3 Series of ABX outstanding: 07-1, 06-2, and 06-1. Each series is composed of 20 unique HEL Deals and has 5 ABX Sub-Indices
- ◆ The BBB and BBB- Indices are the most actively traded in all 3 series

20 HEL Deals in Series 07-1

ABFC 2006-OPT2 Trust M-8 USD
 C-BASS 2006-CB6 Trust M-8 USD
 GSAMP TRUST 2006-FF13 M-8 USD

Series	ABX Indices				
07-1	AAA	AA	A	BBB	BBB-
06-2	AAA	AA	A	BBB	BBB-
06-1	AAA	AA	A	BBB	BBB-

What is TABX?

- ◆ TABX is the standard tranches of the ABX Indices. Only the ABX.HE.BBB and ABX.HE.BBB- indices have been tranching so far
- ◆ To form the BBB Index tranches, dealers combined the 20 HEL deals from ABX.HE.BBB.07-1 and the 20 HEL deals from ABX.HE.BBB.06-2
- ◆ Similarly, to form the BBB- Index tranches, dealers combined the 20 HEL deals from ABX.HE.BBB-.07-1 and the 20 HEL deals from ABX.HE.BBB-.06-2
- ◆ The BBB and BBB- TABX tranches have different attachment/detachment points, see Appendix
- ◆ Unlike the ABX Index, TABX only depends on the Principal Waterfall of the ABX Deals, and NOT on an interest shortfall on the underlying bonds

Opening TABX BBB- Tranche Indications 05/31/07			
Ref 06-2 =72.25, 07-1=67.75			
	Cpn	Px	Spread
0%-5%	500	26.5/27.5	3180/3144
5%-10%	500	32.5/35	2559/2483
10%-15%	500	41/44	2182/2097
15%-25%	500	49.75/53	1723/1644
25%-40%	267	53.5/58.5	1351/1234
40%-100%	72	82/85	716/608

End Holders of AAA CDO Liability Risk

End Holders of Risk	Characteristics
Financial Guarantors + Insurance Accounts	<ul style="list-style-type: none"> ◆ Financial Guarantors and Insurance companies assume credit exposure to CDOs through primarily derivative instruments
CDO CP Put Providers	<ul style="list-style-type: none"> ◆ The super senior tranche of a collateralized debt obligation (“CDO”) that is financed through the issuance of commercial paper in the money markets with a liquidity backstop provided by a highly-rated financial institution (“CDO Put Provider”) ◆ To the extent certain triggers are breached or if commercial paper cannot fund below a maximum rate, the CDO Put Provider is required to finance the commercial paper at a pre-determined rate
ABCP Conduits	<ul style="list-style-type: none"> ◆ An Asset-Backed Commercial Paper conduit (“ABCP Conduit”) is an independent, limited-purpose finance company traditionally established by banks and financial institutions to fund client assets through the issuance of commercial paper secured by such assets ◆ Some ABCP Conduits focus solely on financing highly-rated securities (“Securities-Backed Conduit”). These Securities-Backed Conduits are structurally supported by liquidity and credit enhancement from highly-rated financial institutions
SIVs	<ul style="list-style-type: none"> ◆ Structured Investment Vehicles (“SIVs”) are fully hedged and actively managed limited purpose investment companies that raise capital through the issuance of subordinated and senior debt. SIVs are mark-to-market leveraged vehicles that invest in investment-grade securities and seek capital preservation while providing a leveraged return to subordinated debt investors ◆ SIVs operate in strictly monitored and regulated environments. Each SIV is subject to frequent performance tests including leverage ratios (daily mark-to-market, capital adequacy requirement ratio), liquidity requirements, portfolio concentration thresholds (industry concentration, obligor concentration and credit concentration limits) and interest rate and foreign exchange sensitivity tests
Other CDOs	<ul style="list-style-type: none"> ◆ CDOs with direct or indirect exposure to other CDOs

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HOLDINGS

9/11/07 BOARD MEETING

Item 8

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Confidential Presentation to:

Lehman Brothers Board of Directors

Private Fund Investments Group Update

September 2007

LEHMAN BROTHERS

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Private Equity Overview

Lehman Brothers Private Equity Platform

18 Investment Strategies / \$20 + billion AUM

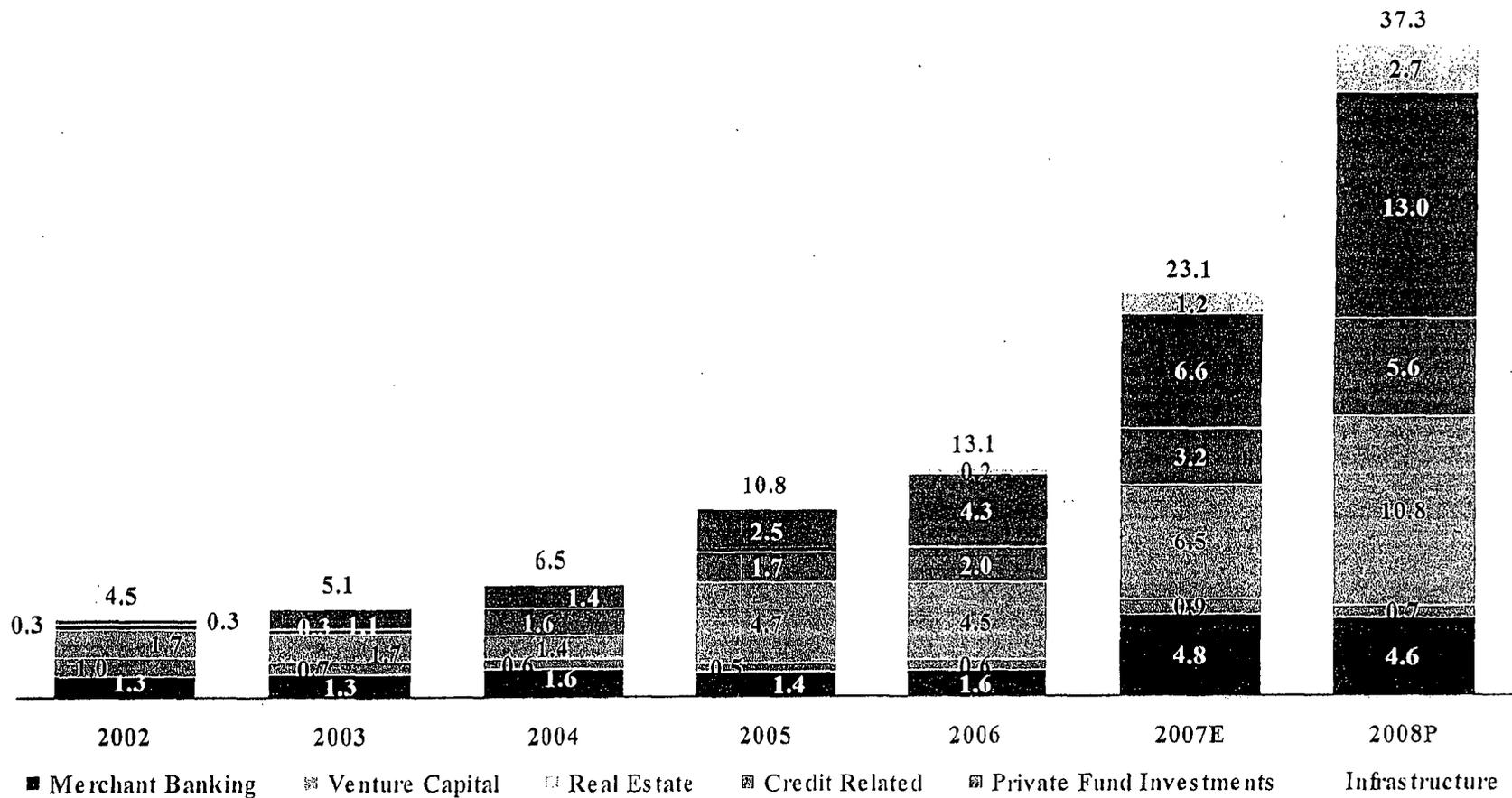
	Merchant Banking	Venture Capital	Real Estate	Infrastructure	Credit Related Funds	Private Fund Investments
	<ul style="list-style-type: none"> ◆ Global Fund ◆ Europe Fund 	<ul style="list-style-type: none"> ◆ Late stage IT fund 	<ul style="list-style-type: none"> ◆ Global Opportunity ◆ Mezzanine ◆ India Opportunity 	<ul style="list-style-type: none"> ◆ MLP Opportunity ◆ Global Opportunity 	<ul style="list-style-type: none"> ◆ CDO Opportunity/Mezzanine ◆ Global Mezzanine ◆ European Mezzanine ◆ Loan Opportunity 	<ul style="list-style-type: none"> ◆ Co-Investment ◆ Foundation Funds ◆ Secondary
AUM	\$4.9bn	\$0.6bn	\$4.5bn	\$1.3bn	\$2.5bn	\$6.6bn
Recent Developments	<ul style="list-style-type: none"> ◆ Close of Fund IV at \$3.3bn including €920mm European sleeve 	<ul style="list-style-type: none"> ◆ Close of Fund V at \$365mm ◆ Opening of Boston office 	<ul style="list-style-type: none"> ◆ Launch of marketing for LBREP III, LBREM II and India Fund ◆ Leadership transition 	<ul style="list-style-type: none"> ◆ Close of MLP Fund at \$685mm ◆ Ramping up for Global Infrastructure Fund 	<ul style="list-style-type: none"> ◆ Close of CDO II (Sep. 07) ◆ Launch of EuroMezz ◆ Launch of Loan Opportunity Fund ◆ Launch of Global Mezz Fund 	<ul style="list-style-type: none"> ◆ Close of Global Growth VIII (\$1.5bn) ◆ LBP Private Equity Partners LP (\$1.4bn) ◆ LBP Mezzanine (\$1.3bn) ◆ Close of MLP Fund (\$1.3bn) ◆ Launch of Mezzanine Fund (\$1.3bn)
2008 Focus	<ul style="list-style-type: none"> ◆ Asia build out ◆ Europe deal flow 	<ul style="list-style-type: none"> ◆ Evaluate new products (e.g., Mezz Fund, Asia / Growth Fund) ◆ Focus on investing funds 	<ul style="list-style-type: none"> ◆ Launch of extension Funds (e.g., Co-Invest, FoF) 	<ul style="list-style-type: none"> ◆ Global Infrastructure Fund ◆ Periodic fundraising for MLP 	<ul style="list-style-type: none"> ◆ Focus on closing and investing funds 	<ul style="list-style-type: none"> ◆ Launch Crossroads XII ◆ Co-Invest III ◆ Secondary III ◆ Large Institutional Respoke Funds

Note: AUM as of 7/11/07.

Private Equity AUM Growth

Private Equity AUM expected to grow ~3x from 2006 to 2008

Lehman Brothers Private Equity AUM (\$bn)



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Lehman Brothers Private Equity Performance

First quartile performance in aggregate since inception of each asset class

Fund Performance ¹			
Asset Class	Invested Capital	Period	Gross IRR
Merchant Banking	\$3.5 billion	1989 – 2007	37%
Venture Capital	\$722 million	1996 – 2007	29%
Real Estate			
Opportunity	\$4.1 billion	2000 – 2007	33%
Mezzanine	\$1.2 billion	2004 – 2007	28%
Credit Related Funds			
European Mezzanine ²	\$1.2 billion	2002 – 2007	30%
CDO Opportunity	\$565 million	2002 – 2007	24%
Private Fund Investments Group			
Co-Investment	\$783 million	2006 – 2007	50%
Secondary	\$341 million	2005 – 2007	67%
Fund of Fund Investments	\$3.5 billion	1987 – 2007	23%
Infrastructure			
MLP Opportunity ³	\$495 million	2006 – 2007	53%

This information is being furnished on a confidential basis for discussion purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security. Past performance is not necessarily indicative of future results. There can be no assurance that future funds will achieve comparable results.

(1) All returns are as of 6/30/2007, except for the CDO Opportunity return which is as of 7/7/2007; the Fund of Fund Investments return which is as of 3/31/2007; and the MLP Opportunity Fund return which is as of 8/29/2007. Gross internal rates of return (IRRs) do not reflect the management fees, carried interest, taxes, transaction costs and other expenses to be borne by investors in each fund, which in the aggregate are expected to be substantial.

(2) Represents levered gross IRR.

(3) Represents performance for Lehman Brothers proprietary capital. The MLP Opportunity Fund closed June 1, 2007 at \$685 million.

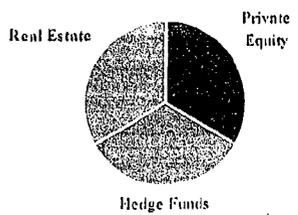
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Private Fund Investments Group

Co-Investments	Secondaries	Fund of Funds
<ul style="list-style-type: none"> ◆ Raised \$1.6 billion Co-Investment Fund I in September 2006 ◆ Reviewed over 350 potential co-investments ◆ Invested \$810 million in 22 co-investments alongside premier private equity firms ◆ Current portfolio valued at 1.25x cost ◆ Plan to launch Co-Investment Fund II in first quarter of 2008 	<ul style="list-style-type: none"> ◆ Raised \$800 million Secondary Fund I in December 2005 ◆ Invested \$400 million in 26 transactions ◆ Current portfolio is valued at 1.45x cost ◆ \$134 million of cash distributions to investors ◆ Currently launching \$1.5 billion Secondary Fund II 	<ul style="list-style-type: none"> ◆ Raised \$3.0 billion of funds of funds in 2007, including: <ul style="list-style-type: none"> – \$1.5 billion Fund XVIII – 2.3x larger than Fund XVII – \$540 million IPO of Lehman Brothers Private Equity Partners – Awarded \$680 million mandate from FRR (French Pension Reserve) – Custom funds (\$300 million) ◆ Reviewed over 1,100 Funds 2004-Present ◆ Committed over \$1.7 billion to more than 80 funds since January 1, 2006

Private Equity Fund of Funds

Product Lines:

Flagship Fund of Funds	Institutional Bespoke Funds	Customized Fund of Funds	Publicly Traded Fund of Funds
<ul style="list-style-type: none"> Diversified investments in buyout, venture and special situations funds 	<ul style="list-style-type: none"> Bespoke vehicles for single clients 	<ul style="list-style-type: none"> Focused on specialized subsectors within private equity 	<ul style="list-style-type: none"> Publicly traded closed-end private equity vehicles
<p>Lehman Crossroads Fund XVIII \$1.5 billion (March 2007)</p> <ul style="list-style-type: none"> Investors can choose allocation amongst strategies Flagship fund product to be raised every two years – Fund XIX (final close 2009) 	<p>FRR \$680 million (July 2007)</p> <ul style="list-style-type: none"> Competed for mandate from French pension reserve system against 300 other managers 	<p>Emerging Manager \$130 million (August 2007)</p> <ul style="list-style-type: none"> Focused on minority / women-managed private equity firms 	<p>Lehman Brothers Private Equity Partners \$542 million (July 2007)</p> <ul style="list-style-type: none"> Diversified, evergreen private equity portfolio in a publicly traded instrument Grow market cap through add-on offerings and growth in NAV
	<p>Current Opportunity Broad alternatives mandate for major institutions & Endowment-in-a-Box</p> 	<p>New Jersey Directed Mandate \$105 million (July 2007)</p> <ul style="list-style-type: none"> Focused on firms that invest in New Jersey 	
		<p>Real Assets Fund \$65 million (December 2006)</p> <ul style="list-style-type: none"> Focused on the energy and power sectors 	

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LBPEP Overview

Lehman Brothers Private Equity Partners Limited (Ticker: LBPE NA) is a publicly traded, closed-end investment company that invests in private equity funds and co-investments

Summary Terms

Initial Public Offering	July 17, 2007 at \$10 per share (9/6/07 close at \$9.69)
Offering Size (including greenshoe)	\$542.1 million
Joint Bookrunners	Global Coordinator: Lehman Brothers International (Europe) Joint Bookrunners: Hoare Govett Limited (ABN Amro), UBS Investment Bank
Securities / Listing	Single class of US\$ denominated shares / Euronext Amsterdam
Credit Facility	\$250 million facility provided by Bank of Scotland (currently undrawn)
Private Equity Portfolio (as of August 31, 2007)	\$656 million of private equity exposure (\$304 invested / \$352 unfunded)
Lehman Brothers Investment	Lehman Brothers invested \$145 million (3-year lock-up) at IPO price Lehman Brothers sold \$615 million of private equity investments to vehicle at IPO
Fees and Carry	1.5% management fee on private equity NAV / 7.5% carry subject to 7.5% annual preferred return and high water mark
Economics to Lehman Brothers	\$14 million in third-party expenses to generate expected net revenues of \$170+ million over next 10 years

Benefits of LBPEP

Benefits to Investors

- ◆ Diversified basket of private equity in a single investment
- ◆ Access to private equity for new class of investors
- ◆ Low cost, long-term credit facility supports over-commitment strategy
- ◆ Provides daily price transparency
- ◆ More liquid way to invest in private equity

Benefits to Lehman Brothers

- ◆ Permanent capital
- ◆ Management fee perpetuity
- ◆ Annual profit participation
- ◆ Expands client base
- ◆ Publicly traded acquisition currency
- ◆ Reinforces market leadership position

LBPEP: Power of the One Firm Philosophy

The launch of LBPEP leveraged resources across Lehman Brothers' global platform

Private Equity

- ◆ Leveraged private equity relationships to create high quality seed portfolio
- ◆ Managing ongoing investment portfolio
- ◆ Created innovative capital structure that achieved traction in the markets
- ◆ Negotiated low cost, long-term credit facility

Capital Markets

- ◆ Provided timely feedback and knowledge of market conditions and investor demand
- ◆ Outsold all other underwriters combined
- ◆ Smooth execution of greenshoe and market stabilization in volatile market

Investment Banking

- ◆ Significant assistance in navigating complex accounting, taxation and regulatory issues
- ◆ Provided valuable advice in go-to-market strategy
- ◆ Managed a complex, lengthy transaction process

Investment Management

- ◆ Significant sales contribution from PIM channel
- ◆ IMD institutional sales developed key distribution clients who provided critical early demand
- ◆ Leveraged significant resources in transaction execution



Teamwork and dedicated effort across the Firm resulted in the successful launch of this seminal product amidst very difficult market conditions

Appendix

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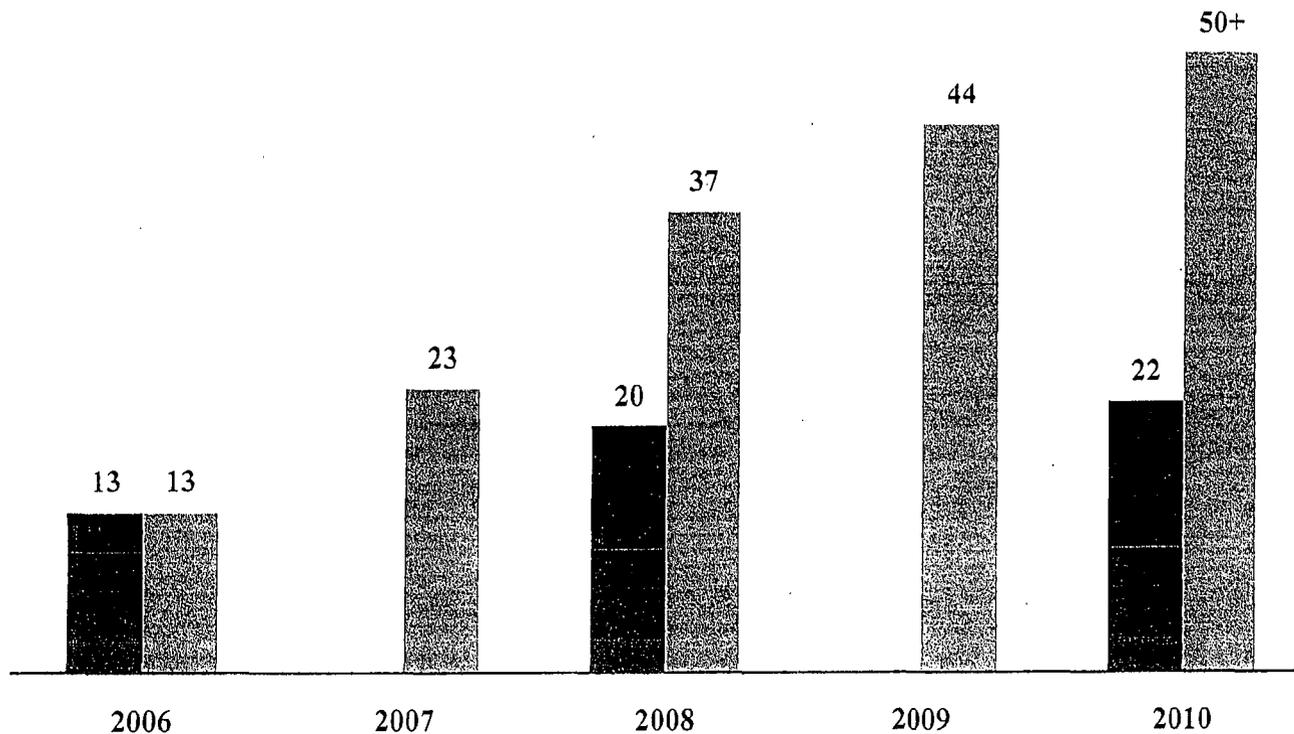
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PE Business – Current Status vs. 2006 Board Presentation

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AUM (\$B)

- 2006 Board Presentation projections
- ▨ Actuals (2006) and current projections



Comparison to 2006 Outlook

- ◆ This year we will exceed the target set for 2010
- ◆ Substantial focus on growth of the business in Europe and Asia
- ◆ Launch of new strategies and asset classes, including MLP, Infrastructure, credit products, not contemplated in 2006

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Board of Directors

Update on Liquidity, Leveraged Loan Commitments and Mortgage Positions

Sept 11th 2007

LEHMAN BROTHERS

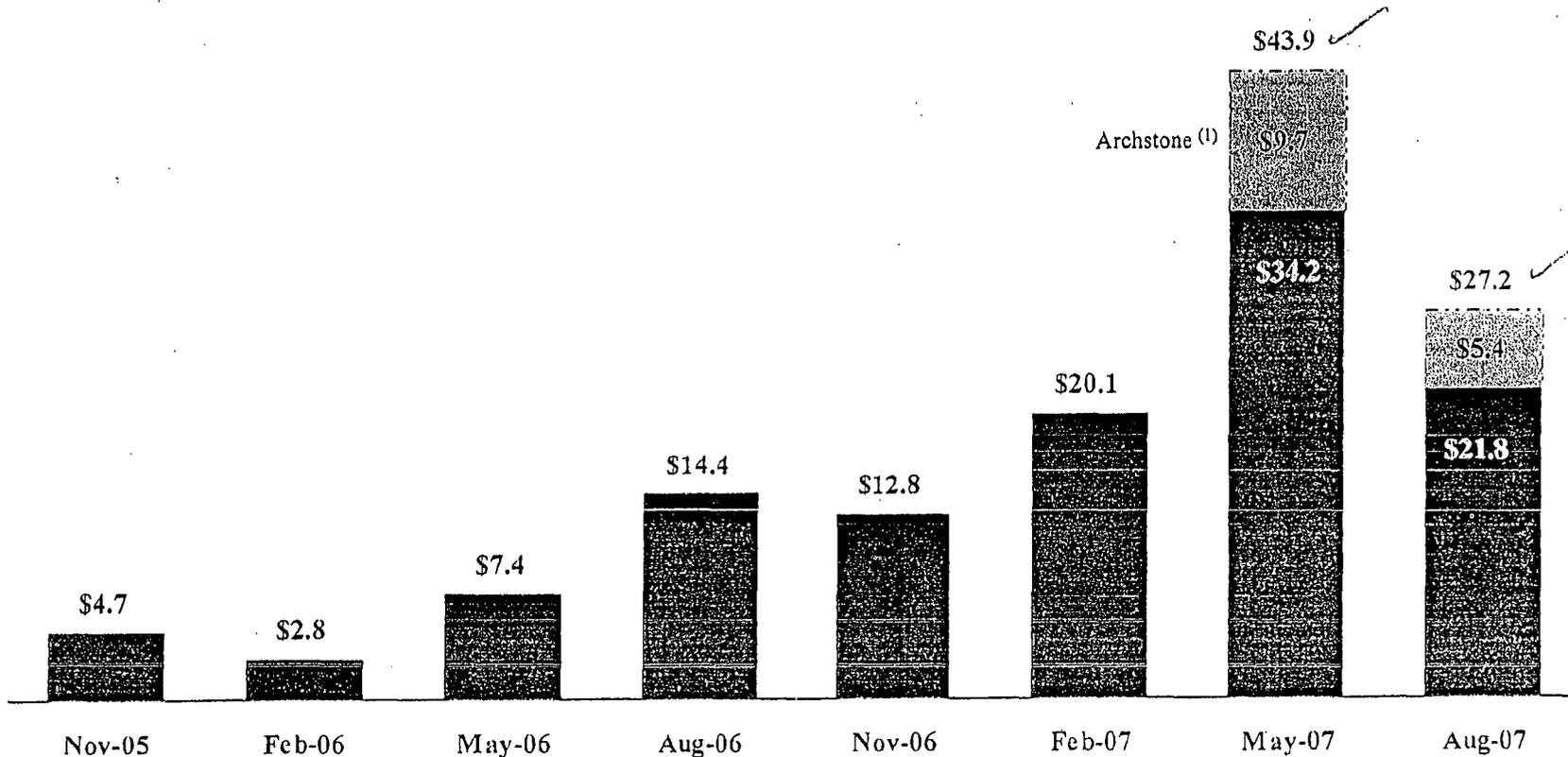
Liquidity

- ◆ Our liquidity framework is based on a conservative approach to funding the balance sheet:
 - No reliance on short-term unsecured funding, and reliance on secured funding only where we see a deep and liquid pool of lenders who understand the collateral
 - Long-term funding is used for less liquid collateral
 - Long-term funding is sourced from a wide variety of markets, and includes our internal banks sourcing insured deposits
 - Liquidity is tracked at a granular level which incorporates specific entity dynamics
- ◆ Our long-term debt has grown to \$118 billion at the end of the 3rd quarter from \$81.2 billion at the end of 2006. Year to date we have issued \$67 billion at an average life of 6.9 years. The average life of the portfolio has risen slightly to 6.6 years at the end of the 3rd quarter.
- ◆ In the last two months liquidity has been considerably more challenging to source. The result has been higher credit spreads particularly for financial companies. Despite the fact that the markets have been more difficult to access, we have been able to limit the effect on our liquidity through alternative funding sources and our in-house banks.
- ◆ The 3rd quarter liquidity pool has increased to a record \$36 billion (from \$25.7 billion at the end of the 2nd quarter). This represents the strongest quarter end liquidity position for the Firm. The cash capital surplus has increased to \$8.1 billion from \$2.5 billion at the end of the 2nd quarter and against a \$2 billion policy minimum. This level of surplus also represents an all time record.
- ◆ The challenge in the 4th quarter will be to maintain strong surpluses against a significant pipeline of loans and real estate purchases. We do not project the need to tap the capital markets to raise additional long-term debt, as we currently have significant liquidity to fund these activities.

Leveraged Loan Commitments

Consistent with the growth in market share in M&A activities and the resultant share in leveraged financing activities, our commitments have grown to \$21.8B (\$27.2B including Archstone)

High Yield Contingent Acquisitions Commitments (\$B)

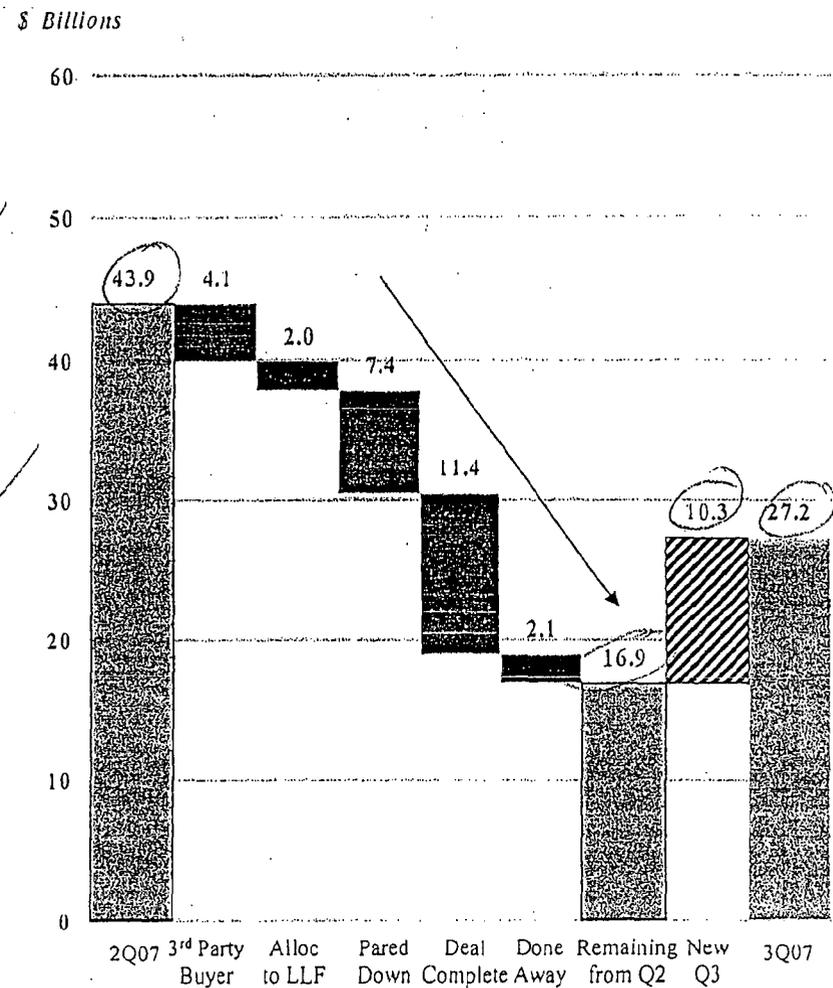


(1) Archstone commitment totaled \$11.1B, of which \$9.7B was debt (\$8.55B debt + \$1.15B junior mezzanine), \$1.15B was Bridge Equity and \$0.25B is permanent equity

High Yield Contingent Acquisition Facilities

High Yield Contingent Acquisition Facilities

- ◆ Contingent acquisition facilities are financial commitments that Lehman makes to sponsors to enable them to acquire other companies or parts of companies
- ◆ High Yield Contingent Acquisition Facilities reduced from \$43.9b at May 31, 2007 to \$27.2b at August 31
- ◆ The main drivers for the reduction were deal completions (\$11.4b), reductions in Lehman's share of deals (\$7.4bn) and the sale of \$4.1b of Archstone Smith debt. This was offset by \$10.3b of new commitments
- ◆ Of the \$11.4b deals completed, \$7.4b was syndicated or sold and \$4b remains on Lehman's books



Directors ask about write-downs

Mortgages Balance Sheet - Summary ✓

\$B	Q3 2007	Q2 2007
Mortgage & Mortgage-Backed Positions:		
Residential - <i>At Risk</i>	35.6 ✓	31.1
- <i>FAS 140 / FIN 46 Gross-up</i>	13.5 ✓	14.8
Sub-total Residential	49.1	45.9
Commercial - <i>At Risk</i>	37.7 ✓	32.0
- <i>FAS 140 / FIN 46 Gross-up</i>	1.7 ✓	1.6
Sub-total Commercial	39.4	33.6
TOTAL Mortgage & Mortgage-Backed Positions	88.5	79.6

- ◆ Growth in the Mortgage and Mortgage-backed inventory line primarily driven by commercial mortgages ✓
- ◆ Mortgage inventory includes \$15.2B of mortgage loans for which the company is not at risk (gross-up per FAS 140 / FIN 46) ✓
- ◆ Non-Investment grade retained interests virtually unchanged at \$1.7B ✓

Residential Mortgages ✓

	Q3 2007						Q2 2007					
	US Prime	US Sub-Prime	US Other	Subtotal US	Intl	Total	US Prime	US Sub-Prime	US Other	Subtotal US	Intl	Total
Whole Loans	6.4	5.9	1.0	13.3	7.0	20.3	8.9	5.4	0.9	15.2	4.4	19.6
Securities												
- Investment grade	6.6	0.6	3.3	10.5	1.4	11.9	4.7	1.1	1.7	7.5	0.2	7.7
- Non-investment grade	0.3	0.2	0.8	1.3	0.1	1.4	0.8	0.3	0.5	1.6	0.2	1.8
Subtotal Securities	6.9	0.8	4.1	11.8	1.5	13.3	5.5	1.4	2.2	9.1	0.4	9.5
Residuals	0.9	0.1	0.1	1.1	-	1.1	0.8	0.1	0.2	1.1		1.1
Servicing Rights	0.9			0.9		0.9	0.9			0.9		0.9
FAS 140/FIN 46 Gross-up	6.8	3.5	1.2	11.5	2.0	13.5	5.9	8.9	-	14.8	-	14.8
Total	21.9	10.3	6.4	38.6	10.5	49.1	22.0	15.8	3.3	41.1	4.8	45.9

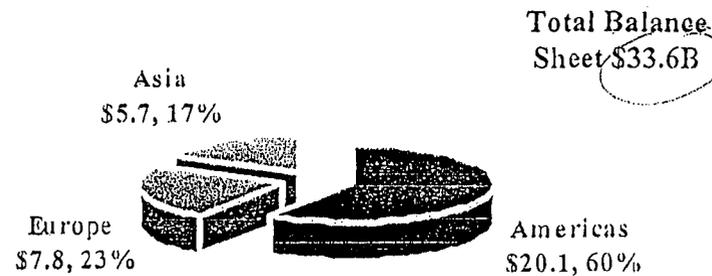
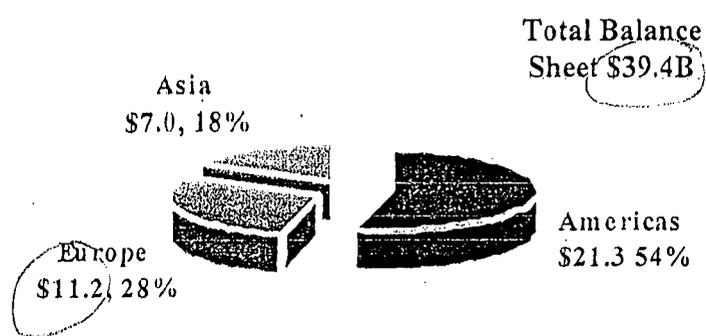
- ◆ Sub-prime “at-risk” balance sheet represents approximately 8% of our total mortgage balance sheet, as disclosed ✓
- ◆ Majority of our whole loan inventory is prime, where the securitization market is still active ✓
 - Completed three securitizations in August
- ◆ We have taken significant write downs on residential mortgage positions this quarter, but they have largely been offset by gains from effective hedging: ✓
 - Single name CDS, CDS on CDO’s
 - Bond Index
 - ABX Index
 - Forward Sales
 - Other

Commercial Mortgages ✓

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Q3 2007 \$B

Q2 2007 \$B



- ◆ Most significant growth has been in the international business, primarily Europe ✓
- ◆ CMBS securitization markets have become more challenging ✓
- ◆ US securitization markets remained open, but investors are demanding higher yield ✓
 - Additionally the CMBS index has allowed us to hedge our fixed rate portfolio ✓
- ◆ Europe markets currently more difficult ✓
 - Markets not as mature ✓
- ◆ Minimal impact to Asia thus far ✓
 - Markets only 2 - 4 bps wider and demand continues ✓
 - Increase in inventory due to additional CMBS platforms outside Japan and longer lead times to securitize ✓

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>June 18, 2007</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
2. <u>July 20, 2007</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
3. <u>July 27, 2007</u> (International Debt)	Authorized a \$47 billion increase in Holdings' issuance of debt securities issued outside the U.S., to a maximum of \$120 billion at any one time outstanding
4. <u>July 30, 2007</u> (Dividend Committee)	Declared a regular quarterly dividend on Holdings' Common Stock of \$.15 per share.
5. <u>July 30, 2007</u> (Dividend Committee)	Declared a regular quarterly dividend on Holdings' Cumulative Preferred Stock, Series C, D and F.
6. <u>August 16, 2007</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.

Board and Board Committee Consents
9/11/07 Board Meeting

**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>July 10, 2007</u> (Titles)	Approved second quarter titles, primarily new hires and administrative corrections. Appointed Casey Safreno a Vice Chairman of Lehman.
2. <u>July 12, 2007</u> (Titles)	Appointed Peter Sherratt a Vice Chairman of Lehman.