

# LEHMAN BROTHERS

**DATE:** October 11, 2007  
**TO:** Members of the Board of Directors of Lehman Brothers Holdings Inc.  
**FROM:** Madeline L. Shapiro, Assistant Secretary *MLL*  
**RE:** **OCTOBER 15, 2007 MEETING OF THE BOARD OF DIRECTORS**

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Enclosed please find an Agenda for the October 15, 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 September 11, 2007 Board meeting.

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

**Distribution:**

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

**Copy to:**

Ms. Erin Callan  
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**

**October 15, 2007  
745 Seventh Avenue  
31st Floor - Board Room  
11:30 a.m. – 2:00 p.m.**

- 1) Approval of Minutes of Holdings' Board of Directors Meeting held on September 11, 2007. (Resolution and Minutes Attached) (Fuld)
- 2) Report of October 15, 2007 Compensation and Benefits Committee Meeting. (Akers)
- 3) Report of September 17 and October 8, 2007 Audit Committee Meetings. (Cruikshank)
- 4) Financial Update. (Materials Attached) (O'Meara)
- 5) Presentation on Building a \$1 Billion Commodities Business. (Materials Attached) (Amin)
- 6) Legal Update. (Russo)
- 7) Country Risk Update. (Miscik)
- 8) Executive Session.

**WORKING LUNCH**

# HOLDINGS

10/15/07 BOARD MEETING

Item 1

**Holdings  
Board of Directors  
10/15/07**

**RESOLVED**, that the Minutes of the meeting of the Board of Directors held on September 11, 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**

**10/15/07 BOARD MEETING**

**Item 4**

# LEHMAN BROTHERS

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

October 11, 2007

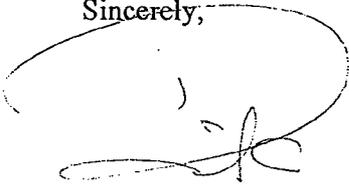
Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Monday, October 15. The materials include the estimated financial results for the month of September 2007, which will be discussed at the meeting.

At this meeting, Kaushik Amin, our Global Head of Liquid Markets, will deliver a presentation on the Firm's commodities business.

I look forward to seeing you on Monday.

Sincerely,



RSF:aj  
Enclosures

LEHMAN BROTHERS HOLDINGS INC.

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*Confidential Presentation to:*

**Lehman Brothers Board of Directors**

**Financial Information**

**September 2007**

**LEHMAN BROTHERS**

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LEHMAN BROTHERS

# Executive Summary

## Market Environment

- ◆ Both the equity and high yield debt markets improved in September, following the 50 bps rate cut by the Federal Reserve on September 18.
- ◆ Global equity markets were up 3%, led by a 5% gain in Asia. The U.S. markets were up by 4%, while Europe was up 2%.
  - Global average trading volumes were down 9% versus August, but were in line with average month 2007 and 28% higher than average month 2006.
- ◆ Fixed Income credit spreads were mixed in the month. The Lehman Global High Yield Index tightened 35 bps while the Global Investment Grade Index widened slightly by 3bps due to a sharp increase in new issuance. The various BBB- rated tranches of the ABX index widened during the month.
- ◆ Treasury yields were mixed as well, with the 2 year yield decreasing 15 bps while the 10 year yield increased 6 bps in September.

## Revenues / Expenses

- ◆ Monthly net revenues of \$1,343 million were 9% below budget and 10% below average month 2007.
  - Fixed Income Division revenues of \$668 million were 10% below budget, but were 18% higher than average month 2007, driven by solid results in Interest Rate Products and Commodities, and record performance in Municipals. These were offset by continued weakness in Credit and Securitized Products despite encouraging signs of recovery.
  - Equities Division revenues of \$529 million were 56% ahead of budget and 14% better than average month 2007, led by strong results in Execution Services and Derivatives amid solid customer flow, as well as successful trading strategies.
  - Banking Division revenues of \$214 million trailed budget by 23% and were 12% lower than average month 2007, due to lower Advisory revenues and continued weakness in Leveraged Finance, partially offset by strong performance in Equity Origination.
  - Investment Management Division revenues of \$213 million were 3% ahead of budget and 3% behind average month 2007.
  - Principal Investments revenues of \$167 million were significantly ahead of budget and more than double average month 2007 level, driven by strong revenues in Global Trading Strategies (including profitable Distressed Debt trading, as well as investment gains on the India portfolio).
  - Other revenues included approximately \$300 million of losses resulting from revaluing our structured note liabilities, as our credit spreads tightened after our Q3 earnings announcement and the Fed rate cut.
  - Non-U.S. revenues of \$551 million were 7% better than budget but trailed average month 2007 by 8%, as strong results in Asia were partially offset by lower performance in Europe.
- ◆ Personnel expenses were accrued at 49.3% of net revenues, consistent with prior periods.
- ◆ Non-personnel expenses of \$322 million, including approximately \$5 million of charges from the previously announced resizing of our mortgage platforms.

## Profitability

- ◆ Net income of \$254 million and EPS of \$0.44 were 18% and 16% below budget, respectively.
- ◆ Pretax margin was 26.7%, ROE was 14.3% and ROTE was 17.8%.

# September 2007 Financial Results

<i>\$ millions, except per share data</i>	Monthly Performance					Year to Date Performance				
	September 2007	Monthly Budget	% Δ	Avg. Month 2007	% Δ	2007	Budget	% Δ	2006	% Δ
<b>Segment Revenues</b>										
Investment Banking	168	271	(38)%	309	(46)%	3,239	2,971	9%	2,513	29%
Capital Markets	960	999	(4)%	958	0%	10,491	10,937	(4)%	9,756	8%
Investment Management	215	211	2%	228	(6)%	2,480	2,311	7%	1,981	25%
<b>Total Revenues</b>	<b>1,343</b>	<b>1,482</b>	<b>(9)%</b>	<b>1,495</b>	<b>(10)%</b>	<b>16,210</b>	<b>16,219</b>	<b>(0)%</b>	<b>14,250</b>	<b>14%</b>
<b>Expenses</b>										
Personnel	662	730	(9)%	737	(10)%	7,992	7,996	(0)%	7,025	14%
Non Personnel	322	292	10%	277	16%	3,076	2,917	5%	2,467	25%
<b>Pre Tax Income</b>	<b>359</b>	<b>459</b>	<b>(22)%</b>	<b>481</b>	<b>(25)%</b>	<b>5,142</b>	<b>5,306</b>	<b>(3)%</b>	<b>4,758</b>	<b>8%</b>
Income Taxes	106	152	(30)%	149	(29)%	1,583	1,760	(10)%	1,573	1%
<b>Net Income Before Accounting Change</b>	<b>254</b>	<b>308</b>	<b>(18)%</b>	<b>332</b>	<b>(24)%</b>	<b>3,559</b>	<b>3,546</b>	<b>0%</b>	<b>3,185</b>	<b>12%</b>
Cumulative Effect of Accounting Change	-	-	-	-	nm	-	-	-	47	nm
<b>Net Income After Accounting Change</b>	<b>254</b>	<b>308</b>	<b>(18)%</b>	<b>332</b>	<b>(24)%</b>	<b>3,559</b>	<b>3,546</b>	<b>0%</b>	<b>3,232</b>	<b>10%</b>

Additional Data	September 2007	Monthly Budget	% Δ	Avg. Month 2007	% Δ	2007	Budget	% Δ	2006	% Δ
Earnings per Common Share	\$0.44	\$0.53	(16)%	\$0.57	(23)%	\$6.15	\$6.07	1%	\$5.48	12%
Return on Common Equity	14.3%	21.7%	-7.4pp	22.4%	-8.0pp	21.3%	21.7%	-0.4pp	21.3%	+0.0pp
Return on Tangible Equity	17.8%	26.3%	-8.5pp	27.5%	-9.7pp	26.3%	26.3%	+0.0pp	26.3%	+0.0pp
Pre Tax Margin	26.7%	31.0%	-4.3pp	32.2%	-5.4pp	31.7%	32.7%	-1.0pp	33.4%	-1.7pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	-	49.3%	49.3%	-	49.3%	-
Effective Tax Rate	29.4%	33.0%	-3.6pp	30.9%	-1.5pp	30.8%	33.2%	-2.4pp	33.1%	+2.3pp

Divisional Revenues	September 2007	Monthly Budget	% Δ	Avg. Month 2007	% Δ	2007	Budget	% Δ	2006	% Δ
Fixed Income	668	739	(10)%	567	18%	6,305	8,089	(22)%	7,560	(17)%
Equities	529	339	56%	464	14%	5,142	3,714	38%	3,254	58%
Banking	214	279	(23)%	244	(12)%	2,637	3,054	(14)%	2,464	7%
Investment Management	213	206	3%	219	(3)%	2,392	2,258	6%	1,912	25%
Principal Investments	167	84	99%	80	109%	962	921	4%	640	50%
Banking & PIM Eliminations / Other	(448)	(166)	nm	(78)	nm	(1,229)	(1,818)	nm	(1,582)	nm
<b>Total Revenues</b>	<b>1,343</b>	<b>1,482</b>	<b>(9)%</b>	<b>1,495</b>	<b>(10)%</b>	<b>16,210</b>	<b>16,219</b>	<b>(0)%</b>	<b>14,250</b>	<b>14%</b>
<b>Regional Revenues</b>										
Europe	269	352	(24)%	410	(34)%	4,350	3,855	13%	3,259	33%
Asia	282	162	74%	191	47%	2,186	1,775	23%	1,395	57%

LEHMAN BROTHERS

# Capital Markets

## Fixed Income

- ◆ Revenues of \$668 million trailed budget by 10% but were 18% better than average month 2007.
- ◆ Credit Products underperformed budget, but improved versus average month Q3'07.
- ◆ Securitized Products continued to underperform as market conditions remained challenging.
- ◆ Real Estate revenues trailed budget and average month 2007 as asset sales and securitization activity remained sluggish.
- ◆ Interest Rate Products outperformed budget by 38%, due to profitable trading strategies.
- ◆ Record revenues in Municipals more than doubled budget as client activity was 60% higher than average month 2007.
- ◆ Commodities revenues were strong, driven by natural gas and power trading, including gains from the Eagle Energy platform.

### Fixed Income Market Conditions

- ◆ Yields on U.S. and European government 10 year notes increased during the month while yields on U.K and Japanese notes remained relatively unchanged.
- ◆ The Federal Reserve cut the overnight interest rate target by 50 bps, 25 bps more than the market consensus.
- ◆ Global investment grade spreads widened slightly (3 bps) while high yield spreads tightened by 35 bps, following the Fed rate cut. The various BBB- rated tranches of the ABX index widened in the month, while higher rated tranches tightened.
- ◆ The Dollar weakened further against the British Pound (\$2.02/£ to \$2.05/£), the Euro (\$1.36/€ to \$1.43/€), as well as the Japanese Yen (¥115.8/\$ to ¥114.8/\$).

## Equities

- ◆ Revenues of \$529 million were 56% ahead of budget and 14% ahead of average month 2007.
- ◆ Customer activity continued to be solid, outperforming average month 2006 by 29%, but 8% lower than average month 2007 as effects of market volatility tapered off.
- ◆ Execution Services revenues continued to be strong, outperforming budget by 36%.
- ◆ Derivatives revenues were strong, 72% better than budget and 10% better than average month 2007, driven by corporate derivative transactions and profitable trading strategies.
- ◆ Record Equities Strategies were significantly ahead of both budget and average month 2007, led by gains in Asia on favorable market valuations.

### Equity Market Conditions

- ◆ Global equity markets advanced 3% during the month, with increases across the regions.
  - Asia led the gains with a 5% increase as the Hang Sang index continued to soar and advanced 13% in September. The U.S. markets were up 4% while Europe was up 2%.
  - Global average daily trading volumes were down 9% versus August, but were in line with average month 2007 and 28% higher than average month 2006.
- ◆ The VIX index, which measures U.S. market volatility, scaled back from 23% to 18%, following the Fed decision and equity markets rally, but was still ahead of the average level for 1H '07.

# Investment Banking

## Revenue Summary

- ◆ Revenues of \$214 million were substantially lower than benchmark periods, as market conditions for buyout activity as well as debt underwriting activity remained challenging.
- ◆ M&A revenues were significantly below budget and average month 2007, as completed activity remained light.
- ◆ Debt Origination revenues continued to underperform, however some early signs of recovery appeared in the credit markets.
- ◆ Equity Origination revenues were solid, outperforming budget by 34% and slightly ahead of average month 2007, including strong revenues from corporate derivative transactions.
- ◆ Fee pipeline of \$961 million, down 3% from the quarter end, but up 24% since the beginning of the year.

## Market Environment

- ◆ Announced M&A volume continued to decline, down 6% from last month. However, on a year-to-date (YTD) annualized basis, announced volume is on pace to be 34% higher than 2006 levels.
- ◆ Completed M&A volume was down 44% in the month, but is 13% ahead of 2006 on an annualized calendar basis.
- ◆ Equity Origination volume increased 50% month over month, led by secondary offerings in Asia. On a YTD annualized basis, global volume is 15% higher than 2006, with a significant increase in Convertibles.
- ◆ Fixed Income Origination volume increased 7% in September, led by a recovery in investment grade issuances. On a YTD annualized basis, origination volumes are slightly ahead of calendar 2006, with increases in corporate investment grade, mortgage backed, agency and sovereign issuances, offsetting declines in high yield and asset backed issuances.

## Significant Deals in Pipeline

	Value \$Bn	Description	Gross Fees (Estimated)
<b>Advisory:</b>			
Tishman Speyer Properties	\$21.7	• Acquisition of Archstone-Smith	\$29mm
Global Santa Fe	17.4	• Merger with Transocean	26mm
Actis Capital	0.5	• Sale of Globeleq	22mm
Kohlberg Kravis Roberts	44.4	• Acquisition of TXU	20mm
<b>Equity Origination:</b>			
Project Genesis	\$n/a	• Private Placement, joint books	\$ 45mm
Liberty Acquisition Holdings	1.8	• IPO, co-managed	19mm
Dupont Fabros	0.6	• IPO, joint books	17mm
OZ Management	1.5	• IPO, joint books	15mm
<b>Fixed Income Origination:</b>			
Applebee's International	\$6.4	• ABS, joint lead	\$50mm
Kinder Morgan	3.4	• Senior note issuance, joint lead	13mm
Houghton Mifflin Riverdeep	8.0	• Bank loan, joint lead	8mm
Global Santa Fe	5.0	• Corporate/Bridge loan, lead	8mm

## 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	4.4	4.6			
Announced M&A	8	8	19.3	16.0	4,835	3,616	34%
Completed M&A	8	7	15.1	16.1	3,390	2,998	13%
Equity	9	9	3.5	3.8	827	719	15%
IPO	9	11	3.5	2.8	261	265	-2%
Secondary	11	10	2.6	3.8	392	330	19%
Convertible	8	8	5.5	6.2	170	122	39%
Fixed Income	7	4	5.4	6.2	7,200	7,117	1%
Investment Grade	9	8	4.2	4.5	2,757	2,643	4%
High Yield	7	9	6.0	5.2	177	185	-4%
ABS	7	5	5.5	6.2	1,296	1,544	-16%
MBS	1	2	8.5	8.9	1,483	1,452	2%

\* 2007 is calendar year-to-date through 9/30/2007

\*\* Through August 2007

# Investment Management / Principal Investments / Regional

## Investment Management

- ◆ Revenues of \$213 million were in line with budget and average month 2007.
- ◆ AUM grew to \$285 billion, a net increase of approximately \$10 billion (+4%) in the month, with net inflows of \$4.7 billion, and market appreciation of \$5.7 billion.
- ◆ PIM revenues of \$97 million were 6% below budget and 14% lower than average month 2007, driven by lower activity in Equity and Alternative products.

## Principal Investments

- ◆ Revenues of \$167 million were significantly ahead of budget and more than doubled average month 2007.
- ◆ Results in Global Trading Strategies were driven by profitable strategies in Distressed Debt trading, as well as investment strategies in India.
- ◆ Revenues in Global Principal Strategies were also strong, led by performance in U.S. Portfolio Investing.
- ◆ Partially offsetting the gains were lower revenues from Private Equity principal investments.

## Europe

- ◆ Europe revenues of \$269 million were 24% lower than budget and 34% lower than average month 2007, mainly due to weakness in Fixed Income.
- ◆ Fixed Income results were substantially lower than budget and average month 2007, driven by Credit and Securitized Products.
- ◆ Equities results were solid, outperforming budget by 37% driven by profitable trading strategies and customer activity, especially in corporate derivatives.
- ◆ Banking revenues were 23% ahead of budget, led by performance in Equity Origination including strong corporate derivatives activity.

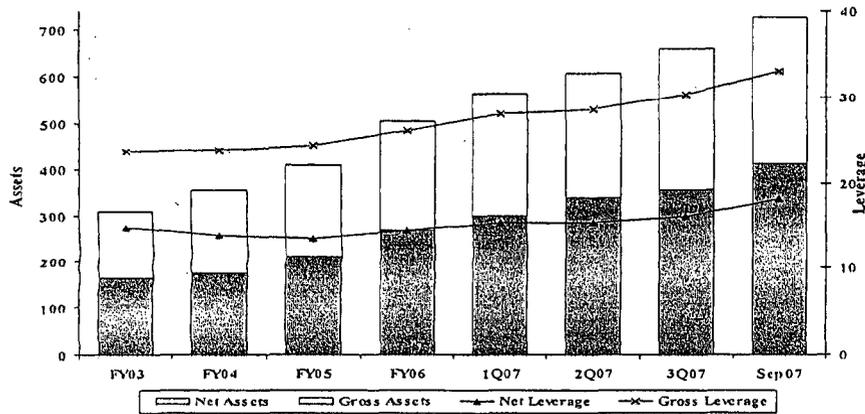
## Asia

- ◆ Asia revenues of \$282 million exceeded budget by 74% and were 47% higher than average month 2007.
- ◆ Fixed Income results were 37% lower than budget and average month 2007, as solid results in Real Estate and Credit Products were more than offset by weakness in Interest Rate Products.
- ◆ Equities revenues doubled average month 2007 level, driven by customer flow, and successful trading strategies as the Hang Sang index soared 13% in the month.
- ◆ Banking revenues were also strong, led by derivative transactions with corporate clients.

# Balance Sheet, Capital and Risk

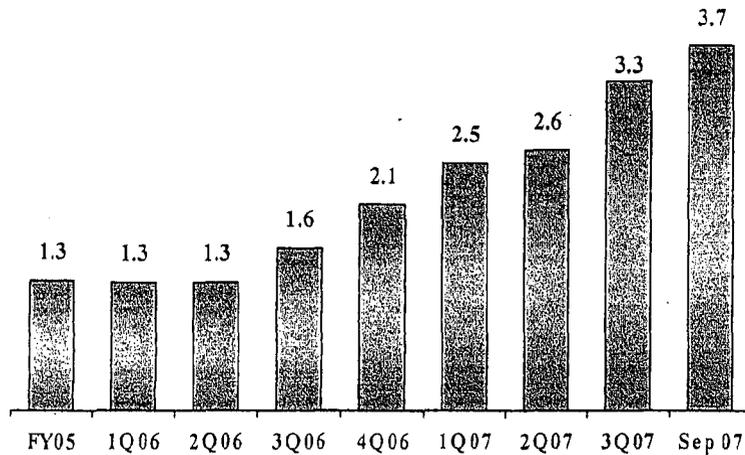
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## Balance Sheet (\$ billions) / Leverage



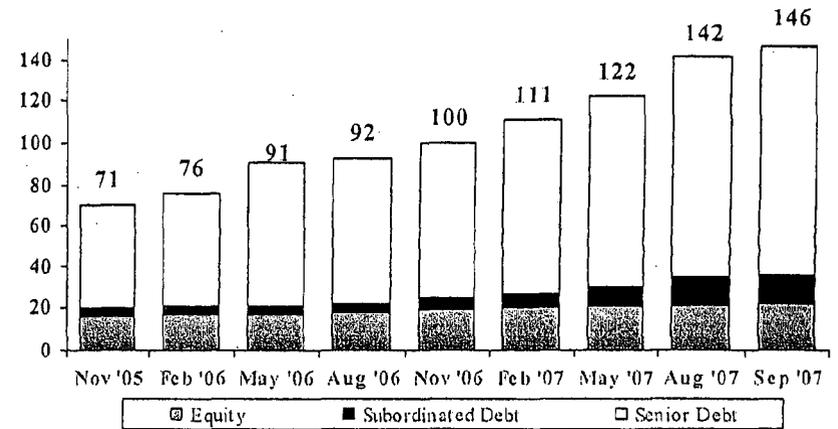
Figures represent period end amounts.

## Average Risk Appetite Usage (\$ billions)



Figures represent average daily usage.

## Long Term Capital (\$ billions)



## Long Term Capital Roll Forward (\$ billions)

	Aug '07	September '07 Activity			Estimated Sep '07
		Issuances	Maturities	Other / Earnings	
Senior Notes	106.8	8.2	(4.8)	(0.2)	110.1
Subordinated Debt	13.5	-	-	0.2	13.7
<b>Total Long Term Borrowings</b>	<b>120.3</b>	<b>8.2</b>	<b>(4.8)</b>	<b>0.0</b>	<b>123.8</b>
Preferred Stock	1.1				1.1
Common Equity	20.6			0.3	21.0
<b>Total Long Term Capital</b>	<b>142.1</b>	<b>8.2</b>	<b>(4.8)</b>	<b>0.4</b>	<b>145.9</b>

# Competitor Information

	LEH	GS	MS	MER	BSC	C	BAC	JPM
<i>Financial Statistics</i>								
Price to Tangible Book <sup>1</sup>	2.1x	3.1x	2.3x	1.9x	1.4x	3.7x	3.5x	2.7x
Price to Book <sup>1,2</sup>	1.7x	2.7x	2.1x	1.7x	1.4x	1.9x	1.8x	1.3x
Price to Earnings <sup>1,4</sup>	8.3x	10.1x	8.3x	8.8x	10.0x	9.9x	10.1x	9.6x
Dividend Yield	0.9%	0.6%	1.6%	1.9%	1.0%	4.5%	4.9%	3.2%
Book Value per Share <sup>2</sup>	\$38.29	\$84.65	\$32.14	\$43.55	\$91.82	\$25.56	\$29.95	\$35.08
Market Cap (billions)	\$34	\$91	\$71	\$65	\$14	\$240	\$233	\$158
<i>Share Price Performance</i>								
2007 Calendar Year to Date <sup>1</sup>	-18%	15%	-1%	-19%	-24%	-13%	-2%	-3%
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
Calendar Year 2005	47%	23%	2%	13%	13%	1%	-2%	2%
Average ROE <sup>3,5</sup>	22%	36%	26%	23%	15%	18%	17%	14%
Average ROTE <sup>3,5</sup>	28%	39%	30%	26%	15%	33%	33%	23%
<i>Ten Year Debt Spreads (Basis Points)</i>								
Spread vs. 1 Month Libor (9/28/07)	118	98	93	98	128	63	63	78
Spread vs. 1 Month Libor (8/31/07)	140	110	110	110	155	60	60	80
Spread vs. 10 Year UST (9/28/07)	180	160	155	160	190	125	125	140
Spread vs. 10 Year UST (8/31/07)	210	180	180	180	225	130	130	150
<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 October 11, 2007.

2. Book and Tangible Book values are per latest externally reported quarter (3Q07 for LEH, GS, MS, BSC; 2Q07 for all others).

3. Average of last four externally reported quarters (4Q06 - 3Q07 for LEH, GS, MS, BSC; 3Q06 - 2Q07 for all others).

4. Based on full year 2008 First Call estimates, updated as of October 11, 2007.

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

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# Monthly Financial Performance Trend

*\$ millions, except per share data*

	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	August 2007	September 2007
<b>Segment Revenues</b>													
Investment Banking	211	293	354	291	294	265	278	413	459	373	394	304	168
Capital Markets	784	958	1,293	1,184	1,139	1,179	1,117	1,075	1,401	1,329	953	154	960
Investment Management	204	217	219	209	283	203	235	259	274	277	314	211	215
<b>Total Revenues</b>	<b>1,200</b>	<b>1,468</b>	<b>1,866</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>	<b>2,134</b>	<b>1,978</b>	<b>1,661</b>	<b>669</b>	<b>1,343</b>
<b>Expenses</b>													
Personnel	592	724	920	830	846	812	804	861	1,052	975	819	330	662
Non Personnel	267	269	273	275	287	297	307	306	302	313	318	348	322
<b>Pre Tax Income</b>	<b>342</b>	<b>474</b>	<b>673</b>	<b>578</b>	<b>583</b>	<b>538</b>	<b>520</b>	<b>580</b>	<b>779</b>	<b>690</b>	<b>524</b>	<b>(9)</b>	<b>359</b>
Income Taxes	113	157	215	191	192	170	166	186	254	221	157	(59)	106
<b>Net Income</b>	<b>229</b>	<b>318</b>	<b>458</b>	<b>387</b>	<b>391</b>	<b>368</b>	<b>353</b>	<b>395</b>	<b>525</b>	<b>469</b>	<b>367</b>	<b>51</b>	<b>254</b>

<b>Additional Data</b>													
Earnings per Common Share	\$0.39	\$0.54	\$0.79	\$0.66	\$0.67	\$0.63	\$0.61	\$0.68	\$0.91	\$0.81	\$0.64	\$0.09	\$0.44
Return on Common Equity	15.4%	21.2%	30.3%	24.6%	24.3%	22.9%	21.9%	24.1%	31.5%	27.4%	21.0%	2.6%	14.3%
Return on Tangible Equity	19.0%	26.2%	37.3%	30.1%	29.5%	28.1%	26.9%	29.6%	38.6%	33.7%	26.0%	3.2%	17.8%
Pre Tax Margin	28.5%	32.3%	36.1%	34.3%	34.0%	32.6%	31.9%	33.2%	36.5%	34.9%	31.6%	-1.3%	26.7%
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	33.1%	33.0%	31.9%	33.0%	33.0%	31.5%	32.0%	32.0%	32.6%	32.0%	30.0%	NM	29.4%

<b>Divisional Revenues</b>													
Fixed Income	618	565	904	840	650	694	593	655	960	935	481	(169)	668
Equities	238	339	438	407	469	422	610	526	642	545	533	459	529
Banking	206	429	444	224	319	319	286	532	496	471	(112)	(111)	214
Investment Management	178	216	221	199	260	215	225	239	257	255	256	273	213
Principal Investments	96	102	190	181	214	133	68	134	265	60	(65)	(194)	167
Banking & PIM Eliminations / Other	(136)	(183)	(331)	(167)	(194)	(136)	(151)	(338)	(485)	(287)	568	411	(448)
<b>Total Revenues</b>	<b>1,200</b>	<b>1,468</b>	<b>1,866</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>	<b>2,134</b>	<b>1,978</b>	<b>1,661</b>	<b>669</b>	<b>1,343</b>
<b>Regional Revenues</b>													
Europe	278	283	523	345	442	436	525	511	657	569	353	243	269
Asia	64	117	146	194	168	179	181	257	305	264	315	40	282

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# Quarterly and Annual Financial Performance Trend

\$ millions, except per share data	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	Q3 '07	2005	2006	2007
<b>Segment Revenues</b>														
Investment Banking	683	579	815	817	835	741	726	858	850	1,150	1,071	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	2,435	9,807	12,006	13,250
Investment Management	437	472	511	509	580	592	605	640	695	768	802	1,929	2,417	2,800
<b>Total Revenues</b>	<b>3,810</b>	<b>3,278</b>	<b>3,852</b>	<b>3,690</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>	<b>5,512</b>	<b>4,308</b>	<b>14,630</b>	<b>17,583</b>	<b>19,650</b>
<b>Segment Revenues</b>														
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
<b>Pre Tax Income</b>	<b>1,306</b>	<b>1,013</b>	<b>1,293</b>	<b>1,217</b>	<b>1,551</b>	<b>1,498</b>	<b>1,367</b>	<b>1,489</b>	<b>1,699</b>	<b>1,879</b>	<b>1,205</b>	<b>4,829</b>	<b>5,905</b>	<b>6,463</b>
Income Taxes	431	330	414	394	513	496	451	485	553	606	318	1,569	1,945	2,133
<b>Net Income Before Accounting Change</b>	<b>875</b>	<b>683</b>	<b>879</b>	<b>823</b>	<b>1,038</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>	<b>1,273</b>	<b>887</b>	<b>3,260</b>	<b>3,960</b>	<b>4,330</b>
Cumulative Effect of Accounting Change	-	-	-	-	47	-	-	-	-	-	-	-	47	-
<b>Net Income After Accounting Change</b>	<b>875</b>	<b>683</b>	<b>879</b>	<b>823</b>	<b>1,085</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>	<b>1,273</b>	<b>887</b>	<b>3,260</b>	<b>4,007</b>	<b>4,330</b>
<b>Additional Data</b>														
Earnings per Common Share	\$1.45	\$1.13	\$1.47	\$1.38	\$1.83	\$1.69	\$1.57	\$1.72	\$1.96	\$2.21	\$1.54	\$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%	17.1%	21.6%	23.4%	21.7%
Return on Tangible Equity	32.0%	23.5%	29.4%	26.5%	33.5%	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%	26.4%	32.5%	32.9%	33.0%
<b>Divisional Revenues</b>														
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	1,537	3,117	4,032	4,500
Banking	720	680	847	874	808	740	711	1,079	862	1,314	248	3,121	3,338	3,700
Investment Management	443	486	518	532	554	578	602	615	674	721	784	1,979	2,349	2,736
Principal Investments	191	(58)	138	83	241	86	217	389	528	467	(200)	354	932	1,116
Banking & PIM Eliminations / Other	(602)	(497)	(788)	(586)	(506)	(593)	(346)	(651)	(498)	(975)	692	(2,472)	(2,096)	(2,202)
<b>Total Revenues</b>	<b>3,810</b>	<b>3,278</b>	<b>3,852</b>	<b>3,690</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>	<b>5,512</b>	<b>4,308</b>	<b>14,630</b>	<b>17,583</b>	<b>19,650</b>
<b>Regional Revenues</b>														
Europe	883	750	767	757	1,007	949	1,025	1,084	1,222	1,693	1,165	3,157	4,065	4,670
Asia	305	370	358	483	557	413	361	328	541	744	619	1,516	1,659	2,150

HOLDINGS

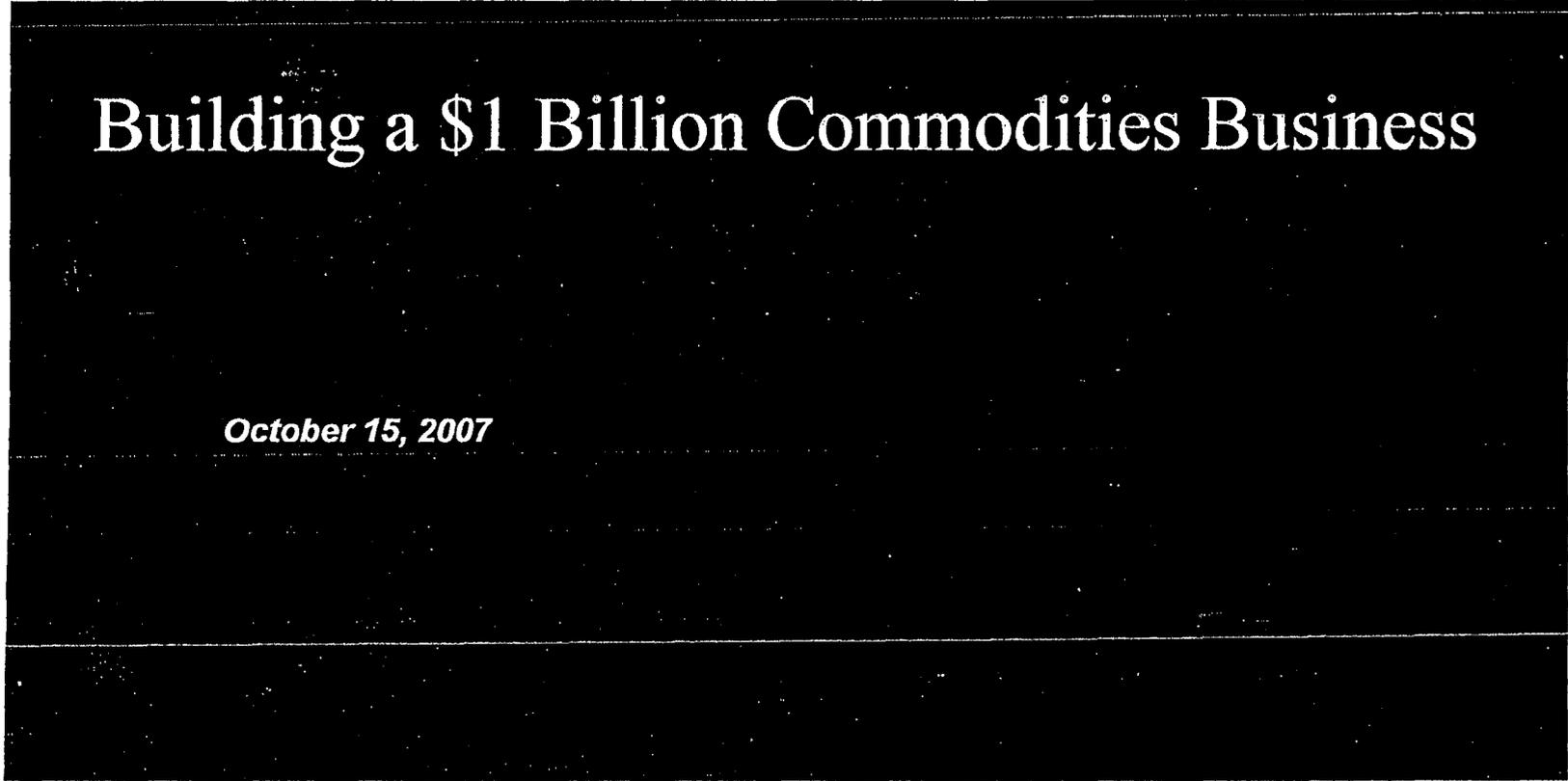
10/15/07 BOARD MEETING

Item 5

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*Confidential Presentation*

# Lehman Brothers Board of Directors



**Building a \$1 Billion Commodities Business**

*October 15, 2007*

**LEHMAN BROTHERS**

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LBHL\_SEC07940\_026389

# Executive Summary

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In 2 years, we have built a world class Global Commodities business that provides the foundation for building a \$1BB revenue business by 2010:

**2005:  
Business Initiated**

- ◆ June 2005: business approved by the Executive Committee
- ◆ Aug 2005: first Commodities hire made

**2006 - 2007:  
Building the Core  
Client and Risk Taking  
Business**

- ◆ Built a credible team with \$250MM in revenues
- ◆ June 2007: completed Eagle Energy acquisition
- ◆ Created significant synergies with other Lehman businesses
- ◆ Built world class infrastructure capable of supporting aggressive growth

**2008:  
Scaling the Core  
Business**

- ◆ Aggressively scale core businesses through senior hires
- ◆ Complete Eagle integration and extend physical footprint in North America
- ◆ Fill gaps in existing business

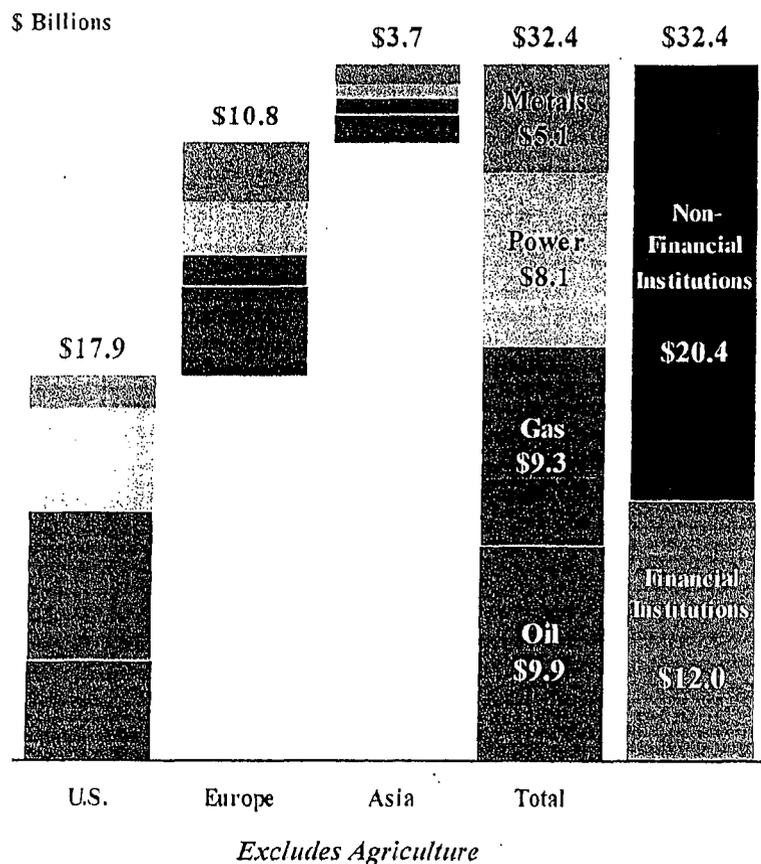
**2009 - 2010:  
Completing the build  
out**

- ◆ Complete product foot-print and client coverage
- ◆ Enhance productivity across both trading and client businesses

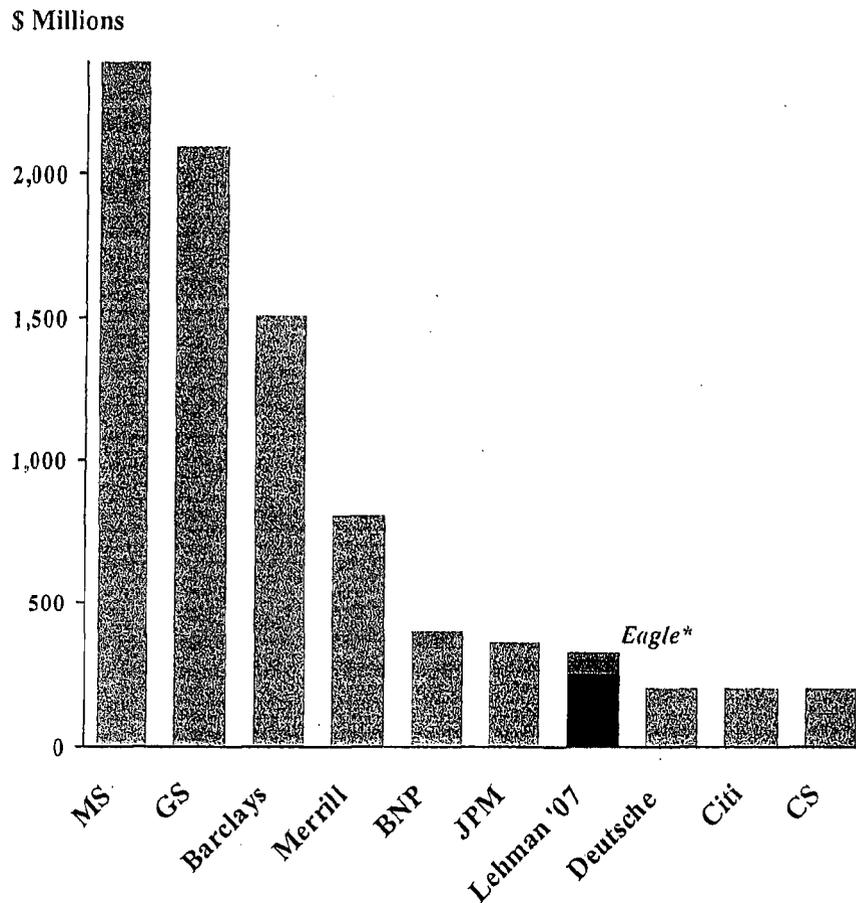
# Commodities Market Overview: Size & Competitors

The commodities revenue pool is estimated at \$32BB, across both financial institutions and non-financial institutions. Lehman's growth will come primarily from *taking market share from non-financial institutions*:

**2006 Global Commodities Trading Revenue Pool**



**Estimated 2006 Trading Revenues: Select Competitors**



Market sizing based upon reported transactions by large players

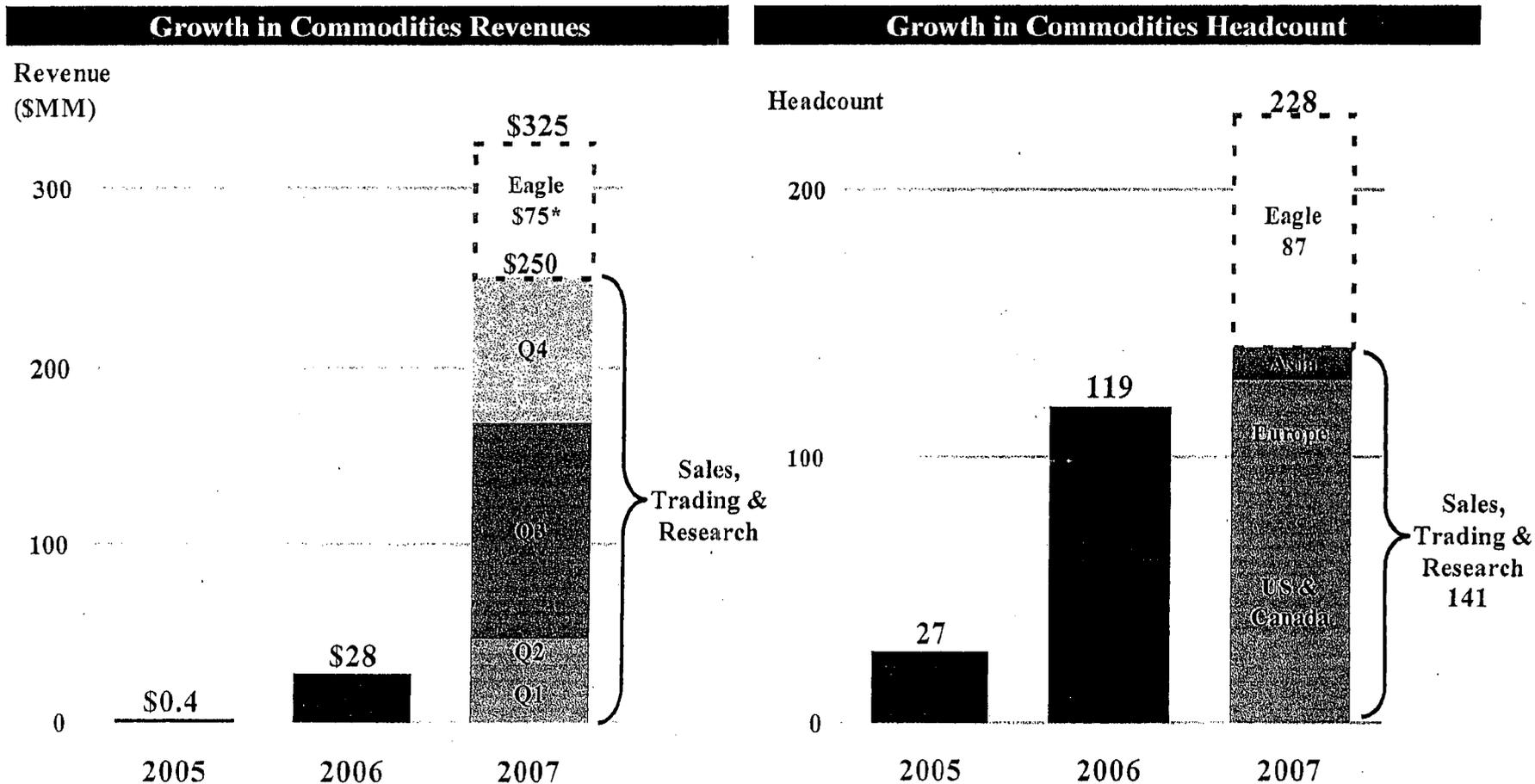
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\* \$325 includes estimated full year Eagle revenues.  
 Source: Bank of International Settlements (BIS), Bernstein reports, LEH FID estimates, Energy Risk Magazine, Greenwich Survey

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# 2007: Building the Core Business

We have built Commodities into a business with \$325MM in revenues and 228 employees (including Eagle):

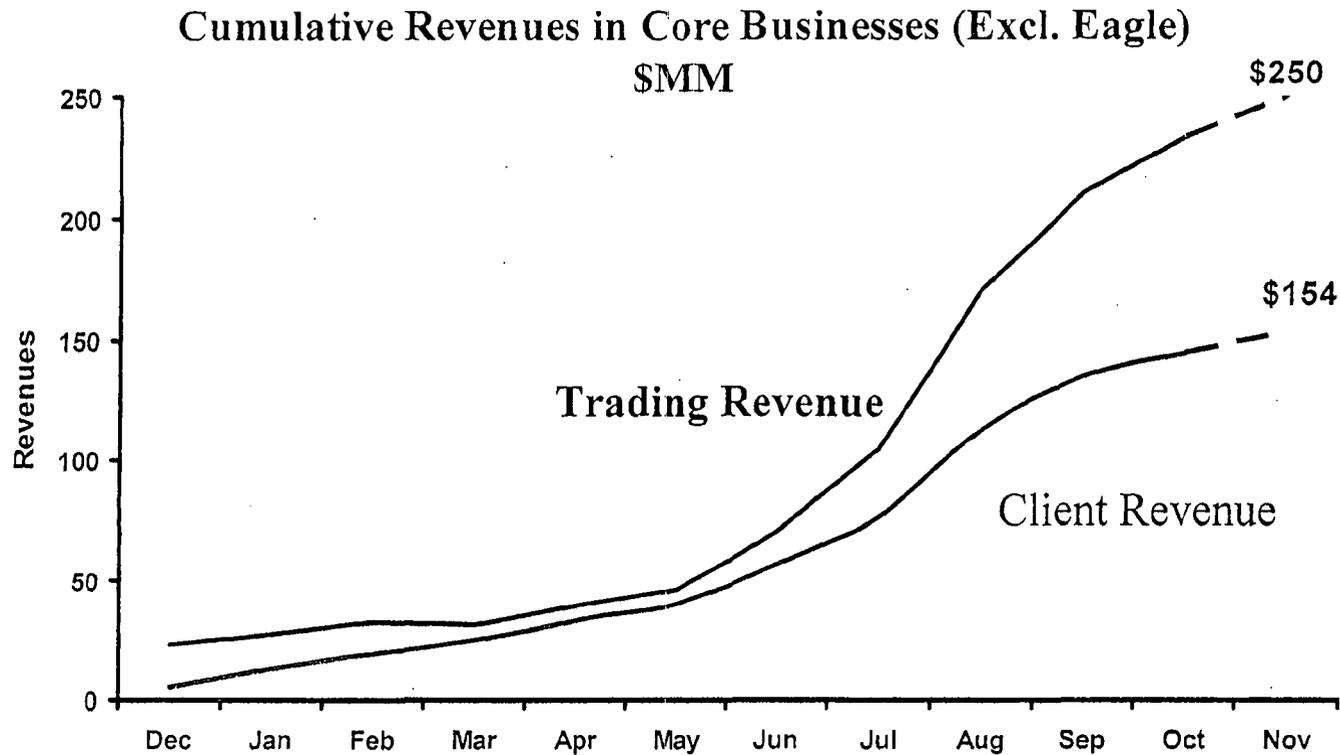


\* Represents impact of estimated full year Eagle revenues.

# 2007 YTD Business Performance

The Commodities business has created strong revenue momentum in *both* Client and Trading revenues:

## 2007 Cumulative Client and Trading Revenues (\$MM)



# 2007: Building the Core Business

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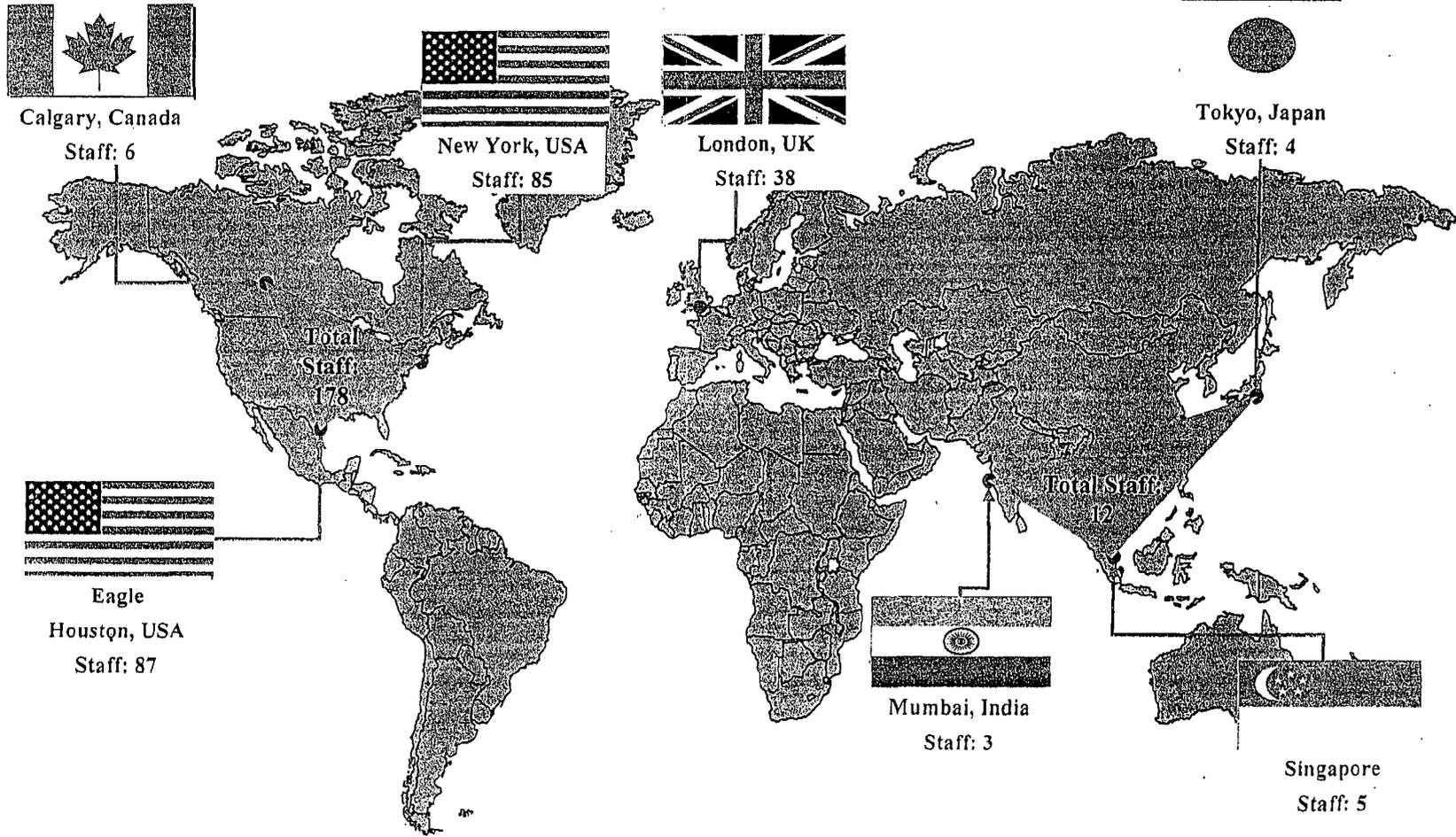
The Commodities business is focused on four core businesses:

	<u>2007 Revenues</u>
◆ North American Natural Gas & Power - Includes Eagle Energy	\$250MM
◆ Global Investor Products and Metals	\$40MM
◆ Global Oil & Refined Products	\$20MM
◆ European Natural Gas, Power and Emissions	\$15MM
Total	\$325MM

# 2007: Building the Core Business

We have aggressively grown our global headcount to 228 front-office personnel:

## Global Commodities Front Office Footprint



# 2007: Building the Core Business

We acquired Eagle Energy in 2007. This acquisition significantly broadened our client base, and added physical capabilities for Gas and Power in the US - including marketing, storage and delivery.

## Eagle Footprint



- Strong Physical Gas & Power Capabilities
- Functional Physical Gas & Power Capabilities

## Financial & Physical Capabilities

		Americas	Europe	Asia
Natural Gas	Financial			
	Physical			
Power	Financial			
	Physical			
Oil	Financial			
	Physical			

- LEH 2007 Capabilities
- Eagle 2007 Capabilities
- Planned 2008 Expansion

# 2007: Building the Core Business

The IBD Energy Banking franchise is a key competitive advantage. Year to date, \$58MM in revenues have been created in partnership with IBD.

## Example: Linn Energy Transaction

### Traditional Revenue Opportunities

- ◆ **M&A Fees** Revenues \$4MM<sup>1</sup>  
Dominion Resources' \$2BB Sale of Gas & Oil Fields to Linn Energy
- ◆ **Private Capital Markets** Revenues \$11MM  
Lead Placement Agent on \$1.5BB PIPE
- ◆ **Principal Opps** Investment \$260MM

### Commodity Hedging Solution

- ◆ **Structured Solutions** Revenues \$41MM
- ◆ **Sole Hedge Structuring and Execution Agent:**
  - *Largest gas trade in 2007: 200BB ft<sup>3</sup> natural gas and 4MM barrels of oil*
  - Swaps and Options
- ◆ **Restructured Transaction at Customer's Request**

*Continuing the IBD partnership is a core component of our strategy!*

<sup>1</sup> Revenues part of overall \$20MM M&A fee for Dominion

# Building a Client Franchise – Leading Transactions

The Commodities business has closed several significant deals in 2007, many in partnership with other Lehman businesses:



**P&L = \$15mm**

*Gas prepay with the City of Tallahassee in partnership with the Municipals business*



**P&L = \$5mm**

*Term natural gas hedge against baseload power generation*



**P&L = \$5mm**

*Term hedge of Gold vs \$AUD as part of acquisition of mine. Originated by Grange*



**P&L = \$3mm**

*First term LNG contract - purchasing UK natural gas at National Balancing Point Hub*



**P&L = \$1mm**

*Recently executed first trade - purchase of out-of-the-money natural gas options*



**P&L = \$1mm**

*Executed portfolio of options against rapidly increasing Tar Sand volumes*



**P&L = \$1mm**

*First sale of a financial uranium swap to end nuclear power customer*



**P&L = \$1mm**

*Large Asia flow client. Executed over 22mln barrels of crude and refined product hedges*

*Many client opportunities remain*



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## 2008: Scaling the Core Business

The 2008 plan is to aggressively scale our core businesses with senior hires in strategic locations:

	<u>2007</u> <u>Headcount</u>	<u>2008</u> <u>Headcount</u>	<u>Change</u>
◆ North American Natural Gas & Power - Includes Eagle Energy	132	153	+21
◆ Global Investor Products and Metals	23	38	+15
◆ Global Oil & Refined Products	31	48	+17
◆ European Natural Gas, Power and Emissions	14	15	+1
◆ Research / Other	28	29	+1
<b>Total</b>	<b>228</b>	<b>283</b>	<b>+55</b>

## 2008 - 2010: Targeted Acquisitions

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**Additional opportunistic growth could come from targeted acquisitions:**

- ◆ **Extending Eagle through targeted acquisitions in North America**
  - Acquire marketing and logistics companies
  
- ◆ **Increasing physical capabilities via “Asset Light” acquisitions**
  - Lease natural gas, oil and refined products storage facilities
  - Lease natural gas pipeline capacity
  - Acquire power transmission rights on power grids
  
- ◆ **Partnering with Lehman principal businesses on commodity opportunities**
  - Manage commodity requirements of Lehman investments (e.g., supply energy commodity, distribute refined products and power)

# Successfully Delivering the Commodities Plan

We are confident that we can successfully implement the Commodities plan and achieve \$1BB of revenues in 2010:

## Key Success Drivers



*The foundation is built and our momentum is strong.  
The Commodities plan is achievable with additional investment.*

# Appendix: Revenue Gap Analysis

## Revenue make-up of our competitors

- ◆ Lehman operating groups:
  - Global Oil & Refined Products
  - North American Gas & Power
  - European Gas & Power
  - Global Investor Products
  - Global Metals
  - CO<sub>2</sub> Origination & Structuring
  - Principal Finance
  
- ◆ To close the gaps, we need to:
  - Finish US Power build-out – hire Head of business
  - Commence Metals build-out; #1 priority for Europe in 2008
  - Create risk culture in Europe and Asia
  - Build commodity structuring function to provide product leverage for sales
  - Create infrastructure to support increased risk-taking and client flow
  
- ◆ We have hired key people to run Americas Oil & Gas Sales, Global Oil, Global Investor Products and Metals
  
- ◆ Further investment is needed to fill-in gaps

Annualized Revenues	GS	LB & Eagle	Gap
Global Metals	\$400	\$10	(390)
Global Refined Product Deriv	350	5	(345)
US Natural Gas (incl. Eagle)	360	150	(210)
European Gas & Power	200	10	(190)
Global Crude Oil Deriv	150	10	(140)
Investor Products (GSCI, Exotics)	175	40	(135)
US Power (incl. Eagle)	150	100	(50)
Tokyo Commodities	50	-	(50)
Other	200	-	(200)
<b>Total Revenues (ex-Assets)</b>	<b>\$2,035</b>	<b>325</b>	<b>(\$1,710)</b>

Annualized Client Revenues	GS	LB	Gap
NA E&P Sales	\$200	\$10	(190)
Global Investor Sales	200	20	(180)
US Power Sales	150	20	(130)
Europe Gas & Power Sales	100	-	(100)
Global Metals	100	5	(95)
NA Consumer Sales (incl. Latam)	100	10	(90)
Asia Sales	50	5	(45)
Europe Oil Sales	50	10	(40)
<b>Total Client Revenues</b>	<b>\$950</b>	<b>\$80</b>	<b>(\$870)</b>

## 9/17/07 and 10/8/07 AUDIT COMMITTEE Meetings – Summary Talking Points

9/17:

### Review of Third Quarter Earnings Release

- A draft of the earnings release was distributed prior to the meeting
- Chris O'Meara discussed the contents of the draft press release, including a planned addition to the draft that would describe the net reduction in Fixed Income Capital Markets revenues resulting from valuation losses and gains.
- He reviewed his presentation for the public earnings conference call to be held on September 18 and the topics he expected to be the subject of analysts' questions, including the valuation losses and gains in Fixed Income Capital Markets, charges associated with restructuring the mortgage business, liquidity, mark-to-market and non-investment grade acquisition facilities.

### Ernst & Young Services Update

- Ed Grieb reviewed the services of Ernst & Young pre-approved by the Chairman since the last Committee meeting. There were no additional fees requiring Committee pre-approval.

10/8:

### Review of the Third Quarter 2007 MD&A and Consolidated Financial Statements

- Mr. Grieb introduced the review of the MD&A and financial statements and noted that they were consistent with the third quarter earnings press release reviewed by the Committee on September 17.
- He discussed a comment letter received from the SEC on the 2006 10-K and first two 2007 10-Qs, relating to exposure to sub-prime mortgages, and reported that the SEC's comments had been addressed in correspondence, with no requirement to amend the prior disclosure.
- He discussed procedures used to collect and validate the data used in the financial reports and MD&A.
- He then reviewed the financial statements, notes and MD&A with the Committee, highlighting the disclosures regarding mortgages and derivatives, fair value, securitizations, contingent acquisition facilities, liquidity and critical accounting policies.
- He discussed management's internal meeting to review and approve the financial statements.

### Ernst & Young Interim Report

- E&Y discussed their quarterly review of the financials.
- Bill Schlich discussed the scope of their review including internal controls over financial reporting.

- He delivered the required communications between the independent auditors and the Committee under applicable Statements on Auditing Standards, SEC rules and other professional standards.
- He stated that Ernst & Young was not aware of any material modifications needed for the financial statements to be in conformity with GAAP and expected to issue an unqualified review report.

#### **Ernst & Young Services Update**

- There were no interim pre-approvals and no additional fees requiring Committee pre-approval for E&Y services.

#### **Annual Report on Pre-Approval Policy and Hiring Policy**

- Beth Rudofker reported that Corporate Audit's processes for monitoring the Audit Committee's Pre-Approval Policy and Hiring Policy for Current and Former Employees of Ernst & Young were functioning well

**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>September 20, 2007</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
2. <u>September 25, 2007</u> (Executive Officer Change)	Erin Callan is elected Executive Vice President, Chief Financial Officer and Controller, effective December 1, 2007. Designated certain individuals as Executive Officers pursuant to the Rules of the Securities and Exchange Commission, effective December 1, 2007.

Board and Board Committee Consents  
10/15/07 Board Meeting

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

**DATE**

**SUMMARY**

(Executive Committee Action by Written Consent  
unless otherwise noted)

1. October 4, 2007  
(Titles)

Approved third quarter titles, primarily new hires  
and administrative corrections.