January 29, 2008

LEHMAN BROTHERS

DATE: January 22, 2008

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

FROM: Madeline L. Shapiro, Assistant Secretary MLS

RE: **JANUARY 29, 2008 MEETING OF THE BOARD OF DIRECTORS**

Enclosed please find an Agenda for the January 29, 2008 meeting of the Board of Directors and accompanying materials. Also enclosed is a summary of Executive Committee and certain other corporate actions taken since the November 8, 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:

Ms. Erin Callan
Mr. Joseph M. Gregory
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

AGENDA

LEHMAN BROTHERS HOLDINGS INC. ("Holdings")

BOARD OF DIRECTORS MEETING

January 29, 2008
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 November 8, 2007. (Resolution and Minutes Attached) (Fuld)

2) Report of January 28, 2008 Nominating and Corporate Governance Committee Meeting. (Resolution Attached) (Evans)

- Designation of Director nominees for election at the Annual Meeting.

3) Report of January 29, 2008 Finance and Risk Committee Meeting. (Resolutions Attached) (Kaufman)

4) Report of December 7, 2007 and January 28, 2008 Compensation and Benefits Committee Meetings. (Resolutions and Materials Attached) (Akers)

5) Report of December 12, 2007, January 24 and January 28, 2008 Audit Committee Meetings. (Cruikshank)

6) Financial Update. (Materials Attached) (Callan)

7) Presentation on Market Environment for Financial Service Company Debt. (Felder)

8) 2008 Budget. (Callan)

9) Independence Determinations with respect to individual Directors. (Resolutions Attached) (Russo)

10) Holdings Annual Meeting. (Resolutions Attached) (Russo)

- Delegation of authority for Annual Meeting, Proxy Statement and related materials.
- Approval of Annual Meeting Agenda.

11) Legal Update. (Russo)

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

WORKING LUNCH

HOLDINGS

1/29/2008 BOARD MEETING

Item 1

Holdings
Board of Directors
1/29/08

RESOLVED, that the Minutes of the meeting of the Board of Directors held on November 8, 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.

LEHMAN BROTHERS HOLDINGS INC.

Minutes of the Board of Directors
November 8, 2007

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held in the Board Room of 745 Seventh Avenue, on November 8, 2007, at 12:00 noon, pursuant to written notice.

PRESENT - BOARD MEMBERS

Mr. Michael L. Ainslie
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

ABSENT - BOARD MEMBERS

Mr. John F. Akers

ALSO PRESENT BY INVITATION

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

APPROVAL OF MINUTES

The first order of business was the approval of the Minutes of the Board of Directors meeting held on October 15, 2007. Upon motion duly made and seconded, it was unanimously

> **RESOLVED**, that the Minutes of the meeting of the Board of Directors held on October 15, 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.

REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Ms. Evans reported on the morning's meeting of the Nominating and Corporate Governance Committee. She noted that the Committee completed its annual review of compliance with its charter and that no deficiencies were noted. Ms. Evans stated that the Committee conducted its annual self-evaluation. She also reported that the Committee received a presentation from Mr. Russo on the Firm's Operating Exposures Committee and a briefing by Mr. Russo on the stockholder proposals received by the Firm for inclusion in the 2008 proxy statement. Ms. Evans also noted that Mr. Russo would be discussing the stockholder proposals with the full Board later in the meeting. Ms. Evans stated that the Committee met with Ridgeway Partners and discussed potential director candidates. Ms. Evans then distributed information regarding director candidates to the Board of Directors and a discussion regarding such candidates ensued.

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

Mr. Macomber reported on the morning's Compensation and Benefits Committee meeting. He described that the Committee reviewed and approved amendments to the Firm's Supplemental Retirement Plan and outstanding stock awards to comply with US tax code changes under Internal Revenue Code Section 409A. He also reported that the Committee is recommending that the Board of Directors approve related amendments to the Firm's equity plans. Mr. Macomber referenced materials regarding these amendments which were distributed to the Board of Directors for review in advance of the meeting and asked if the Directors had any questions regarding these materials. Mr. Macomber summarized that Section 409A governs deferred compensation and restricts when deferred compensation, including restricted stock units, may be delivered, and that the Firm is required to amend the Firm's outstanding equity awards to comply with Section 409A. Mr. Macomber also reported that, in connection with its review of award delivery terms, the Committee is recommending changes to prospective awards as well. After discussion, upon motion duly made and seconded, it was unanimously resolved that

> **WHEREAS**, the Compensation and Benefits Committee (the "Committee") of the Corporation has approved and recommended to the Corporation's Board of Directors the adoption of (i) the amended and restated form of the Corporation's 2005 Stock Incentive Plan (the "2005 SIP") in the form attached hereto as Exhibit A and (ii) certain amendments to the Corporation's 1994 Management Ownership Plan, 1996 Management Ownership Plan, 1999 Neuberger Berman Inc. Long Term Incentive Plan (the "LTIP") and Employee Incentive Plan; it is therefore

RESOLVED, that the Board of Directors hereby adopts the amended and restated form of the 2005 SIP in the form attached hereto as Exhibit A, with such changes or alterations thereto as the officers of the Corporation may, in their sole discretion, reasonably determine are necessary or desirable to fulfill the intention of these resolutions.

FURTHER RESOLVED, that each of the Corporation's 1994 Management Ownership Plan, 1996 Management Ownership Plan, 1999 Neuberger Berman Inc. LTIP and Employee Incentive Plan be, and hereby is, amended to (i) provide that the defined term "Change in Control" for purposes of each such plan shall also include an event that constitutes a Change in Control under Section 2(g) of the 2005 SIP as amended and restated in the immediately preceding resolution (and in the case of the LTIP, to provide that with respect to awards granted under the LTIP after November 8, 2007, the term "Change in Control" shall be solely as defined under such Section 2(g) of the 2005 SIP) and (ii) include a new section substantially in the form attached hereto as Exhibit B regarding compliance with Section 409A of the Internal Revenue Code.

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to take such further action with respect to the foregoing plans and programs including, without limitation, preparing and distributing award agreements and/or statements, making adjustments for amounts due the Corporation by the award recipient, and executing such further documents and taking such further action as they may, with the advise of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions, or to comply with law; and with respect to those awards which are subject to the laws of any foreign jurisdiction, the officers of the Corporation are each hereby authorized and directed to determine the form of awards to employees who are personally residing outside the United States and to take such actions and to make such amendments including, without limitation, preparing and executing such trust instruments or other documents as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions and to achieve tax efficiency and to comply with the provisions of any relevant local law or regulations in those territories, provided such actions do not result in an incremental material cost to the Corporation.

Mr. Macomber reported that the Committee reviewed and approved the 2007 bonus pool and the year-end stock award program. He stated that the Committee approved a Firm-wide bonus pool for 2007 which, together with all other compensation and benefits expenses for 2007, does not exceed 49.8% of the Firm's net revenues. Mr. Macomber also reported that the Committee approved the terms and conditions for the year-end equity awards. He stated that the Committee estimates that awards granted for fiscal 2007 will total approximately 53 million shares, compared to 45 million shares for fiscal 2006. Mr. Macomber reported that the Committee expects that the Firm will have a shortfall of shares for the equity award program for fiscal 2008 year-end, depending on compensation levels and stock price appreciation, and that the Committee is giving careful consideration to alternative solutions. Mr. Macomber also reported that the Committee discussed using performance restricted stock units (or some other form of equity award in place of an option award) for fiscal 2007 year-end awards to members of the Executive Committee.

REPORT OF THE AUDIT COMMITTEE

Mr. Cruikshank reported on the morning's Audit Committee meeting. He described that the Committee reviewed and approved the audit, audit-related, tax and other services of Ernst & Young ("E&Y") in accordance with the Committee's Pre-Approval Policy for Independent Auditor Services. Mr. Cruikshank reported that the Committee approved additional audit fees of $250,000, bringing total audit fees for the year to $21,950,000, compared to $19,685,000 for fiscal 2006. He then summarized the E&Y report provided to the Committee by Mr. William Schlich of E&Y. Mr. Cruikshank reported that E&Y is on target to complete its year-end work, and that additional areas of E&Y focus given the credit cycle include leveraged loans, mortgage whole loans, mortgage related hedges, real estate, collaterized loan obligations, municipal bonds, and structured notes.

Mr. Cruikshank reported that Ms. Beth Rudofker, Global Head of Corporate Audit, gave the semi-annual report on Corporate Audit to the Committee. He reported that Corporate Audit noted no material weaknesses during the reporting period, and that Corporate Audit is spending time across risk and businesses largely as planned, with a focus in the areas of greatest risk and materiality. Mr. Cruikshank also summarized the semi-annual report on Compliance activity presented to the Committee by Mr. David DeMuro, Global Head of Compliance, and reported that the Firm's number of customer complaints and amount of regulatory fines are smaller than its competitors. Mr. Cruikshank concluded by stating that the Committee met in separate private sessions with Ms. Rudofker and Mr. DeMuro following the Committee meeting.

FINANCIAL UPDATE

Mr. O'Meara reviewed the Firm's financial results for the month of October and for the fiscal year to date. As part of such review, he discussed, among other things, market environment, revenues, expenses, net income, earnings per share, return on equity, pre-tax margin, and the Firm's expenses. He compared the results to monthly averages during 2007 and to budget, and he presented year-to-date performance information compared to budget and to 2006. Mr. O'Meara described the performance of the Firm by business unit and by region. Mr. O'Meara also discussed the Firm's capital position (including leverage ratios) and the increase in risk appetite usage. He provided an analysis of competitor information and discussed the results of the Firm's competitors.

Mr. O'Meara concluded by presenting a monthly financial performance trend analysis, as well as a quarterly and annual financial performance trend analysis.

CREDIT MARKET UPDATE

Mr. Alex Kirk, Mr. Peter Hornick, and Mr. Charles Spero, Managing Directors in the Firm's Fixed Income Division, gave a presentation to the Board of Directors regarding the Firm's exposure to asset-backed securities ("ABS") collaterized debt obligations ("CDO"). Mr. Kirk stated that there are two key reasons why the Firm has successfully navigated the difficult ABS environment of 2007: the Firm has been predominantly net short the market within ABS CDO's, and the Firm has been a smaller player in the ABS CDO market due to its business model of distributing all parts of the capital structure.

Mr. Kirk stated that the Firm's ABS CDO business is highly coordinated around risk, structuring, and distribution, and he discussed its risk management and business practices. Mr. Spero described that the Firm's ABS CDO desk became concerned in late 2006 about excessive valuations in ABS CDOs and began to position itself accordingly. He discussed the trading strategies used to minimize the Firm's ABS CDO exposure. Mr. Spero also analyzed the Firm's current ABS CDO risk position and presented an analysis of the Firm's ABS CDO risk position from June 2006 until the present.

Mr. Hornick next described the Firm's operating principles in the ABS CDO market, which included strategies to distribute, not retain, risk. He presented an analysis of 2006-2007 ABS CDO issuance by underwriter, noting that the Firm's ABS CDO issuance during this period was $11 billion, or a 3.1 percent market share. Mr. Hornick compared the Firm's structuring practices to those of a competitor, explaining that the Firm's superior structures contributed to its distribution business model. He presented additional analysis of 2006-2007 ABS CDO issuance by underwriter, including an estimate of projected losses due to CDOs. The Board of Directors directed questions to the presenters regarding the Firm's hedging strategy in the ABS CDO market, the Firm's perspective on the models used by the ratings agencies for the ABS CDO market, the current state of the ABS CDO market, and the prospects for the ABS CDO market.

TAKEOVER DEFENSE UPDATE

Mr. Mark G. Shafir, Global Head of Mergers and Acquisitions, presented a Takeover Defense Update to the Board of Directors. Mr. Shafir commenced by presenting a situation review and vulnerability assessment of the takeover risk to the Firm. As part of the situation review, Mr. Shafir reviewed the Firm's performance and valuation. He described that the number and success rate of activist campaigns is on the rise due to low barriers to entry, minimal downside risk, and high returns. Mr. Shafir also reported that strategic acquisition activity in the Firm's industry has not been hostile, although pressure tactics can be applied short of a public offer. Mr. Shafir reviewed mergers that have occurred in the industry, concluding that sector mergers have performed poorly. Mr. Shafir then assessed the Firm's vulnerability to takeover risk. He reviewed the Firm's shareholder base and structural protections. Mr. Shafir noted that shares held by employees and the RSU trust approximate 21% of the vote of the Firm's common stock.

Mr. Shafir proceeded to provide recommendations based on this analysis. He discussed that preparation is key to responding to a hostile approach, and he described that this preparation should include the following: an updated stand-alone business plan; active Board dialogue regarding the Firm's strategic plan, the current mergers and acquisitions ("M&A") environment, and structural defenses; regular industry and M&A updates with senior management on strategic alternatives, potential partners and their ability to pay, and activist developments; and an on-call takeover defense team. He stated that the Firm's goal should be to avoid unwanted attention through continued business and stock price performance, but to be prepared for an unsolicited approach. Mr. Shafir reviewed the Firm's performance and provided an analysis of certain performance metrics demonstrating that the Firm has outperformed its peers over time. He presented an analysis of the market's perspective of the Firm compared to its peers, as well as a valuation analysis of the Firm's stock.

Mr. Shafir then discussed the rise of shareholder activism. He described that the severity of shareholder tactics is increasing, and he reported that over 60% of hostile cases are successful in getting management to acquiesce to demands. Mr. Shafir discussed the factors influencing this rise in shareholder activism, including the tremendous growth of hedge funds, low barriers to entry, high sensitivity regarding corporate governance, and a lack of structural defenses to shareholder activism. He described the typical shareholder activist objectives and their implications for the Firm. Mr. Shafir then provided a recent history of shareholder activism in financial services companies. He also discussed the current ownership of the Firm.

Mr. Shafir then analyzed potential strategic suitors, the strength of the strategic rationale for each, and their ability to pay. He also discussed prior transactions in the financial services industry, noting that these transactions have had a mixed record at best, due to significant cultural differences between the parties to the transaction. Mr. Shafir then discussed the Firm's takeover defenses. He described a continuum of hostile tactics used in a strategic offer or activist campaign. Mr. Shafir discussed strategic takeover defenses and presented a comparative analysis of the Firm's strategic defenses relative to its peers. Mr. Shafir noted that the primary defense against a proxy contest is a classified Board of Directors, and he discussed the defensive implications for the Firm of not having a classified Board. As part of his discussion of the Firm's strategic defenses, Mr. Shafir also described the impact of the voting of the RSU trust. He then recommended measures that the Firm should undertake regularly to ensure that its strategic defenses are optimized. The Board of Directors directed questions to management regarding the Firm's performance, the Firm's stock, and other matters.

AMENDMENT OF BY-LAWS

Mr. Russo referenced materials which were distributed to the Board of Directors for review in advance of the meeting and reiterated the recommendation contained in the materials that the Firm amend its By-Laws to clarify that the Corporation's stock can be represented by uncertificated shares. Mr. Russo stated that these amendments were intended to ensure the Firm's compliance with a NYSE requirement that listed securities be eligible to participate in the Direct Registration System. He discussed that this clarification is not a substantive change, since the Firm already provides investors with the ability to hold their shares in either certificated or uncertificated form. After discussion, upon motion duly made and seconded, it was unanimously resolved that

> **WHEREAS**, the Board has determined that it is advisable and in the best interests of the Corporation and its stockholders to amend the Corporation's Amended and Restated By-Laws (the "By-Laws") to ensure that the provisions thereof relating to stock certificates and uncertificated shares are consistent with the requirements of the Direct Registration System; it is therefore
>
> **RESOLVED**, that Section 1 and Section 4 of Article VI of the By-Laws shall be deleted and shall be replaced with the following:
>
>> Section 1. Form of Certificate; Uncertificated Shares. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock may be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Every holder of stock in the Corporation represented by a certificate shall be entitled to have a certificate signed in the name of the Corporation (i) by the Chairman of the Board, any Vice Chairman of the Board, the President or any Vice President and (ii) by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, representing the number of shares registered in certificate form. Except as otherwise provided by law or these By-Laws, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing stock of the same class and series shall be identical.
>>
>> Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the holder of record or by such person's attorney duly authorized, and upon the surrender of properly endorsed certificates for a like number of shares (or, with respect

to uncertificated shares, by delivery of duly executed instructions or in any other manner permitted by applicable law).

FURTHER RESOLVED, that shares of capital stock of the Corporation may be issued in uncertificated form in accordance with Section 158 of the General Corporation Law of the State of Delaware; provided that the foregoing shall not apply to shares of capital stock of the Corporation outstanding and currently represented by a certificate until such certificate is surrendered for transfer or otherwise to the Corporation.

FURTHER RESOLVED, that the Corporation be, and hereby is, authorized to enroll and participate in the Direct Registration System, and that the officers and agents of the Corporation, including the Corporation's transfer agent(s), be, and each of them hereby is, authorized and empowered to take all action necessary to enroll the Corporation in the Direct Registration System and, to the fullest extent permitted by law, to take any actions relating to such enrollment or in connection with the Corporation's participation in the Direct Registration System and that any and all actions of such officers and agents in connection therewith are hereby approved, adopted, ratified and confirmed.

FURTHER RESOLVED, that the officers of the Corporation be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Corporation, to take any and all actions, to negotiate for and enter into agreements and amendments to agreements, to perform all such acts and things, to execute, file, deliver or record in the name and on behalf of the Corporation, all such certificates, instruments, agreements or other documents, and to make all such payments as they, in their judgment, or in the judgment of any one or more of them, may deem necessary, advisable or appropriate in order to carry out the purpose and intent of, or consummate the transactions contemplated by, the foregoing resolutions and/or all of the transactions contemplated therein or thereby, the authorization therefor to be conclusively evidenced by the taking of such action or the execution and delivery of such certificates, instruments, agreements or documents.

UPDATE ON ANNUAL MEETING

Mr. Russo discussed the general plans for the 2008 Annual Meeting of Stockholders and noted that a further update on the Annual Meeting would be provided at the January 2008 meeting of the Board of Directors. Upon motion duly made and seconded, it was unanimously

RESOLVED, that the 2008 Annual Meeting of Stockholders (the "Annual Meeting") of the Corporation be held on April 15, 2008 or such other date and at such time as the Chairman shall determine; and

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

FURTHER RESOLVED, that the Corporation hereby declares that the record date for stockholders entitled to notice of and to vote at the Annual Meeting shall be February 15, 2008 or such other date as the Chairman shall determine.

Mr. Russo discussed the three stockholder proposals received for inclusion in the Firm's 2008 proxy statement. He reported that Mrs. Evelyn Y. Davis submitted a stockholder proposal which requests a detailed description of political contributions made by the Firm, including initial publication of this information in major newspapers, followed by its disclosure in the annual report to stockholders in subsequent years. Mr. Russo reported that the Firm received this proposal from Mrs. Davis last year, and it received a 4.3% "for" vote at the Firm's 2007 Annual Meeting of Stockholders. Mr. Russo also stated that proposals regarding disclosure of political contributions averaged a 21.4% "for" vote in the 2007 proxy season.

Mr. Russo then discussed a proposal submitted by the Central Laborers' Pension, Welfare & Annuity Funds which requests that the Board of Directors prepare and provide to shareholders a report discussing the Firm's potential financial exposure as a result of the mortgage securities crisis. Mr. Russo noted that since this is a new proposal, there is no voting history. He reported that the Firm plans to request no-action relief from the SEC to permit the Firm to exclude this proposal from the proxy statement, on the basis that the proposal relates to the Firm's ordinary business operations, and that there is a good chance the Firm will be successful in its request.

Mr. Russo reported that a proposal was submitted by the Free Enterprise Action Fund which requests that the Board of Directors prepare an Environmental Sustainability Report. Mr. Russo described that the intent of the proposal is not to support environmental initiatives: he stated that the proponents dispute the finding that human emissions of greenhouse gases cause global climate change, and their proposal suggests that the Firm's climate change activities are based on erroneous information. Mr. Russo stated that the Firm believes that the SEC may require inclusion of this proposal in the proxy statement, on the basis that the proposal relates to the Firm's position on a social policy issue more than it relates to the Firm's ordinary business operations.

LEGAL UPDATE

Mr. Russo stated that, in connection with the fiscal year-end equity award grants, the Firm is required to file a registration statement under the Securities Act of 1933 covering the additional shares of common stock available for grant under the 2005 Stock Incentive Plan. Mr. Russo referenced materials which had been distributed for review in advance of the meeting, and he described that the registration statement incorporates by reference the Firm's SEC reports under the Securities Exchange Act of 1934 and contains limited other content. Mr. Russo requested that the Directors execute the signature page for the registration statement.

Mr. Russo also provided the Board with an update on the Unocal matter and reported on a request from the New York State Attorney General regarding the Firm's transactions with another financial institution as part of an investigation into allegations that the other financial institution pressured appraisers to violate home appraiser independence laws.

BOARD OF DIRECTORS SELF-ASSESSMENT

The Board of Directors reviewed and discussed the composite document containing the Directors' responses to the Board of Directors self-evaluation questionnaire.

PRIVATE SESSION

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

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

Respectfully submitted,

Jeffrey A. Welikson
Secretary of the Meeting

LEHMAN BROTHERS HOLDINGS INC.

2005 STOCK INCENTIVE PLAN

1) **Purpose of the Plan**

The purpose of the Plan is to aid the Company and its Affiliates in recruiting and retaining employees, directors and consultants and to motivate such employees, directors and consultants to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such employees, directors and consultants will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

2) **Definitions**

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

(a) ***"Act"*** means The Securities Exchange Act of 1934, as amended, or any successor thereto.

(b) ***"Affiliate"*** means any entity that is consolidated with the Company for financial reporting purposes or any other entity designated by the Board in which the Company or an Affiliate has a direct or indirect interest of at least twenty-five percent (25%).

(c) ***"Award"*** means an Option, Stock Appreciation Right or Other Stock-Based Award granted pursuant to the Plan.

(d) ***"Award Agreement"*** means the written document or documents by which each Award is evidenced.

(e) ***"Board"*** means the Board of Directors of the Company.

(f) ***"Change in Control"*** means, with respect to any Award granted on or prior to November 8, 2007, the occurrence of any of the following events:

(i) The occurrence of an event described in paragraph (ii), (iii), (iv), (v) or (vi) below involving any entity (or an affiliate thereof) which had previously commenced (within the meaning of Rule 14d-2 under the Act), without the approval of the Board, a tender offer for shares having more than 20% of the combined voting power of the Company's outstanding shares of capital stock having ordinary voting power in the election of directors of the Company (the "Voting Securities");

(ii) An acquisition (other than directly from the Company) of any Voting Securities by any "Person" (as the term "person" is used for purposes of Section 13(d) or 14(d) of the Act) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Act) of 20% or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (A) an employee benefit plan (or a trust forming a part thereof or a trustee thereof acting solely in its capacity as trustee) maintained by (I) the Company or (II) any corporation or other Person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Company (for purposes of this definition, a "Subsidiary Entity"), (B) the Company or any of its Subsidiary Entities, or (C) any Person who files in connection with such acquisition a Schedule 13D which expressly disclaims any intention to seek control of the Company and does not expressly reserve the right to seek such control; provided, however, that any amendment to such statement of intent which either indicates an intention or reserves the right to seek control shall be deemed an "acquisition" of the securities of the Company reported in such filing as beneficially owned by such Person for purposes of this paragraph (ii);

(iii) The individuals who, as of the Effective Date, are members of the Board (the "Incumbent Board"), ceasing for any reason to constitute at least a majority of the members of the Board; provided, however, that if the election, or nomination for election by the Company's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened election contest or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (in each case, a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Proxy Contest; or

(iv) A merger, consolidation, recapitalization or reorganization involving the Company, unless such merger, consolidation or reorganization is a "Non-Control Transaction"; i.e., meets each of the requirements described in subparagraphs (A), (B) and (C) below:

(A) the stockholders of the Company, immediately before such merger, consolidation, recapitalization or reorganization, own, directly or indirectly, immediately following such merger, consolidation, recapitalization or reorganization, at least 50% of the combined voting power of the outstanding voting securities of the Company, the corporation resulting from such merger or consolidation, recapitalization or reorganization, or any parent thereof (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation, recapitalization or reorganization;

(B) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation, recapitalization or reorganization constitute at least 50% of the members of the board of directors of the Surviving Corporation immediately following the consummation of such merger, consolidation, recapitalization or reorganization; and

(C) no Person other than the Company, any Subsidiary Entity, any employee benefit plan (or any trust forming a part thereof or a trustee thereof acting solely in its capacity as trustee) maintained by the Company, the Surviving Corporation, or any Subsidiary Entity, or any Person who, immediately prior to such merger, consolidation, recapitalization or reorganization had Beneficial Ownership of 20% or more of the then outstanding Voting Securities has Beneficial Ownership of 20% or more of the combined voting power of the Surviving Corporation's then outstanding voting securities immediately following the consummation of such merger, consolidation, recapitalization or reorganization;

(v) A complete liquidation or dissolution of the Company;

(vi) Sale or other disposition of all or substantially all of the assets of the Company to any Person (other than a transfer to a Subsidiary Entity); or

(vii) An event that would constitute a "Change in Control" within the meaning of Section 2(g).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted percentage set forth in paragraph (ii) or subparagraph (iv)(A) or (C) above, as applicable, of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting

Securities by the Company, and thereafter such Beneficial Owner acquires any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

A "Hostile Change in Control" shall mean the occurrence of an event as contemplated in paragraph (i) above. A "Friendly Change in Control" shall mean any Change in Control that is not a Hostile Change in Control.

(g) ***"Change in Control"*** means, with respect to any Award granted after November 8, 2007, the occurrence of any of the following events:

(i) An acquisition (other than directly from the Company, but including any acquisition in connection with any merger, consolidation, recapitalization or reorganization involving the Company) of the Company's outstanding shares of capital stock having ordinary voting power in the election of directors ("Voting Securities") by any "Person" (as the term "person" is used for purposes of Section 13(d) or 14(d) of the Exchange Act) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 70% or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, in determining whether a Change in Control has occurred, Voting Securities that are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition that would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (A) an employee benefit plan (or a trust forming a part thereof or a trustee thereof acting solely in its capacity as trustee) maintained by (I) the Company or (II) any corporation or other Person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Company (for purposes of this definition, a "Subsidiary Entity"), (B) the Company or any of its Subsidiary Entities, or (C) any Person who files in connection with such acquisition a Schedule 13D that expressly disclaims any intention to seek control of the Company and does not expressly reserve the right to seek such control; provided, however, that any amendment to such statement of intent that either indicates an intention or reserves the right to seek control shall be deemed an "acquisition" of the securities of the Company reported in such filing as beneficially owned by such Person for purposes of this paragraph (i);

(ii) Any merger, consolidation, recapitalization or reorganization involving the Company, unless such merger, consolidation, recapitalization or reorganization is a "Non-Control Transaction"; i.e., meets each of the requirements described in subparagraphs (A), (B) and (C) below:

(A) the stockholders of the Company, immediately before such merger, consolidation, recapitalization or reorganization, own, directly or indirectly, immediately following such merger, consolidation, recapitalization or reorganization, at least 30% of the combined voting power of the outstanding voting securities of the Company, the corporation resulting from such merger, consolidation, recapitalization or reorganization, or any parent thereof (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation, recapitalization or reorganization;

(B) the individuals who were members of the Board immediately prior to the execution of the agreement providing for such merger, consolidation, recapitalization or reorganization constitute at least 50% of the members of the board of directors of the Surviving Corporation immediately following the consummation of such merger, consolidation, recapitalization or reorganization; and

(C) no Person other than the Company, any Subsidiary Entity, any employee benefit plan (or any trust forming a part thereof or a trustee thereof acting solely in its capacity as trustee) maintained by the Company, the Surviving Corporation, or any Subsidiary Entity, or any Person who, immediately prior to such merger, consolidation, recapitalization or reorganization had Beneficial Ownership of 70% or more of the then outstanding Voting Securities has Beneficial Ownership of 70% or more of the combined voting power of the Surviving Corporation's then outstanding voting securities immediately following the consummation of such merger, consolidation, recapitalization or reorganization;

(iii) Replacement within a consecutive twelve month period of a majority of the individuals who are members of the Board with individuals ("Replacement Board Members") who do not receive endorsement by a majority of the Board before the date of the appointment or election of such Replacement Board Member; or

(iv) Sale or other disposition (other than a transfer to a Subsidiary Entity) of all or substantially all of the assets of the Company to any Person, or any Person acquires such amount of assets in any consecutive twelve-month period ending on the most recent acquisition by such Person.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted percentage set forth in paragraph (i) of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company that, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and thereafter such Subject Person acquires any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur. In addition, notwithstanding the foregoing a Change in Control shall not be deemed to occur unless such transaction or occurrence constitutes a change in ownership or effective control within the meaning of Section 409A(a)(2)(A)(v) of the Code.

(h) *"Code"* means the Internal Revenue Code of 1986, as amended, or any successor thereto.

(i) *"Committee"* means the Compensation and Benefits Committee of the Board.

(j) *"Company"* means Lehman Brothers Holdings Inc.

(k) *"Dividend Equivalent Right"* means a dividend equivalent right granted under the Plan, which represents an unfunded and unsecured promise to pay to the Participant amounts equal to all or any portion of the regular cash dividends that would be paid on Shares covered by an Award if such shares were delivered pursuant to an Award.

(l) *"Effective Date"* means May 1, 2005.

(m) *"Employment"* means (i) a Participant's employment if the Participant is an employee of the Company or any of its Affiliates, (ii) a Participant's services as a consultant, if the Participant is consultant to the Company or any of its Affiliates and (iii) a Participant's services as a Non-Employee Director, if the Participant is a non-employee member of the Board; provided however that unless otherwise determined by the Committee, a change in a Participant's status from employee to non-employee (other than a director of the Company or an Affiliate) shall constitute a termination of employment hereunder. For purposes of the Plan, unless the Committee determines otherwise: (a) a transfer of a Participant's employment, without an intervening period of separation, between the Company and any Affiliate shall not be deemed a termination of employment, and (b) a Participant who is granted in writing a leave of absence shall be deemed to have remained in the employ of the Company during such leave of absence.

(n) *"Fair Market Value"* means, on a given date, (i) if there should be a public market for the Shares on such date, the closing price of the Shares on the New York Stock Exchange, or, if the Shares are not listed or admitted on any national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted) (the "NASDAQ"), or, if no sale of Shares shall have been reported on the New York Stock Exchange or quoted on the NASDAQ on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used, and (ii) if there should not be a public market for the Shares on such date, the Fair Market Value shall be the value established by the Committee in good faith and, in the case of an ISO, in accordance with Section 422 of the Code.

(o) *"ISO"* means an Option that is also an incentive stock option granted pursuant to Section 5(d).

(p) *"Non-Employee Director"* means a director of the Company who is not an employee of the Company or a Subsidiary.

(q) *"Option"* means (i) a non-qualified stock option or (ii) an ISO, as applicable, granted pursuant to Section 5.

(r) *"Option Price"* means the purchase price per Share of an Option, as determined pursuant to Section 5(a).

(s) *"Other Stock-Based Award"* means an award granted pursuant to Section 7.

(t) *"Participant"* means an employee, prospective employee, director or consultant of the Company or an Affiliate who is selected by the Committee to participate in the Plan.

(u) *"Performance-Based Award"* means an Other Stock-Based Award granted pursuant to Section 7(c).

(v) *"Plan"* means the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended from time to time.

(w) *"Shares"* means shares of common stock of the Company.

(x) *"Stock Appreciation Right"* means a stock appreciation right granted pursuant to Section 6.

(y) *"Subsidiary"* means a subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto), of the Company.

3) **Shares Subject to the Plan**

(a) The total number of Shares that may be issued under the Plan is ninety-five (95) million, plus the number of Shares calculated as set forth in subsection (c) below, subject to adjustment as provided in Section 9. Shares of Common Stock issued under the Plan may be authorized but unissued shares or authorized and issued shares held in the Company's treasury, or any combination thereof. No participant may be granted Options, Stock Appreciation Rights or Other Stock-Based Awards covering in excess of four million Shares in any fiscal year of the Company, and the maximum number of Shares that may be subject to Awards that are ISOs is twenty (20) million, subject to adjustment as provided in Section 9.

(b) In calculating the number of Shares remaining available for grants of Awards at any given time during the term of the Plan, the following rules shall apply:

(i) the number of Shares remaining for issuance shall be reduced by the number of outstanding Awards that consist of, or that are payable in Shares;

(ii) the number of Shares remaining for issuance shall be increased by the number of Shares withheld or tendered (by actual delivery or attestation) to pay the exercise price of an Option and by the number of shares withheld from any grant of Awards to satisfy tax withholding obligations;

(iii) the number of Shares remaining for issuance shall be increased by the number of Shares that have been granted, or reserved for distribution in satisfaction of Awards, that are later forfeited, or that expire or terminate or, for any other reason, are not payable or distributable under the Plan; and

(iv) the number of Shares remaining for issuance shall be increased by the number of Shares that have been granted in respect of Awards that are settled in cash under the Plan.

(c) The following numbers of Shares shall be added to the ninety-five (95) million Shares expressly identified in subsection (a) above: the number of Shares that, on the date that is immediately prior to the applicable date of expiration of each of the Lehman Brothers Holdings Inc. Employee Incentive Plan and the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (each, a "Prior Plan"), are available for issuance and not otherwise subject to outstanding Awards granted under the Prior Plans, increased by the number of Shares that, as of each such applicable expiration date, were subject to Awards granted and outstanding under the Prior Plans (the "Prior Awards") but which are subsequently not payable or distributable under the Prior Awards under any of the circumstances described in paragraph (ii), (iii) or (iv) of subsection (b) above.

4) **Administration**

(a) The Plan shall be administered by the Committee, the members of which shall be "independent" in accordance with all applicable stock exchange or market listing requirements. The Committee may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are intended to qualify as "non-employee directors" within the meaning of Rule 16b-3 under the Act (or any successor rule thereto) and, to the extent required by Section 162(m) of the Code (or any successor section thereto), "outside directors" within the meaning thereof. In addition, to the extent consistent with Rule 16b-3 under the Act, the Committee may delegate the authority to grant Awards under the Plan to officers or employees of the Company.

(b) The Committee is authorized to construe, interpret, implement and administer the Plan and any Award, to establish, amend and rescind any rules and regulations relating to the Plan and each Award, and to make any other determinations that it deems necessary or desirable for the administration of the Plan or with respect to any Award. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Award in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the construction, interpretation, implementation and administration of the Plan or any Award, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors). The Committee shall have the full and exclusive power and authority to make, and establish the terms and conditions of, any Award to any person eligible to be a Participant, consistent with the provisions of the Plan and to amend or waive any such terms and conditions at any time (including, without limitation, accelerating or waiving any conditions on vesting), provided, however, the Committee shall not have such power and authority to accelerate or otherwise provide for the times at which Shares with respect to any Award are delivered if any Award is subject to Section 409A of the Code in a manner that would result in the imposition upon any Participant of an additional tax under Section 409A of the Code, and provided further, in the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, a Participant is deemed to be a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code), payments and/or deliveries of Shares in respect of any Award subject to Section 409A of the Code shall not be made prior to the date which is six (6) months after the date of such Participant's separation from service from the Company and all Subsidiaries, determined in accordance with Section 409A of the Code and the regulations promulgated thereunder. None of Committee's determinations under the Plan and under any Award Agreement need be uniform and any such determinations may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan (whether or not such persons are similarly situated). Without limiting the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations under Award Agreements, and to enter into non-uniform and selective Award Agreements, as to (i) the persons to receive Awards, (ii) the terms and provisions of Awards, (iii) whether a Participant's Employment has been terminated for purposes of the Plan and (iv) any adjustments to be made to Awards pursuant to Section 9 or otherwise.

(c) The Committee shall require payment of any amount it may determine to be necessary to withhold for federal, state, local or other taxes or to otherwise satisfy any tax obligations due as a result of the exercise, grant, vesting of, or payment pursuant to, an Award. Unless the Committee specifies otherwise, the Participant may elect to pay a portion or all of such withholding or other taxes by (i) delivery, in cash or by check, (ii) delivery in Shares or (iii) having Shares withheld by the Company with a market value equal to the minimum statutory withholding rate from any Shares that would have otherwise been received by the Participant.

(d) Deliveries of Shares may be rounded to avoid fractional shares. In addition, the Company may pay cash in lieu of fractional shares.

5) **Terms and Conditions of Options**

Options granted under the Plan shall be, as determined by the Committee, non-qualified or ISOs for federal income tax purposes, as evidenced by the related Award agreements, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) *Option Price.* The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of the Shares on the date an Option is granted.

(b) *Exercisability.* Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted.

(c) *Exercise of Options.* Except as otherwise provided in the Plan or in an Award Agreement, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of this Section 5, the exercise date of an Option shall be the date a notice of exercise is received by the Company, together with provision for payment of the full purchase price in accordance with this subsection (c). The Option Price for the Shares as to which an Option is exercised shall be paid to the Company, at the election of the Committee, pursuant to one or more of the following methods: (i) in cash; (ii) in Shares having a market value equal to the aggregate Option Price for the Shares being purchased and satisfying such other requirements as may be imposed by the Committee; provided, that such Shares have been held by the Participant for no less than six months (or such other period as established from time to time by the Committee in order to avoid adverse accounting treatment applying generally accepted accounting principles); (iii) partly in cash and partly in such Shares; (iv) if there is a public market for the Shares at such time, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such Sale equal to the aggregate Option Price for the Shares being purchased or (v) by such other means as the Committee deems appropriate. No Participant shall have any rights to dividends or other rights of a stockholder with respect to Shares subject to an Option, and shall not otherwise be entitled to delivery of any Shares (or cash or other property in lieu thereof) underlying any such Option, until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan, and such Shares have been issued hereunder.

(d) *ISOs.* The Committee may grant Options under the Plan that are intended to be ISOs. Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). No ISO may be granted to any Participant who, at the time of such grant, owns more than ten percent of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (i) within two years after the date of grant of such ISO or (ii) within one year after the transfer of such Shares to the Participant, shall notify the Company immediately of such disposition and of the amount realized upon such disposition. All Options granted under the Plan are intended to be nonqualified stock options, unless the applicable Award Agreement expressly states that the Option is intended to be an ISO. If an Option is intended to be an ISO, and if for any reason such Option (or portion thereof) shall not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a nonqualified stock option granted under the Plan, provided that such Option (or portion thereof) otherwise complies with the Plan's requirements relating to nonqualified stock options. In no event shall any member of the Committee, the Company or any of its Affiliates (or their respective employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of an Option to qualify for any reason as an ISO.

(e) *Attestation.* Wherever in this Plan or any agreement evidencing an Award a Participant is permitted to pay the exercise price of an Option or withholding taxes relating to the exercise of an Option or delivery of Shares pursuant to an Award by delivering Shares, the Participant may, subject to procedures satisfactory to the Committee, satisfy such delivery requirement by presenting proof of beneficial ownership of such Shares, in which case the Company shall treat the Option as exercised without further payment and shall withhold such number of Shares from the Shares acquired by the exercise of the Option or pursuant to the other Award.

(f) *Section 409A Restrictions on Option Awards.* Options shall only be granted to employees, independent contractors or Non-Employee Directors providing direct services to any corporation in a chain of corporations or other entities in which each corporation or other entity, starting with the Company, has a controlling interest in another corporation or other entity in the chain, ending with the corporation or other entity for which the service provider provides direct services on the date of grant of the Option. For this purpose, the term controlling interest has the same meaning as provided in Treas. Reg. Section 1.414(c)-2(b)(2)(i) of the Code, provided that the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treas. Reg. Section 1.414(c)-2(b)(2)(i). In addition, where the use of such stock with respect to the grant of an option to such service provider is based upon legitimate business criteria, the term controlling interest has the same meaning as provided in Treas. Reg. Section 1.414(c)-2(b)(2)(i), provided that the language "at least 20 percent" is used instead of "at least 80 percent" each place it appears in Treas. Reg. Section 1.414(c)-2(b)(2)(i). For purposes of determining ownership of an interest in an organization, the rules of Treas. Reg. Section 1.414(c)-3 and 1.414(c)-4 of the Code apply.

6) **Terms and Conditions of Stock Appreciation Rights**

(a) *Grants.* The Committee may grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted pursuant to clause (ii) of the preceding sentence (A) may be granted at the time the related Option is granted or at any time prior to the exercise or cancellation of the related Option, (B) shall cover the same number of Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 6 (or such additional limitations as may be included in an Award agreement).

(b) *Terms.* The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the Fair Market Value of a Share on the date the Stock Appreciation Right is granted; provided, however, that notwithstanding the foregoing in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the exercise price may not be less than the Option Price of the related Option. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to an amount, in cash and/or Shares, equal to (i) the excess of (A) the market value on the exercise date of one Share over (B) the exercise price per Share, times (ii) the number of Shares covered by the Stock Appreciation Right. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (i) the excess of (A) the market value on the exercise date of one Share over (B) the Option Price per Share, times (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered. Payment shall be made in Shares or in cash, or partly in Shares and partly in cash (any such Shares valued at such market value), as shall be determined by the Committee. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company of written notice of exercise stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. The date a notice of exercise is received by the Company shall be the exercise date. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead cash will be paid for a fraction or, if the Committee should so determine, the number of Shares will be rounded downward to the next whole Share.

(c) *Limitations.* The Committee may impose, in its discretion, such conditions upon the exercisability or transferability of Stock Appreciation Rights as it may deem fit.

(d) *Section 409A Restrictions on Stock Appreciation Right Awards.* Stock Appreciation Rights shall only be granted to employees, independent contractors or Non-Employee Directors providing direct services to any corporation in a chain of corporations or other entities in which each corporation or other entity, starting with the Company, has a controlling interest in another corporation or other entity in the chain, ending with the corporation or other entity for which the service provider provides direct services on the date of grant of the Stock Appreciation Right. For this purpose, the term controlling interest has the same meaning as provided in Treas. Reg. Section 1.414(c)-2(b)(2)(i) of the Code, provided that the language "at least 50 percent" is used instead of "at least 80 percent" each place it appears in Treas. Reg. Section 1.414(c)-2(b)(2)(i). In addition, where the use of such stock with respect to the grant of a Stock Appreciation Right to such service provider is based upon legitimate business criteria, the term controlling interest has the same meaning as provided in Treas. Reg. Section 1.414(c)-2(b)(2)(i), provided that the language "at least 20 percent" is used instead of "at least 80 percent" each place it appears in Treas. Reg. Section 1.414(c)-2(b)(2)(i). For purposes of determining ownership of an interest in an organization, the rules of Treas. Reg. Section 1.414(c)-3 and 1.414(c)-4 of the Code apply.

7) **Other Stock-Based Awards**

(a) The Committee, in its sole discretion, may grant or sell Awards of Shares and Awards that are valued in whole or in part by reference to, or otherwise based on the Fair Market Value of, Shares (all such Awards being referred to herein as "Other Stock-Based Awards"). Other Stock-Based Awards shall be in such form, and be subject to such terms and conditions, as the Committee shall determine, including without limitation, the following forms: (i) the right to purchase Shares, (ii) Shares subject to restrictions on transfer until the completion of a specified period of service, the occurrence of an event or the attainment of performance objectives, each as specified by the Committee, and (iii) Shares issuable upon the completion of a specified period of service, the occurrence of an event or the attainment of performance objectives, each as specified by the Committee. Other Stock-Based Awards may be granted alone or in addition to any other Awards made under the Plan. All references in the preceding sentence to "specified period of service," in the case of Other Stock-Based Awards which (i) are not in lieu of cash compensation to employees generally, (ii) are not paid to recruit a new employee in an amount of less than 5% of the total awards available for grant under the Plan or (iii) are not subject to the attainment of performance objectives, shall provide that vesting, restrictions on transfer or some other comparable restriction which incents continued performance of the Participant, will be for a period of not less than three years (although vesting or lapsing may occur in tranches over the three years), unless there is a Change in Control or the Participant retires, becomes disabled or dies. Subject to the provisions of the Plan, the Committee shall have sole and absolute discretion to determine to whom and when such Other Stock-Based Awards will be made, the number of shares of Common Stock to be awarded under (or otherwise related to) such Other Stock-Based Awards and all other terms and conditions of such Awards. The Committee shall determine whether Other Stock-Based Awards shall be settled in cash, Common Stock or a combination of cash and Common Stock.

(b) With respect to any restricted stock units granted under the Plan, the obligations of the Company or any Subsidiary are limited solely to the delivery of Shares (or, at the discretion of the Committee, cash in lieu thereof to the extent necessary to comply with applicable law, regulation or other local practice, as determined by the Committee) on the date when such Shares are due to be delivered under each Award Agreement. The Company or any Subsidiary may deliver cash to Participants for dividends paid to a holder of shares of Common Stock, for fractional shares or for any amounts payable in cash upon the occurrence of a Change in Control.

(c) The Committee may establish performance objectives that must be attained in order for the Company to make payments pursuant to Other Stock-Based Awards. The performance objectives for Awards will be based upon one or more of the following criteria: (i) before-tax income and/or net income; (ii) earnings per share; (iii) book value per share; (iv) stock price; (v) return on equity; (vi) expense management; (vii) return on investment; (viii) improvements in capitalization; (ix) profitability of an identifiable business unit or product; (x) profit margins; (xi) budget comparisons; (xii) total return to Stockholders; (xiii) net revenue; and (xiv) economic value added. The foregoing criteria may relate to the Company, one or more of its Subsidiaries or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The Committee shall determine whether, with respect to a performance period, the applicable performance goals have been met with respect to a given Participant and, if they have, shall so certify and ascertain the amount of the applicable Performance-Based Award. No Performance-Based Awards will be paid for such performance period until such certification is made by the Committee. The amount of the Performance-Based Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Sections 162(m) and 409A of the Code, elect to defer payment of a Performance-Based Award. The maximum amount of Other Stock-Based Awards that may be granted during a fiscal year of the Company to any Participant shall be (x) with respect to Other Stock-Based Awards that are denominated or payable in Shares, four million Shares, and (y) with respect to Other Stock-Based Awards that are not denominated or payable in Shares, $50 million.

(d) The Committee may grant Participants Dividend Equivalent Rights with respect to any Common Stock subject to any Award. The Committee shall specify at the time of grant of any Dividend Equivalent Right whether dividends shall be paid at the time dividends in respect of Common Stock are paid to other shareholders or accumulated and paid out at the time payment is called for under the Awards to which the Dividend Equivalent Right relates. Other Stock-Based Awards may, at the discretion of the Committee, provide the Participant with dividends or dividend equivalents and voting rights prior to either vesting or earnout.

8) **Unfunded Status of Plan; No Rights as a Shareholder.**

The Plan is intended to constitute an "unfunded" plan for long-term incentive compensation. With respect to any payments not yet made to a Participant, including any Participant-optionee, by the Company, nothing herein contained shall give any Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares or payments in lieu thereof or with respect to Options, Stock Appreciation Rights and Other Stock-Based Awards under the Plan; provided, however, that the existence of such trusts or other arrangements is consistent with the unfunded status of the Plan. Except as otherwise provided in a Participant's Award Agreement, no Participant (or other person having rights pursuant to an Award) shall have any of the rights of a shareholder of the Company with respect to Shares subject to an Award until the delivery of such Shares. Except as otherwise provided in Section 9, no adjustments shall be made for dividends or distributions on (whether ordinary or extraordinary, and whether in cash, Shares, other securities or other property), or other events relating to, Shares subject to an Award for which the record date is prior to the date such Shares are delivered.

9) **Adjustments Upon Certain Events**

Notwithstanding any other provisions in the Plan to the contrary, the following provisions shall apply to all Awards granted under the Plan:

(a) *Generally.* In the event of any change in the outstanding Shares after the Effective Date by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or transaction or exchange of Shares or other corporate exchange, or any distribution to shareholders of Shares other than regular cash dividends, or any transaction similar to the foregoing, the Committee in its sole discretion and without liability to any person may make such substitution or adjustment, if any, as it deems to be equitable, as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Plan or pursuant to outstanding Awards, (ii) the maximum number of Shares for which Awards may be granted during a fiscal year of the Company to any Participant, (iii) the Option Price or exercise price of any Stock Appreciation Right and/or (iv) any other affected terms of such Awards.

(b) *Change in Control.* If a Change in Control occurs after the Effective Date, at any time before such Change in Control the Committee may, but shall not be obligated to, (i) accelerate, vest or cause the restrictions to lapse with respect to, all or any portion of an Award, (ii) cancel Awards for fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, may equal the excess, if any, of value of the consideration to be paid in the Change in Control transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate exercise price of such Options or Stock Appreciation Rights, (iii) provide for the issuance of substitute Awards that will substantially preserve the otherwise applicable terms of any affected Awards previously granted hereunder as determined by the Committee in its sole discretion or (iv) provide that for a period of at least 30 days prior to the Change in Control, such Options shall be exercisable as to all shares subject thereto and that upon the occurrence of the Change in Control, such Options shall terminate and be of no further force and effect, provided in any such case the Committee shall not have such power and authority to accelerate the times at which Shares with respect to any Award are delivered if any Award is subject to Section 409A of the Code in a manner that would result in the imposition upon any Participant of an additional tax under Section 409A of the Code.

10) **No Right to Employment or Awards**

The granting of an Award under the Plan shall impose no obligation on the Company or any Affiliate to continue the Employment of a Participant and shall not lessen or affect the Company's or

Subsidiary's right to terminate the Employment of such Participant. No Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

11) **Successors and Assigns**

The Plan and any Award Agreement shall be binding on all successors and assigns of the Company and a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

12) **Transferability of Awards**

Unless otherwise determined by the Committee or as otherwise set forth in any Award Agreement, an Award shall not be sold, transferred, assigned, pledged, hypothecated or otherwise disposed of by the Participant otherwise than by will or by the laws of descent and distribution. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant. Any sale, transfer, assignment, pledge, hypothecation or other disposition in violation of the provisions of this Section 12 shall be void.

13) **Amendments or Termination**

The Board may amend or terminate the Plan, but no amendment or termination shall be made, (a) without the approval of the shareholders of the Company, if such action would (i) (except as is provided in Section 9), increase the total number of Shares reserved for the purposes of the Plan or increase the maximum number of Shares that may be issued hereunder, or the maximum number of Shares for which Awards may be granted to any Participant, (ii) change the class of persons eligible to be Participants; or (iii) extend the date after which Awards cannot be granted under the Plan; or (b) without the consent of a Participant, if such action would diminish any of the rights of the Participant under any Award theretofore granted to such Participant under the Plan; provided, however, that the Committee may amend the Plan and/or any outstanding Awards in such manner as it deems necessary to permit the Plan and/or any outstanding Awards to satisfy applicable requirements of the Code or other applicable laws.

14) **Treatment of Awards**

Absent express provisions to the contrary, an Award under this Plan shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or its Affiliates and shall not affect any benefits under any other benefit plan of any kind now or subsequently in effect under which the availability or amount of benefits is related to level of compensation. This Plan is not a "Pension Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

15) **Choice of Law**

The Plan shall be governed by and construed in accordance with the laws of the State of Delaware without regard to conflicts of laws.

16) **Effectiveness of the Plan**

The Plan shall be effective as of the Effective Date and shall terminate immediately prior to the tenth anniversary of the Effective Date, subject to earlier termination by the Board pursuant to Section 13.

Equity Plan Section 409A General Provision

409A Savings Clause Rider

Notwithstanding other provisions of the Plan or any Award agreements thereunder, no Award shall be granted, deferred, accelerated, extended, paid out or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a Participant. In the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, payments or deliveries of shares in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the relevant Award agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A of the Code, the Company will make such payment or delivery of shares on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code. In the case of a Participant who is a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code), payments and/or deliveries of shares in respect of any Award subject to Section 409A of the Code that are linked to the date of the Participant's separation from service shall not be made prior to the date which is six (6) months after the date of such Participant's separation from service from the Company and its affiliates, determined in accordance with Section 409A of the Code and the regulations promulgated thereunder. The Company shall use commercially reasonable efforts to implement the provisions of this Section [___] in good faith; provided that neither the Company, the Committee nor any of the Company's employees, directors or representatives shall have any liability to Participants with respect to this Section [___].[1]

[1] Insert: 18 for EIP, 12.15 for LTIP, 18 for 1996 MOP and 19 for 1994 MOP.

HOLDINGS

1/29/2008 BOARD MEETING

Item 2

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

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

HOLDINGS

1/29/2008 BOARD MEETING

Item 3

Holdings
Board of Directors
1/29/08

RESOLVED, that upon the recommendation of the Finance and Risk Committee, the Board of Directors hereby adopts the following stock dividend policy, effective for dividends payable on or after December 1, 2007: it is the policy of the Corporation to declare and pay an annual Common Stock dividend of $0.68 per share (which equates to $0.17 per share per quarter).

FURTHER RESOLVED, that the Corporation hereby declares a regular dividend on its Common Stock in the amount of $0.17 per share, payable in cash on February 22, 2008 to each person who was the holder of record thereof on February 15, 2008.

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

RESOLVED, that the Board of Directors hereby approves a Common Stock repurchase plan as presented and recommended by the Finance and Risk Committee under which the Corporation may repurchase, subject to market conditions, up to 100 million shares of its Common Stock for the management of the Corporation's equity capital, including offsetting dilution due to employee stock awards, as proper officers of the Corporation deem necessary or advisable. This resolution shall supersede and replace the Board of Directors' previous share repurchase resolution adopted on January 31, 2007.

FURTHER RESOLVED, that upon recommendation of the Finance and Risk Committee, the Board of Directors hereby approves, as part of such repurchase plan and subject to the limit on the number of shares which may be repurchased, the entry into call options on shares of the Corporation's Common Stock, as proper officers of the Corporation may deem advisable.

HOLDINGS

1/29/2008 BOARD MEETING

Item 4

MEMORANDUM

TO:	Members of the Board of Directors of Lehman Brothers Holdings Inc.
FROM:	Tom Russo
DATE:	January 22, 2008
SUBJECT:	Approval of the Executive Incentive Compensation Plan (F/K/A Short-Term Executive Compensation Plan)

At the upcoming meeting of the Board of Directors, the Compensation and Benefits Committee is expected to recommend that the Board (i) approve minor amendments to the STEP, including changing the name of the plan, and (ii) re-approve the terms of the Short-Term Executive Compensation Plan (the "STEP") in order to meet the requirements for the continuing deductibility of payments under Section 162(m) of the Internal Revenue Code.

Section 162(m) limits the Firm's tax deduction to $1 million per year per executive for certain compensation paid to each of its Chief Executive Officer and the four highest compensated executives other than the Chief Executive Officer (the "Covered Employees"). In general, the regulations under Section 162(m) exclude from this limitation compensation that is, among other things, calculated based on objective performance criteria and awarded under a plan that has received stockholder approval within the past five years. The STEP was last approved by the Firm's stockholders in 2003, and re-approval will be sought at the 2008 Annual Meeting of Stockholders.

The primary change to the STEP which is expected to be recommended by the Committee is to broaden the list of objective performance criteria which may be used by the Committee to determine annual bonus payments to the Covered Employees. The Committee is expected to recommend that the list be revised to include the following factors: economic value added; revenues, sales or net revenues; operating income; costs; cash flow; working capital; and return on assets. In addition, the Committee is expected to recommend that the plan be renamed the "Executive Incentive Compensation Plan," and that the annual bonus payments to the Covered Employees be called "Performance Bonuses" rather than "Special Bonuses" under the plan.

A copy of the proposed plan, marked to show changes from the STEP, is attached as <u>Exhibit A</u>. Please call Jeff Welikson at 212-526-0546 with any questions or comments (I will be travelling on business).

Exhibit A

LEHMAN BROTHERS HOLDINGS INC.

EXECUTIVE INCENTIVE COMPENSATION PLAN
(F/K/A SHORT-TERM EXECUTIVE COMPENSATION PLAN
~~As amended through February 19, 2003~~)

1. ~~1.~~ **PURPOSE.** The purpose of the ~~Short-Term~~ Executive Incentive Compensation Plan (the "Plan") is to advance the interests of Lehman Brothers Holdings Inc., a Delaware corporation (the "Company"), and its stockholders by providing incentives in the form of periodic bonus awards to certain employees of the Company and any of its subsidiaries or other related business units or entities ("Affiliates") including those who contribute significantly to the strategic and long-term performance objectives and growth of the Company and its Affiliates.

2. ~~2.~~ **ADMINISTRATION.** The Plan shall be administered by the Compensation and Benefits Committee of the Board of Directors (the "Committee"), as such committee is from time to time constituted. The Committee may delegate its duties and powers in whole or in part (i) to any subcommittee thereof consisting solely of at least two "outside directors," as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) to the extent consistent with Section 162(m) of the Code, to any other individual or individuals.

The Committee has all the powers vested in it by the terms of the Plan set forth herein, such powers to include the exclusive authority to select the employees to be granted bonus awards ("Bonuses") under the Plan, to determine the size and terms of the Bonus to be made to each individual selected (subject to the limitation imposed on "~~Special~~Performance Bonuses," as defined below), to modify the terms of any Bonus that has been granted (except with respect to any modification which would increase the amount of compensation payable to a "Covered Employee," as such term is defined in Section 162(m) of the Code), to determine the time when Bonuses will be awarded, to establish performance objectives in respect to Bonuses and to certify that such performance objectives were attained. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him or her, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under the Plan, except for his or her own willful misconduct or as expressly provided by statute.

3. ~~3.~~ **PARTICIPATION.** The Committee shall have exclusive power (except as may be delegated as permitted herein) to select the employees of the Company and its Affiliates who may participate in the Plan and be granted Bonuses under the Plan ("Participants"); provided, however, that ~~Special~~Performance Bonuses (as defined below) may only be granted to members of the Company's Executive Committee (or any successor entity of such committee in accordance with subsection (c) below) and other Managing Directors of the Company.

4. ~~4.~~ **BONUSES UNDER THE PLAN.**

(a) ~~(a)~~ In General. The Committee shall determine the amount of a Bonus to be granted to each Participant in accordance with subsections (b) and (c) below.

(b) ~~(b)~~ Standard Bonuses. The Committee may in its discretion grant to a Participant a cash Bonus (a "Standard Bonus") in the amount, and payable at the time, determined by the Committee or its delegate in its discretion. The amount of a Participant's Standard Bonus may be based upon any criteria the Committee wishes to consider, including but not limited to the objective or subjective performance of the Participant, the Company or any subsidiary or division thereof.

(c) Performance Bonuses.

(i) ~~(c) Special Bonuses. (i)~~ The Committee may in its discretion award a Bonus to a Participant who it reasonably believes may be or may become a Covered Employee (a "~~Special~~Performance Bonus") for the taxable year of the Company in which such Bonus would be deductible, under the terms and conditions of this subsection (c). Subject to clause (~~iii~~iv) of this Section 4(c), the amount of a Participant's ~~Special~~Performance Bonus shall be an amount determinable from written performance goals approved by the Committee while the outcome is substantially uncertain and no more than 90 days after the commencement of the period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The maximum amount of any ~~Special~~Performance Bonus that may be granted in any given fiscal year shall be 2.0% of the consolidated income of the Company and its subsidiaries before taxes ~~and dividends paid or payable on the Company's trust preferred securities earned by the Company and its subsidiaries~~ (as stated in the Company's audited financial statements) ~~in~~for the fiscal year in respect of which the ~~Special~~Performance Bonus is to be paid.

(ii) ~~(ii)~~ The amount of any ~~Special~~Performance Bonus will be based on objective performance goals established by the Committee using one or more performance factors. The performance criteria for ~~Special~~Performance Bonuses made under the Plan will be based upon one or more of the following criteria: (A) before or after tax net income; (B) earnings per share; (C) book value per share; (D) stock price; (E) return on Stockholders' equity (or tangible equity); (F) expense management; (G) return on investment; (H) improvements in capital structure; (I) profitability of an identifiable business unit or product; (J) before or after tax profit margins; (K) budget comparisons; (L) total return to Stockholders; ~~and (M) the relative performance of the Company against a peer group of companies on any of the measures above. Participants~~

~~who have primary responsibility for a business unit of the Company may be measured on business unit operating profit, business unit operating profit as a percent of revenue and/or measures related to business unit profitability above its cost of capital, in place of some or all of the corporate performance measures.~~(M) economic value added; (N) revenues, sales or net revenues; (O) operating income; (P) costs; (Q) cash flow; (R) working capital or (S) return on assets. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code, the performance goals may be calculated without regard to extraordinary items.

(iii) ~~(iii)~~ The Committee shall determine whether the performance goals have been met with respect to any affected Participant and, if they have, so certify and ascertain the amount of the applicable ~~Special~~Performance Bonus. No ~~Special~~Performance Bonuses will be paid until such certification is made by the Committee. Payment of Performance Bonuses shall be made in cash and/or in the form of equity-based awards under one of the Company's equity incentive plans, as determined by the Committee in its discretion.

(iv) ~~(iv)~~ The provisions of this Section 4(c) shall be administered and interpreted in accordance with Section 162(m) of the Code to ensure the deductibility by the Company or its affiliates of the payment of ~~Special~~Performance Bonuses.

5. ~~5.~~ **DESIGNATION OF BENEFICIARY BY PARTICIPANT.** The Committee or its delegate shall create a procedure whereby a Participant may file, on a form to be provided by the Committee, a written election designating one or more beneficiaries with respect to the amount, if any, payable in the event of the Participant's death. The Participant may amend such beneficiary designation in writing at any time prior to the Participant's death, without the consent of any previously designated beneficiary. Such designation or amended designation, as the case may be, shall not be effective unless and until received by the duly authorized representatives of the Committee or its delegate prior to the Participant's death. In the absence of any such designation, the amount payable, if any, shall be delivered to the legal representative of such Participant's estate.

6. ~~6.~~ **MISCELLANEOUS PROVISIONS.**

(a) ~~(a)~~ No employee or other person shall have any claim or right to be paid a Bonus under the Plan. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such eligible individuals are similarly situated. Neither the Plan nor any action taken hereunder shall be construed as giving any employee or other person any right to continue to be employed by or perform services for the Company or any Affiliate, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its Affiliates.

(b) ~~(b)~~ Except as may be approved by the Committee, a Participant's rights and interest under the Plan may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation by law or otherwise (except in the event of a Participant's death) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that, subject to applicable law, any amounts payable to any Participant hereunder are subject to reduction to satisfy any liabilities owed to the Company or any of its Affiliates by the Participant.

(c) ~~(c)~~ The Committee shall have the authority to determine in its sole discretion the applicable performance period relating to any Bonus; provided, however, that any such determination with respect to a ~~Special~~Performance Bonus shall be subject to any applicable restrictions imposed by Section 162(m) of the Code.

(d) ~~(d)~~ The Company and its Affiliates shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment.

(e) ~~(e)~~ The Company is the sponsor and legal obligor under the Plan, and shall make all payments hereunder, other than any payments to be made by any of the Affiliates, which shall be made by such Affiliate, as appropriate. Nothing herein is intended to restrict the Company from charging an Affiliate that employs a Participant for all or a portion of the payments made by the Company hereunder. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any amounts under the Plan, and rights to the payment hereunder shall be no greater than the rights of the Company's unsecured, subordinated creditors, and shall be subordinated to the claims of the customers and clients of the Company. All expenses involved in administering the Plan shall be borne by the Company.

(f) ~~(f)~~ The validity, construction, interpretation, administration and effect of the Plan and rights relating to the Plan and to Bonuses granted under the Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of Delaware.

(g) ~~(g)~~ Any controversy or dispute arising in connection with the Plan shall be resolved by arbitration pursuant to the Constitution and rules of the New York Stock Exchange, Inc. or the National Association of Securities Dealers, Inc.

(h) ~~(h)~~ The Plan shall be effective as of **[April ~~8, 2003,~~15, 2008]**, subject to the affirmative vote of the holders of a majority of all shares of Common Stock of the Company present in person or by proxy at the Annual Meeting of the Company to be held on **[April ~~8, 2003.~~15, 2008]**.

7. ~~7.~~ **PLAN AMENDMENT OR SUSPENSION.** The Plan may be amended or suspended in whole or in part at any time and from time to time by the Committee.

8. ~~8.~~ **PLAN TERMINATION.** This Plan shall terminate upon the adoption of a resolution of the Committee terminating the Plan.

9. ~~9.~~ **ACTIONS AND DECISION REGARDING THE BUSINESS OR OPERATIONS OF THE COMPANY AND/OR ITS AFFILIATES.** Notwithstanding anything in the Plan to the contrary, neither the Company nor any of its Affiliates nor their respective officers, directors, employees or agents shall have any liability to any Participant (or his or her beneficiaries or heirs) under the Plan or otherwise on account of any action taken, or not taken, in good faith by any of the foregoing persons with respect to the business or operations of the Company or any Affiliates.

10. ~~10.~~ **SUBORDINATED CAPITAL STATUS.** Notwithstanding any other provision of this Plan, any amounts due to Participants hereunder may be treated, in the Committee's sole discretion, to the extent that the Company accrues a liability in respect thereof, as subordinated capital of the Company in calculating the Company's net capital for regulatory purposes, and the terms of the Plan applicable to such amounts shall include (and, may be amended to add) such provisions as the Committee determines are necessary or appropriate in order to secure such treatment, including without limitation, provisions for the suspension of any payment obligation under the Plan under certain prescribed circumstances.

LEHMAN BROTHERS

MEMORANDUM

TO:	Members of the Board of Directors of Lehman Brothers Holdings Inc
FROM:	Tom Russo
DATE:	January 22, 2008
SUBJECT:	Proposed Amendments to the Compensation and Benefits Committee Charter

At the upcoming meeting of the Board of Directors, the Compensation and Benefits Committee (the "Compensation Committee") is expected to recommend that the Board adopt amendments to the Compensation Committee Charter. The proposed amendments reflect the changes to the executive compensation disclosure rules, which will govern the Firm's proxy statement disclosure for the first time this year.

The new executive compensation disclosure rules require the inclusion of a new Compensation Discussion and Analysis ("CD&A") section in the proxy statement. The CD&A, which is modeled after Management's Discussion and Analysis of Financial Condition and Results of Operations (or MD&A), is intended to be a principles-based analysis explaining the policies and decisions relating to named executive officer compensation. The CD&A also will become part of the Firm's Form 10-K.

Under the new executive compensation disclosure rules, the Compensation Committee Report becomes a brief report similar to the Audit Committee Report. The Compensation Committee Report will state whether: the Compensation Committee has reviewed and discussed the CD&A with management; and based on this review and discussion, the Compensation Committee recommends to the Board of Directors that the CD&A be included in the proxy statement.

The proposed amendments to the Compensation Committee Charter reflect the changes to the substance of the Compensation Committee Report and the addition of the CD&A. Attached is a copy of the Compensation Committee Charter, marked to show the proposed amendments. Please call Jeff Welikson at 212-526-0546 with any questions or comments (I will be travelling on business).

LEHMAN BROTHERS HOLDINGS INC.

COMPENSATION AND BENEFITS

COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

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

A. Oversee evaluation of the Corporation's management;

B. Discharge the responsibilities of the Board of Directors with respect to the Corporation's compensation and benefits programs and compensation of the Corporation's executives; and

C. Produce an annual Compensation Committee report ~~on executive compensation~~ for inclusion in the Corporation's annual proxy statement, in accordance with applicable rules and regulations of the New York Stock Exchange, Inc. ("NYSE"), Securities and Exchange Commission ("SEC") and other regulatory bodies.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

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

B. Appointment and Removal

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

C. Chairman

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

D. Delegation

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

III. MEETINGS

A. The Compensation Committee shall meet at least two times annually, or more frequently as circumstances dictate. The Chairman of the Board or any member of the Compensation Committee may call meetings of the Committee.

B. As part of its review and establishment of the performance criteria and compensation of designated key executives, the Compensation Committee should meet separately at least on an annual basis with the Chief Executive Officer (the "CEO"), the Corporation's principal human resources executive, and any other corporate officers, as it deems appropriate. All meetings of the Compensation Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.

C. All non-employee directors that are not members of the Compensation Committee may attend meetings of the Compensation Committee but may not vote. Additionally, the Compensation Committee may invite to its meetings any other directors or members of management of the Corporation and other persons as it deems appropriate in order to carry out its responsibilities, provided that such members of management shall not be present at meetings when their specific performance and compensation are being discussed and determined. The Compensation Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

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

Directors from time to time related to the purposes of the Compensation Committee outlined in Section I of this Charter.

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

A. Compensation Policy

1. Establish and review the overall compensation philosophy of the Corporation.

2. Review and approve corporate goals and objectives relevant to compensation of the CEO and such other members of senior management as the Board of Directors or the Compensation Committee shall deem appropriate from time to time (collectively, the "Designated Executives"), including annual and any longer-term performance objectives.

3. Periodically review other matters of interest to the Compensation Committee pertaining to compensation, including the Corporation's practices in the areas of perquisites and expense accounts for Designated Executives.

4. Review and approve, on at least an annual basis, the compensation process for lead research analysts engaged in the equity research business conducted by the Corporation or its subsidiaries.

B. Compensation Payments

1. Evaluate the performance of the Designated Executives in light of the relevant criteria and, based on such evaluation, determine and approve the annual salary, bonus, share and option awards, other long-term incentives, perquisites and other benefits to be paid to them.

2. Review and make recommendations to the full Board of Directors with respect to compensation of directors as well as director and officer indemnification and insurance matters.

3. Approve, or review and make recommendations to the full Board of Directors with respect to, any compensatory contracts or transactions (other than those pursuant to a plan, contract or other arrangement previously approved by the Compensation Committee or the Board of Directors) with current or former Designated Executives, including consulting arrangements, employment contracts, severance or termination arrangements and, to the extent permitted

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

C. Compensation Plans

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

2. Review the participation of the Designated Executives in the Corporation's employee pension plans.

D. Reports

1. Review and discuss the Compensation Discussion and Analysis with management and, if appropriate, recommend to the full Board of Directors that the Compensation Discussion and Analysis be included in the Corporation's filings with the SEC, in accordance with applicable rules and regulations of the NYSE, the SEC and other applicable regulatory bodies.

~~1.~~2. Prepare an annual Compensation Committee report ~~on executive compensation~~ for inclusion in the Corporation's proxy statement, in accordance with applicable rules and regulations of the NYSE, the SEC and other applicable regulatory bodies.

~~2.~~3. Report regularly to the Board of Directors (i) with respect to meetings of the Compensation Committee, (ii) with respect to such other matters as are relevant to the Compensation Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Compensation Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Compensation Committee designated by the Committee to make such report.

~~3.~~4. Maintain minutes or other records of meetings and activities of the Compensation Committee.

E. Related Party Transactions

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

V. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

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

B. In addition, the Compensation Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Compensation Committee considers necessary or valuable.

C. The Compensation Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

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

WHEREAS, the Compensation and Benefits Committee of the Board of Directors has recommended to the Board of Directors the adoption of the Executive Incentive Compensation Plan (F/K/A Short-Term Executive Compensation Plan) in order to meet the requirements for the continuing deductibility of certain compensation paid to executives under Section 162(m) of the Internal Revenue Code; now therefore be it

RESOLVED, that the Board of Directors hereby (i) adopts the Executive Incentive Compensation Plan in the form attached hereto as Exhibit A, subject to the approval of the stockholders of Holdings, (ii) directs that the approval of the Executive Incentive Compensation Plan be considered at the 2008 Annual Meeting of Stockholders of the Corporation scheduled to be held on April 15, 2008 (the "Annual Meeting"), and (iii) recommends to the stockholders of Holdings the approval of the Executive Incentive Compensation Plan at the Annual Meeting.

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to take such further action with respect to the foregoing plans and programs including, without limitation, executing such further documents and taking such further action as they may, with the advise of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions.

LEHMAN BROTHERS HOLDINGS INC.

EXECUTIVE INCENTIVE COMPENSATION PLAN
(F/K/A SHORT-TERM EXECUTIVE COMPENSATION PLAN)

1. **PURPOSE.** The purpose of the Executive Incentive Compensation Plan (the "Plan") is to advance the interests of Lehman Brothers Holdings Inc., a Delaware corporation (the "Company"), and its stockholders by providing incentives in the form of periodic bonus awards to certain employees of the Company and any of its subsidiaries or other related business units or entities ("Affiliates") including those who contribute significantly to the strategic and long-term performance objectives and growth of the Company and its Affiliates.

2. **ADMINISTRATION.** The Plan shall be administered by the Compensation and Benefits Committee of the Board of Directors (the "Committee"), as such committee is from time to time constituted. The Committee may delegate its duties and powers in whole or in part (i) to any subcommittee thereof consisting solely of at least two "outside directors," as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) to the extent consistent with Section 162(m) of the Code, to any other individual or individuals.

The Committee has all the powers vested in it by the terms of the Plan set forth herein, such powers to include the exclusive authority to select the employees to be granted bonus awards ("Bonuses") under the Plan, to determine the size and terms of the Bonus to be made to each individual selected (subject to the limitation imposed on "Performance Bonuses," as defined below), to modify the terms of any Bonus that has been granted (except with respect to any modification which would increase the amount of compensation payable to a "Covered Employee," as such term is defined in Section 162(m) of the Code), to determine the time when Bonuses will be awarded, to establish performance objectives in respect to Bonuses and to certify that such performance objectives were attained. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him or her, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under the Plan, except for his or her own willful misconduct or as expressly provided by statute.

3. **PARTICIPATION.** The Committee shall have exclusive power (except as may be delegated as permitted herein) to select the employees of the Company and its Affiliates who may participate in the Plan and be granted Bonuses under the Plan

("Participants"); provided, however, that Performance Bonuses (as defined below) may only be granted to members of the Company's Executive Committee (or any successor entity of such committee in accordance with subsection (c) below) and other Managing Directors of the Company.

4. **BONUSES UNDER THE PLAN.**

(a) In General. The Committee shall determine the amount of a Bonus to be granted to each Participant in accordance with subsections (b) and (c) below.

(b) Standard Bonuses. The Committee may in its discretion grant to a Participant a cash Bonus (a "Standard Bonus") in the amount, and payable at the time, determined by the Committee or its delegate in its discretion. The amount of a Participant's Standard Bonus may be based upon any criteria the Committee wishes to consider, including but not limited to the objective or subjective performance of the Participant, the Company or any subsidiary or division thereof.

(c) Performance Bonuses.

(i) The Committee may in its discretion award a Bonus to a Participant who it reasonably believes may be or may become a Covered Employee (a "Performance Bonus") for the taxable year of the Company in which such Bonus would be deductible, under the terms and conditions of this subsection (c). Subject to clause (iv) of this Section 4(c), the amount of a Participant's Performance Bonus shall be an amount determinable from written performance goals approved by the Committee while the outcome is substantially uncertain and no more than 90 days after the commencement of the period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The maximum amount of any Performance Bonus that may be granted in any given fiscal year shall be 2.0% of the consolidated income of the Company and its subsidiaries before taxes (as stated in the Company's audited financial statements) for the fiscal year in respect of which the Performance Bonus is to be paid.

(ii) The amount of any Performance Bonus will be based on objective performance goals established by the Committee using one or more performance factors. The performance criteria for Performance Bonuses made under the Plan will be based upon one or more of the following criteria: (A) before or after tax net income; (B) earnings per share; (C) book value per share; (D) stock price; (E) return on Stockholders' equity (or tangible equity); (F) expense management; (G) return on investment; (H) improvements in capital structure; (I) profitability of an identifiable business unit or product; (J) before or after tax profit margins; (K) budget comparisons; (L) total return to Stockholders; (M) economic value added; (N) revenues, sales or net revenues; (O) operating income; (P) costs; (Q) cash flow; (R) working capital or (S) return on assets. The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code, the performance goals may be calculated without regard to extraordinary items.

(iii) The Committee shall determine whether the performance goals have been met with respect to any affected Participant and, if they have, so certify and ascertain the amount of the applicable Performance Bonus. No Performance Bonuses will be paid until such certification is made by the Committee. Payment of Performance Bonuses shall be made in cash and/or in the form of equity-based awards under one of the Company's equity incentive plans, as determined by the Committee in its discretion.

(iv) The provisions of this Section 4(c) shall be administered and interpreted in accordance with Section 162(m) of the Code to ensure the deductibility by the Company or its affiliates of the payment of Performance Bonuses.

5. **DESIGNATION OF BENEFICIARY BY PARTICIPANT.** The Committee or its delegate shall create a procedure whereby a Participant may file, on a form to be provided by the Committee, a written election designating one or more beneficiaries with respect to the amount, if any, payable in the event of the Participant's death. The Participant may amend such beneficiary designation in writing at any time prior to the Participant's death, without the consent of any previously designated beneficiary. Such designation or amended designation, as the case may be, shall not be effective unless and until received by the duly authorized representatives of the Committee or its delegate prior to the Participant's death. In the absence of any such designation, the amount payable, if any, shall be delivered to the legal representative of such Participant's estate.

6. **MISCELLANEOUS PROVISIONS.**

(a) No employee or other person shall have any claim or right to be paid a Bonus under the Plan. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such eligible individuals are similarly situated. Neither the Plan nor any action taken hereunder shall be construed as giving any employee or other person any right to continue to be employed by or perform services for the Company or any Affiliate, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its Affiliates.

(b) Except as may be approved by the Committee, a Participant's rights and interest under the Plan may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation by law or otherwise (except in the event of a Participant's death) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that, subject to applicable law, any amounts payable to any Participant hereunder are subject to reduction to satisfy any liabilities owed to the Company or any of its Affiliates by the Participant.

(c) The Committee shall have the authority to determine in its sole discretion the applicable performance period relating to any Bonus; provided, however, that any such determination with respect to a Performance Bonus shall be subject to any applicable restrictions imposed by Section 162(m) of the Code.

(d) The Company and its Affiliates shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment.

(e) The Company is the sponsor and legal obligor under the Plan, and shall make all payments hereunder, other than any payments to be made by any of the Affiliates, which shall be made by such Affiliate, as appropriate. Nothing herein is intended to restrict the Company from charging an Affiliate that employs a Participant for all or a portion of the payments made by the Company hereunder. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any amounts under the Plan, and rights to the payment hereunder shall be no greater than the rights of the Company's unsecured, subordinated creditors, and shall be subordinated to the claims of the customers and clients of the Company. All expenses involved in administering the Plan shall be borne by the Company.

(f) The validity, construction, interpretation, administration and effect of the Plan and rights relating to the Plan and to Bonuses granted under the Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of Delaware.

(g) Any controversy or dispute arising in connection with the Plan shall be resolved by arbitration pursuant to the Constitution and rules of the New York Stock Exchange, Inc. or the National Association of Securities Dealers, Inc.

(h) The Plan shall be effective as of **April 15, 2008**, subject to the affirmative vote of the holders of a majority of all shares of Common Stock of the Company present in person or by proxy at the Annual Meeting of the Company to be held on **April 15, 2008.**

7. **PLAN AMENDMENT OR SUSPENSION.** The Plan may be amended or suspended in whole or in part at any time and from time to time by the Committee.

8. **PLAN TERMINATION.** This Plan shall terminate upon the adoption of a resolution of the Committee terminating the Plan.

9. **ACTIONS AND DECISION REGARDING THE BUSINESS OR OPERATIONS OF THE COMPANY AND/OR ITS AFFILIATES.** Notwithstanding anything in the Plan to the contrary, neither the Company nor any of its Affiliates nor their respective officers, directors, employees or agents shall have any liability to any Participant (or his or her beneficiaries or heirs) under the Plan or otherwise on account of any action taken, or not taken, in good faith by any of the foregoing persons with respect to the business or operations of the Company or any Affiliates.

10. SUBORDINATED CAPITAL STATUS. Notwithstanding any other provision of this Plan, any amounts due to Participants hereunder may be treated, in the Committee's sole discretion, to the extent that the Company accrues a liability in respect thereof, as subordinated capital of the Company in calculating the Company's net capital for regulatory purposes, and the terms of the Plan applicable to such amounts shall include (and, may be amended to add) such provisions as the Committee determines are necessary or appropriate in order to secure such treatment, including without limitation, provisions for the suspension of any payment obligation under the Plan under certain prescribed circumstances.

HOLDINGS

1/29/2008 BOARD MEETING

Item 6

LEHMAN BROTHERS

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

January 22, 2008

Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Tuesday, January 29. The materials include the estimated financial results for the month of December 2007, which will be discussed at the meeting.

At this meeting, Eric Felder, Global Head of High Grade Credit and U.S. Co-Head of Global Credit Products, will deliver a presentation on the market environment for financial service company debt.

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

Sincerely,

RSF:aj
Enclosures

Confidential Presentation to:

Lehman Brothers Board of Directors

Financial Information

December 2007

LEHMAN BROTHERS

Table of Contents

Executive Summary

Market Environment

- Global equity market valuations fell slightly in the month, amid a decline in most indices. U.S. markets overall were down 1%, while Europe remained relatively flat and Asia declined 2%.
  - Global average trading volumes were down 23% versus the averages in Q4 2007, and were 20% lower than average month 2007.
- Fixed Income credit spreads mostly widened in the month. The Lehman Global High Yield Index widened 6 bps and the Global Investment Grade Index widened by 5 bps. Most tranches of the ABX index widened significantly during the month.
- Treasury yields increased amid thin trading around the December holidays. The yield on the 2 year Treasury note increased 5 bps and the yield on the 10 year note increased by 9 bps.

Revenues / Expenses

- Monthly net revenues of $1,491 million fell below both December 2006 and average month 2007 by 11% and 2%, respectively.
  - Fixed Income Division revenues of $952 million surpassed December 2006 by 13% and almost doubled relative to average month 2007, amid a record performance in Prime Services and very strong revenues within Credit Products (2nd highest ever).
  - Equities Division revenues of $509 million surpassed both December 2006 and average month 2007 by 25% and 6%, respectively, led by strong results in Execution Services amid successful trading strategies, especially out of Asia.
  - Banking Division revenues of $268 million surpassed December 2006 by 19%, amid solid revenues across most products.
  - Investment Management Division revenues of $196 million were 5% lower than December 2006 and 14% behind average month 2007, amid lower incentive fees in Private Equity.
  - Principal Investments revenues of $(48) million fell significantly below both December 2006 and average month 2007, due to weak performances within Global Trading Strategies and Private Equity Principal.
  - Non-U.S. revenues of $625 million were 16% ahead of December 2006, but 6% behind average month 2007, as strong revenues in Asia were partially offset by a slightly lower performance in Europe.
- Personnel expenses were accrued at 49.3% of net revenues, consistent with prior periods.
- Non-personnel expenses of $320 million were higher than the December 2006 and average month 2007 levels.

Profitability

- Net income of $300 million and EPS of $0.51 were both 10% below average month 2007.
- Pretax margin was 29.2% and ROE was 16.3%

December 2007 Financial Results

	Monthly Performance				
$ millions, except per share data	December 2007	December 2006	% Δ	Avg. Month 2007	% Δ
Segment Revenues					
Investment Banking	296	291	2%	310	(4)%
Capital Markets	928	1,184	(22)%	973	(5)%
Investment Management	267	209	28%	246	9%
Total Revenues	1,491	1,683	(11)%	1,528	(2)%
Expenses					
Personnel	735	830	(11)%	753	(2)%
Non Personnel	320	275	16%	298	8%
Pre Tax Income	**435**	**578**	**(25)%**	**477**	**(9)%**
Income Taxes	135	191	(29)%	144	(7)%
Net Income	300	387	(22)%	333	(10)%
Additional Data					
Earnings per Common Share	$0.51	$0.66	(23)%	$0.58	(11)%
Return on Common Equity	16.3%	24.6%	-8.3pp	20.8%	-4.5pp
Pre Tax Margin	29.2%	34.3%	-5.1pp	31.2%	-2.0pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	-
Effective Tax Rate	31.0%	33.0%	-2.0pp	30.3%	+0.7pp
Divisional Revenues					
Fixed Income	952	840	13%	477	99%
Equities	509	407	25%	482	6%
Banking	268	224	19%	284	(6)%
Investment Management	196	206	(5)%	227	(14)%
Principal Investments	(48)	173	n/m	136	n/m
Banking & PIM Eliminations / Other	(387)	(167)	n/m	(78)	nm
Total Revenues	1,491	1,683	(11)%	1,528	(2)%
Regional Revenues					
Europe	333	345	(3)%	434	(23)%
Asia	292	194	51%	232	26%

Capital Markets

Fixed Income

- Revenues of $952 million surpassed both December 2006 and average month 2007.
- High Grade Credit recorded their second highest month ever, almost triple the average month 2007 level, on strong customer flow.
- Interest Rate Products also recorded their second highest month ever, more than double December 2006 and ahead of average month 2007 by 96%, on profitable trading strategies, primarily in derivative trading.
- Real Estate recorded a loss for the month, led by valuation adjustments across all regions, most notably Americas.
- Record Prime Services revenues, led by a record performance in Firm Financing due to a strong performance in our matched book.

Fixed Income Market Conditions

- Yields on the U.S. and European government 10 year notes rose during the month, while the U.K. and Japanese government 10 year notes both declined.
- Central Banks (Federal Reserve, ECB, Swiss National Bank, and Bank of England) held auctions of short term funds to alleviate a large liquidity crunch in credit markets at year-end.
- Global investment grade spreads widened by 5 bps and high yield spreads widened by 6 bps. Most tranches of the ABX index widened in the month.
- Brent crude oil futures increased 6% to $93.89 in the month.
- The Dollar strengthened against the British Pound ($2.06/£ to $1.98/£) and the Japanese Yen (¥111.2/$ to ¥111.7/$), and remained flat against the Euro ($1.46/€).

Equities

- Revenues of $509 million surpassed December 2006 by 25% and average month 2007 by 6%.
- Client activity was up 29% versus December 2006 and 5% versus average month 2007.
- Execution Services revenues were solid, outperforming December 2006 by 60% and average month 2007 by 37%.
- Derivatives revenues were solid, amid strong customer flow and profitable trading strategies.
- Convertible revenues declined versus both benchmark periods, as record customer flow was offset by unprofitable trading strategies, mainly in Americas.
- Equities Strategies recorded a loss for the month, led by a decline in Asia revenues, amid non-Japanese exposure.

Equity Market Conditions

- Global equity markets declined 1% in December, amid declines in most indices during the month.
  - Asia fell 2% as the Hang Seng index declined by 4%. The U.S. markets were down 1% and Europe markets remained flat.
  - Global average trading volumes were down 23% versus the averages in Q4 2007, and were 20% lower than average month 2007.
- The VIX index, which measures U.S. market volatility, decreased slightly from 22.9% to 22.5%.

Investment Banking

Revenue Summary

- Revenues of $268 million surpassed December 2006 by 19%.
- M&A revenues were strong, driven by large deals such as Firth Rixson, Houghton Mifflin, and ITC Corporation.
- Debt Origination surpassed both December 2006 and average month 2007, driven by fees from the $7 billion preferred issuance for Fannie Mae.
- Equity Origination revenues were solid, led by fees from the $3 billion convertible preferred issuance for Washington Mutual.
- We finished the quarter as the #1 underwriter of securities for U.S. Financial Institutions.
- Fee pipeline of $803 million was down 3% from November, but was up 5% versus the same month last year.

Market Environment

- Announced M&A volume declined 24% in the month of December, but was in line with average month 2007. Full Year announced volume surpassed 2006 level by 24%.
- Completed M&A volume in December fell below the prior month by 53% and average month 2007 by 27%. Full Year completed volume is 24% higher than last year.
- Equity Origination volume declined 11% in December, but increased 10% versus average month 2007. Full Year volume increased 22%, led by a significant increase in Convertibles.
- Fixed Income Origination fell 41% in December, amid a decline in all products, and was down 60% versus average month 2007. Full Year fixed income volume declined 7% versus 2006, led by a 26% decline in ABS, including sub-prime related issuance.

Significant Deals in Pipeline

	Value $Bn	Description	Gross Fees (Estimated)
Advisory:			
Cognos Inc	$4.5	• Sale to IBM	$26mm
MGI Pharma Inc.	3.7	• Sale to Eisai Co.	25mm
Imperial Tobacco Group	21.5	• Acquisition of Altadis SA	21mm
Hagemeyer NV	5.0	• Sale to Rexel	17mm
Equity Origination:			
Project Genesis	$ -	• Private Placement, joint books	$45mm
Liberty Acquisition Holdings	1.0	• IPO, co-managed	11mm
Erickson Retirement Communities	-	• Private Placement, lead books	10mm
MF Global	0.6	• Convertible Offering, joint books	10mm
Caja De Ahorros Del Mediterraneo	1.3	• IPO, joint books	10mm
Fixed Income Origination:			
Dana Corp	$2.0	• Bank loan, lead	$12mm
Imperial Tobacco Group PLC	-	• Bridge loan, lead	8mm
Genworth Financial - River Lake 5	1.0	• ABS, lead	7mm
Las Vegas Sands	3.6	• Senior note, lead	6mm

Global Market Share

	Rank		Lehman Share (%)		Mkt Volume ($ billion)		
	YTD 2007*	CY 2006	YTD 2007*	CY 2006	CY 2007	CY 2006	Var.
Fee Share**	9	9	4.4	4.6			
Announced M&A	9	8	17.1	15.4	4,482	3,610	24%
Completed M&A	7	7	19.7	15.8	3,785	3,055	24%
Equity	9	9	3.4	3.8	876	720	22%
IPO	9	11	2.9	2.8	309	269	15%
Secondary	11	10	2.6	3.8	386	327	18%
Convertible	8	8	6.0	6.2	178	123	45%
Fixed Income	5	4	5.5	6.2	6,634	7,123	-7%
Investment Grade	9	7	3.9	4.5	2,562	2,641	-3%
High Yield	8	9	6.6	5.2	166	185	-10%
ABS	5	5	5.9	6.2	1,145	1,545	-26%
MBS	1	2	8.9	8.9	1,300	1,452	-10%

* 2007 is calendar year-to-date through 12/31/2007
** Through December 2007

Investment Management / Principal Investments / Regional

Investment Management

- Revenues of $196 million were 14% below December 2006 and 5% lower than average month 2007, amid lower incentive fees in Private Equity and losses on seed investments in Lehman managed funds.
- AUM of $281 billion was down slightly ($1.3 billion) from November month end, as market appreciation of $0.6 billion was offset by net outflows of $1.9 billion.
- PIM revenues of $116 million surpassed December 2006, but fell slightly below average month 2007, as an increase in Fixed Income was offset by declines in both Equities and Asset Management products.

Principal Investments

- Revenues of $(48) million fell significantly below both December 2006 and average month 2007.
- Global Trading Strategies recorded a loss for the month, as investment gains in India were offset by unprofitable trading strategies in Americas and Europe.
- Revenues in Private Equity Principal were weak in December, due to poor performances within the MLP Prop Fund, Private Fund Investments Group, and Venture Capital.
- Also included in December's results was a $28 million gain from the minority investment in DE Shaw.

Europe

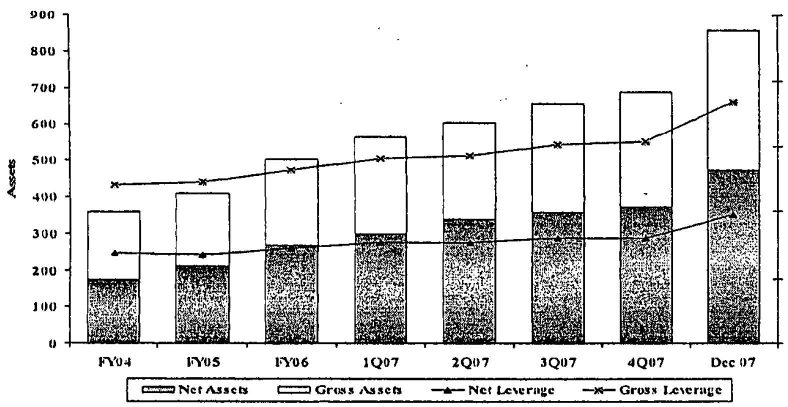
- Europe revenues of $333 million were 3% lower than December 2006 and 23% lower than average month 2007, led by a weak performance in Principal Investments.
- Fixed Income results were slightly ahead of both December 2006 and average month 2007, on strong Prime Services and Interest Rate Products revenues.
- Equities results trailed average month 2007, led by declines in Convertibles and Prime Services.
- Banking surpassed December 2006 by 10%, driven by a solid performance in Debt Origination.
- Principal Investments revenues were weak across all products.

Asia

- Asia revenues of $292 million surpassed both December 2006 and average month 2007.
- Fixed Income results were 40% ahead of average month 2007, amid strong results in Credit Products and Foreign Exchange.
- Equities revenues were strong, outperforming December 2006 and average month 2007, driven by gains in Execution Services and Derivatives.
- Banking easily surpassed December 2006 results, mainly due to strong performances in Equity Origination and Advisory.

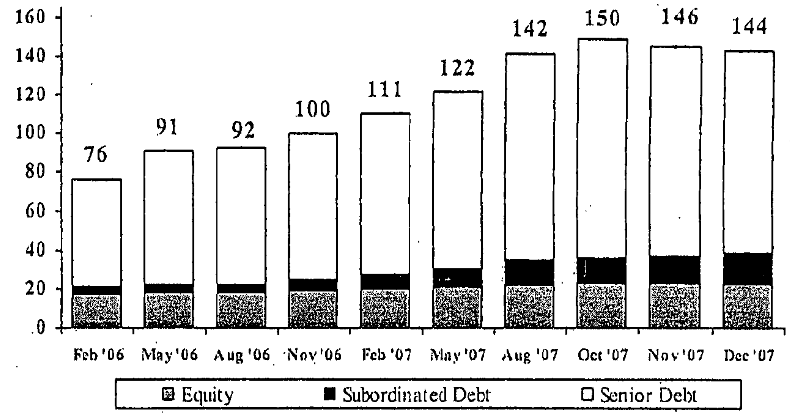
Balance Sheet, Capital and Risk

Balance Sheet ($ billions) / Leverage

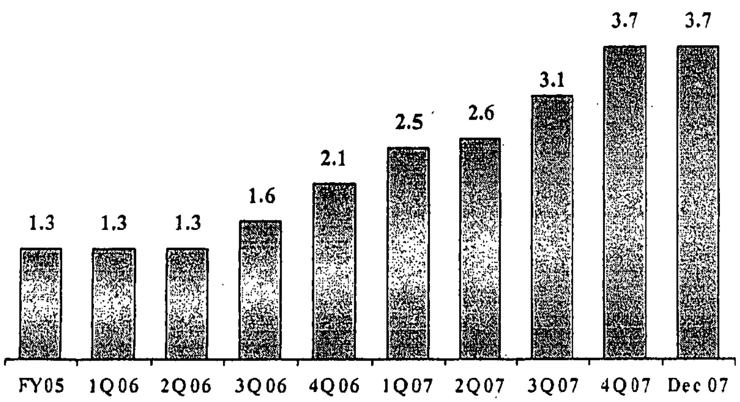


Figures represent period end amounts.

Long Term Capital ($ billions)



Average Risk Appetite Usage ($ billions)



Figures represent average daily usage.

Long Term Capital Roll Forward ($ billions)

		December '07 Activity			
	Nov '07	Issuances	Maturities	Other / Earnings	Estimated Dec '07
Senior Notes	108.9	2.3	(5.6)	(0.2)	105.5
Subordinated Debt	14.2	1.5		(0.1)	15.6
Total Long Term Borrowings	123.2	3.8	(5.6)	(0.3)	121.1
Preferred Stock	1.1				1.1
Common Equity	21.4			0.7	22.1
Total Long Term Capital	145.7	3.8	(5.6)	0.4	144.3

Competitor Information

	LEH	GS	MS	MER	BSC	C	BAC	JPM
Financial Statistics								
Price to Book [1,2]	1.4x	2.1x	1.6x	1.7x	0.9x	1.1x	1.2x	1.1x
Price to Earnings [1,3]	8.1x	8.7x	7.6x	10.4x	8.4x	8.0x	8.5x	9.9x
Dividend Yield	1.0%	0.6%	2.0%	2.6%	1.3%	7.3%	5.8%	3.4%
Book Value per Share [2]	$39.44	$90.43	$30.31	$32.80	$86.16	$22.74	$32.09	$36.59
Market Cap (billions)	$29	$81	$52	$47	$11	$122	$166	$138
Share Price Performance								
2008 Calendar Year to Date [1]	-16%	-11%	-9%	1%	-12%	-17%	-9%	-6%
Calendar Year 2007	-16%	8%	-21%	-42%	-46%	-47%	-23%	-10%
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
2007 Full Year ROE [4]	21%	33%	8%	n/m	3%	3%	11%	13%
Ten Year Debt Spreads (Basis Points)								
Spread vs. 1 Month Libor (12/31/07)	171	121	136	186	261	121	116	121
Spread vs. 1 Month Libor (11/30/07)	187	137	162	187	237	127	122	137
Spread vs. 10 Year UST (12/31/07)	235	185	200	250	325	185	180	185
Spread vs. 10 Year UST (11/30/07)	250	200	225	250	300	190	185	200
Long Term Debt Credit Ratings								
Standard & Poors	A+	AA-	AA-	A+	A	AA-	AA	AA-
Moody's	A1	Aa3	Aa3	A1	A2	Aa3	Aa1	Aa2
Fitch	AA-	AA-	AA-	A+	A+	AA	AA	AA-

Notes

1 - Share price as of January 22, 2008.

2 - Book values are per latest externally reported quarter. Book value per share is reflected on a pro-forma basis for BSC, MS and MER to include the conversion of the mandatory convertible issuances. Excluding adjustments, book value per share was 84.09, 28.56 and 29.37, respectively.

3 - Based on full year 2008 First Call estimates, updated on January 22, 2008.

4 - Excludes 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

$ millions, except per share data	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
Segment Revenues													
Investment Banking	291	294	265	278	413	459	373	394	304	168	316	347	296
Capital Markets	1,184	1,139	1,179	1,117	1,075	1,401	1,329	953	154	961	1,485	282	928
Investment Management	209	283	203	235	259	274	277	314	211	215	298	319	267
Total Revenues	**1,683**	**1,716**	**1,647**	**1,631**	**1,747**	**2,134**	**1,978**	**1,661**	**669**	**1,343**	**2,099**	**948**	**1,491**
Expenses													
Personnel	830	846	812	804	861	1,052	975	819	330	662	1,035	467	735
Non Personnel	275	287	297	307	306	302	313	318	348	322	351	324	320
Pre Tax Income	**578**	**583**	**538**	**520**	**580**	**779**	**690**	**524**	**(9)**	**359**	**713**	**157**	**435**
Income Taxes	191	192	170	166	186	254	221	157	(59)	106	210	28	135
Net Income	**387**	**391**	**368**	**353**	**395**	**525**	**469**	**367**	**51**	**254**	**503**	**129**	**300**
Additional Data													
Earnings per Common Share	$0.66	$0.67	$0.63	$0.61	$0.68	$0.91	$0.81	$0.64	$0.09	$0.44	$0.88	$0.22	$0.51
Return on Common Equity	24.6%	24.3%	22.9%	21.9%	24.1%	31.5%	27.4%	21.0%	2.6%	14.3%	28.0%	6.9%	16.3%
Pre Tax Margin	34.3%	34.0%	32.6%	31.9%	33.2%	36.5%	34.9%	31.6%	-1.3%	26.7%	34.0%	16.6%	29.2%
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	33.0%	33.0%	31.5%	32.0%	32.0%	32.6%	32.0%	30.0%	NM	29.4%	29.4%	17.7%	31.0%
Divisional Revenues													
Fixed Income	840	650	694	593	655	960	935	481	(169)	668	441	(732)	952
Equities	407	469	422	610	526	642	545	533	459	529	734	197	509
Banking	224	319	319	286	532	496	471	(113)	(111)	214	683	260	268
Investment Management	206	265	218	233	245	264	236	226	202	210	294	259	196
Principal Investments	173	208	130	62	126	257	78	(34)	(123)	171	249	415	(48)
Banking & PIM Eliminations / Other	(167)	(195)	(137)	(153)	(337)	(485)	(286)	568	411	(448)	(303)	550	(387)
Total Revenues	**1,683**	**1,716**	**1,647**	**1,631**	**1,747**	**2,134**	**1,978**	**1,661**	**669**	**1,343**	**2,099**	**948**	**1,491**
Regional Revenues													
Europe	345	442	436	525	511	657	569	353	243	269	409	711	333
Asia	194	168	179	181	257	305	264	315	40	282	468	267	292

Quarterly and Annual Financial Performance Trend

	2006				2007					
$ millions, except per share data	Q1 '06	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q2 '07	Q3 '07	Q4 '07	2006	2007
Segment Revenues										
Investment Banking	835	741	726	858	850	1,150	1,071	831	3,160	3,903
Capital Markets	3,046	3,078	2,847	3,035	3,502	3,594	2,435	2,727	12,006	12,257
Investment Management	580	592	605	640	695	768	802	832	2,417	3,097
Total Revenues	**4,461**	**4,411**	**4,178**	**4,533**	**5,047**	**5,512**	**4,308**	**4,390**	**17,583**	**19,257**
Segment Revenues										
Personnel	2,199	2,175	2,060	2,235	2,488	2,718	2,124	2,164	8,669	9,494
Non Personnel	711	738	751	809	860	915	979	996	3,009	3,750
Pre Tax Income	**1,551**	**1,498**	**1,367**	**1,489**	**1,699**	**1,879**	**1,205**	**1,230**	**5,905**	**6,013**
Income Taxes	513	496	451	485	553	606	318	344	1,945	1,821
Net Income Before Accounting Change	**1,038**	**1,002**	**916**	**1,004**	**1,146**	**1,273**	**887**	**886**	**3,960**	**4,192**
Cumulative Effect of Accounting Change	47	-	-	-	-	-	-	-	47	-
Net Income After Accounting Change	**1,085**	**1,002**	**916**	**1,004**	**1,146**	**1,273**	**887**	**886**	**4,007**	**4,192**
Additional Data										
Earnings per Common Share	$1.83	$1.69	$1.57	$1.72	$1.96	$2.21	$1.54	$1.54	$6.81	$7.26
Return on Common Equity	26.7%	23.7%	21.0%	22.3%	24.4%	25.8%	17.1%	16.6%	23.4%	20.8%
Pre Tax Margin	34.8%	34.0%	32.7%	32.8%	33.7%	34.1%	28.0%	28.0%	33.6%	31.2%
Compensation / Revenue	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%	33.1%	33.0%	32.5%	32.5%	32.3%	26.4%	27.9%	32.9%	30.3%
Divisional Revenues										
Fixed Income	2,365	2,497	2,081	2,086	2,184	2,207	1,247	377	9,029	6,015
Equities	1,000	1,103	914	1,015	1,297	1,778	1,537	1,460	4,031	6,073
Banking	808	740	711	1,079	862	1,314	247	1,157	3,338	3,581
Investment Management	563	583	609	638	690	742	664	762	2,393	2,858
Principal Investments	231	80	210	366	512	446	(80)	834	888	1,712
Banking & PIM Eliminations / Other	(506)	(593)	(346)	(652)	(499)	(975)	692	(201)	(2,096)	(982)
Total Revenues	**4,461**	**4,411**	**4,178**	**4,533**	**5,047**	**5,512**	**4,308**	**4,390**	**17,583**	**19,257**
Regional Revenues										
Europe	1,007	949	1,025	1,084	1,222	1,693	1,165	1,389	4,065	5,469
Asia	557	413	361	328	541	744	619	1,017	1,659	2,921

HOLDINGS

1/29/2008 BOARD MEETING

Item 9

Holdings
Board of Directors
1/29/08

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

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

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

HOLDINGS

1/29/2008 BOARD MEETING

Item 10

LEHMAN BROTHERS

MEMORANDUM

TO:	Members of the Board of Directors of Lehman Brothers Holdings Inc.
FROM:	Tom Russo
DATE:	January 22, 2008
SUBJECT:	2008 Stockholder Proposals and Statements of Opposition

As I discussed at the November Board meeting, the Firm received three stockholder proposals for inclusion in the 2008 proxy statement: Mrs. Evelyn Y. Davis submitted a stockholder proposal which requests a detailed description of political contributions made by the Firm; the Central Laborers' Pension, Welfare & Annuity Funds submitted a proposal which requests that the Board of Directors prepare a report discussing the Firm's potential financial exposure as a result of the mortgage securities crisis; and the Free Enterprise Action Fund submitted a proposal which requests that the Board of Directors prepare an environmental sustainability report.

We have enclosed for your review a draft statement of opposition for each of these proposals. The Firm has submitted two requests for no-action relief to the SEC, asking the SEC to permit us to exclude the mortgage exposure proposal and the sustainability report proposal from the proxy statement on the basis that each relates to the Firm's ordinary business operations. We have not yet received responses from the SEC to our no-action requests.

Under SEC rules, the Firm will be required to deliver a final statement of opposition to each proponent on Monday, February 4 (unless we have received no-action relief with respect to their proposals). Please contact Jeff Welikson at 212-526-0546 with any comments or questions on the statements of opposition (I will be travelling on business). I will provide an update on the stockholder proposals at the Board meeting.

PROPOSAL [__] — STOCKHOLDER PROPOSAL RELATING TO AN ENVIRONMENTAL SUSTAINABILITY REPORT

The Free Enterprise Action Fund, represented by Action Fund Management, LLC, 12309 Briarbush Lane, Potomac, MD 20854, the holder of approximately 452 shares of Common Stock, has proposed the adoption of the following resolution and has furnished the following statement in support of its proposal:

"RESOLVED: The shareholders request that the Board of Directors prepare by October 2008, at reasonable expense and omitting proprietary information, an Environmental Sustainability Report. The report may include:

1. Lehman's operating definition of environmental sustainable development;
2. A review of current Lehman's policies, practices and projects related to environmental sustainability; and
3. A summary of long-term plans to integrate environmental sustainability objectives with Lehman's operations.

The report may focus on Lehman's global warming/climate change activities.

SUPPORTING STATEMENT:

Lehman says that it "is engaged in efforts to find environmentally sustainable solutions and to develop market-based solutions in response to the threat posed by climate change..." [Press Release, September 26, 2007]

But it seems that management may be taking action based on erroneous information about global warming.

Management uses the so-called "hockey-stick" chart to support the notion that "the Earth's mean temperature has risen sharply in recent decades." [see Lehman's "The Business of Climate Change: Challenges and Opportunities," p.6 (February 2007).]

But the hockey stick graph has been scientifically discredited. [See e.g., U.S. Senate Committee on Environmental and Public Works, "Inhofe Says NAS Report Reaffirms 'Hockey Stick' Is Broken" (June 22, 2006), http://epw.senate.gov/pressitem.cfm?id=257697&party=rep.]

Moreover, the discrediting of the hockey stick graph occurred long before Lehman issued its February 2007 report.

Shareholders expect that management will undertake reasonable due diligence before undertaking action with corporate assets as management action based on erroneous information may not be "sustainable" for shareholders or the environment."

The Board of Directors unanimously recommends that stockholders vote AGAINST this proposal for the following reasons:

The Board of Directors has considered this proposal and believes that its adoption would not be a productive use of Firm resources and would not be in the best interests of the Firm or its stockholders. While the Firm's operations as a global financial services provider have a low impact on climate change, the Firm has undertaken a number of key initiatives to ensure that its clients have access to and can benefit from the Firm's intellectual capital when making business and investment decisions in response to policies that are implemented to address climate change.

In February 2007 the Firm established the Council on Climate Change, which brings together clients, policy-makers, academics and non-governmental officials to facilitate constructive dialogue on policies that might be implemented to address climate change. In addition, in February 2007 the Firm published a report, *The Business of Climate Change: Challenges and Opportunities*, authored by the Firm's senior economic policy advisor, which was followed by a sequel in September 2007, *The Business of Climate Change II.* Among other things, these reports (both of which are publicly available at http://www.lehman.com/who/intcapital) examine how actions that have been or may be taken by regulators and others to address climate change are likely to impact businesses in various sectors and discuss some of the challenges and opportunities presented by such actions to businesses and investors. It is the Firm's view that legislative and other actions being taken by policy makers are altering the risk profile of some businesses and impacting the outlook for certain investments, and that both businesses and investors must take these legislative and other actions into account in their decision-making.

In the supporting statement for the Proposal, the Proponent states that the Firm's February 2007 *The Business of Climate Change* report is based on "erroneous information. . . to support the notion that 'the Earth's mean temperature has risen sharply in recent decades,'" and concludes that management should not "undertak[e] action with corporate assets" based on that information. The Board of Directors does not believe that it is either appropriate or desirable to permit the Proponent to police the content of the Firm's advice to its clients, or the analysis underlying management of the Firm's business generally.

With the globalization of trade and investment flows, the Firm believes it is imperative that it continue to strategically deploy its intellectual capital, capabilities and solutions in order to best help its clients meet their objectives. In forming the Council on Climate Change and publishing *The Business of Climate Change* reports, the Firm is seeking to ensure that its existing and future clients have access to and can benefit from this intellectual capital as it relates to climate change and its impact on the economy when making their business and investment decisions. At the same time, the Firm is examining environmental issues relevant to its own operations and will continue to evaluate its disclosure regarding sustainability practices as part of such examination. The Board of Directors believes that the Firm should retain the discretion to determine the timing and content of any environmental sustainability report and that the environmental sustainability report requested by the proponent would not be a productive use of the Firm's resources.

For the reasons stated above, the Board of Directors unanimously recommends a vote AGAINST the adoption of this stockholder proposal.

PROPOSAL [__] — STOCKHOLDER PROPOSAL REGARDING POLITICAL CONTRIBUTIONS

Mrs. Evelyn Y. Davis, with an office at the Watergate Office Building, 2600 Virginia Avenue, N.W., Washington, D.C. 20037, the holder of 200 shares of Common Stock, has proposed the adoption of the following resolution and has furnished the following statement in support of her proposal:

"RESOLVED: That the stockholders recommend that the Board direct management that within five days after approval by the shareholders of this proposal, the management shall publish in newspapers of general circulation in the cities of New York, Washington, D.C., Detroit, Chicago, San Francisco, Los Angeles, Dallas, Houston and Miami, and in the Wall Street Journal and U.S.A. Today, a detailed statement of each contribution made by the Company, either directly or indirectly, within the immediately preceding fiscal year, in respect of a political campaign, political party, referendum or citizens' initiative, or attempts to influence legislation, specifying the date and amount of each such contribution, and the person or organization to whom the contribution was made. Subsequent to this initial disclosure, the management shall cause like data to be included in each succeeding report to shareholders. And if no such disbursements were made, to have that fact publicized in the same manner.

REASONS: This proposal, if adopted, would require the management to advise the shareholders how many corporate dollars are being spent for political purposes and to specify what political causes the management seeks to promote with those funds. It is therefore no more than a requirement that the shareholders be given a more detailed accounting of these special purpose expenditures than they now receive. These political contributions are made with dollars that belong to the shareholders as a group and they are entitled to know how they are being spent.

Last year owners of 19,226,108 shares of Common Stock, representing approximately 4.3% of shares voting, voted FOR this proposal.

If you AGREE, please mark your proxy FOR this resolution."

The Board of Directors unanimously recommends that stockholders vote AGAINST this proposal for the following reasons:

This proposal was put before the stockholders at last year's Annual Meeting and was rejected by more than 95% of the shares voting. The Board of Directors has considered this proposal again and continues to believe that its adoption is unnecessary and would not be in the best interests of the Firm or its stockholders. The Firm is committed to its continuing compliance with all of the applicable federal, state and local laws and regulations governing the permissibility and reporting of political contributions. These extensive legal and regulatory requirements already subject the Firm's political contributions to a high degree of transparency and limit the political contributions made by the Firm.

Currently, most of Firm's political contributions are made through LBI's political action committee (the "PAC"), which is funded through voluntary employee donations. The scope of the PAC's contributions is limited in that it gives exclusively to federal campaigns and committees. Moreover, there already is a high degree of transparency with respect to political contributions by the PAC, since the regulations of the Federal Election Commission mandate extensive reports by the PAC itemizing its contributions and donations to political candidates and committees.

The Firm also makes occasional political contributions by LBI using its corporate funds; however, corporate contributions by the Firm are prohibited under applicable election laws at the federal level and at the state level in many states. LBI may make contributions to state and local candidates or initiatives only where permitted by law, and its practice has been to contribute only to state and local initiatives on a very limited basis and not to contribute to state and local candidates at all. In addition, regulatory authorities already require that much information regarding corporate contributions be made publicly available. For example, rules of the Municipal Securities Rulemaking Board would require disclosure of certain contributions made by LBI or the PAC. In addition, applicable state and local election laws require recipients of campaign contributions to disclose the amount of political contributions received by them, and certain states and localities require disclosure of such contributions by donors who are seeking to do business with them.

The Board believes that the disclosures currently being made by LBI and the PAC, as well as by the recipients of political contributions, are adequate. As a result, the Board continues to believe that adoption of this proposal would provide little additional benefit to stockholders and would not be a productive use of the Firm's resources.

For the reasons stated above, the Board of Directors unanimously recommends a vote AGAINST the adoption of this stockholder proposal.

PROPOSAL [__] — STOCKHOLDER PROPOSAL RELATING TO A MORTGAGE SECURITIES REPORT

The Central Laborers' Pension Fund, P.O. Box 1267, Jacksonville, IL 62651, the holder of approximately 3,072 shares of Common Stock, has proposed the adoption of the following resolution and has furnished the following statement in support of its proposal:

"Resolved: That the shareholders of Lehman Brothers Holdings Inc. ("Lehman" or "the Company") request that the Board of Directors prepare and provide to shareholders a report discussing its potential financial exposure as a result of the mortgage securities crisis, including the following:

1. A discussion of what percentage of Lehman's mortgage originations and/or mortgage securitizations could be categorized as subprime, Alt-A or other non-agency loan types;

2. A discussion of the long-term strategic and financial implications of the Company's recent decision to reduce its resources and capacity in the subprime area and,

3. A discussion of what the Company anticipates will be its ultimate realized losses related to the mortgage securities crisis.

The report should be prepared at reasonable cost, omit proprietary information, and be distributed to shareholders within six months of the Company's annual meeting in the manner deemed most efficient by the Company.

<u>Supporting Statement</u>

As long-term shareholders, we are concerned about our Company's recent performance. Our Company is a major player in the non-agency mortgage loan area. As major news outlets have reported, these types of loans have suffered major losses. Our Company has been forced to lay off workers, shut down operations in its subprime unit and has seen its market cap drop significantly over a short period of time. Analysts say that the challenges that our Company is facing may be compounded by Lehman's silence. According to recent press reports, "[I]n the current environment, Lehman may be paying a price for its relative silence about its exposure to troubled mortgages and high-risk debt . . .if there's another shoe to drop, people are waiting for it to fall at Lehman. No news in this case is not good news."[1] For these reasons, shareholders have reason to be concerned and to seek greater information from our Board of Directors.

According to Dow Jones, our Company is, ". . . the worst-performing of all big brokerage stocks since the mortgage securities crisis exploded in mid-June. Lehman's shares are off more than 32 percent since June 15 . . . ."[2] Lehman's Aurora unit, which focused almost exclusively on the Alt-A loan space, has faced particular investor scrutiny when analysts speculated that, ". . . losses might be mounting at Aurora Loan Services, the Lehman mortgage subsidiary that specializes in so-Alt-A loans to borrowers who can't fully document their income or assets."[3] Shareholders of

---

[1] Bloomberg, August 22, 2007.
[2] Dow Jones News Wire, August 14, 2007.
[3] Bloomberg, August 22, 2007.

our Company require transparency so that we may adequately evaluate risk. Currently there is no single source on the Company's balance sheet that provides the requested information to shareholders.

We therefore urge shareholders to vote FOR our proposal."

The Board of Directors unanimously recommends that stockholders vote AGAINST this proposal for the following reasons:

The Board of Directors has considered this proposal and believes that its adoption is unnecessary and would not be in the best interest of the Firm or its stockholders. As a global investment bank with complex and highly regulated business operations, the Firm is already required to comply with numerous laws and regulations that govern its financial and other disclosures. The Board believes that the proposal would impose unwarranted costs and administrative burdens on the Firm without conferring a commensurate benefit to it or the stockholders.

The Firm takes its disclosure obligations seriously and has committed significant resources to establishing multiple layers of controls and procedures to ensure its ongoing compliance with all applicable reporting requirements. The Firm regularly updates the disclosures included in its SEC filings, quarterly earnings press releases, and quarterly earnings conference calls to reflect material developments in its business and the environment in which it operates, including known trends and uncertainties, as those developments occur. In particular, given the dislocations experienced in the U.S. housing and credit markets that occurred primarily in the second half of 2007, the Firm updated and expanded its disclosures regarding its exposure to mortgages and related asset-backed securities in its third and fourth quarter earnings press releases and earnings conference calls, in its Quarterly Report on Form 10-Q for the quarter ended August 31, 2007, and in its 2007 Annual Report on Form 10-K as filed with the SEC.

We believe that dedicating substantial human and financial resources to produce a report in addition to those already mandated by applicable reporting requirements would not further stockholder value. Therefore, we do not believe it is in the Firm's best interest, or the best interests of the stockholders, to prepare and disseminate the report requested by the proponent.

For the reasons stated above, the Board of Directors unanimously recommends a vote AGAINST the adoption of this stockholder proposal.

RESOLVED, that the Board of Directors hereby authorizes and directs the proper officers of the Corporation: (i) to prepare a notice of meeting, proxy statement, proxy card, annual report to stockholders, annual report on Form 10-K and such other materials and documents as may be necessary or appropriate (collectively, the "Annual Meeting Materials") in connection with the 2008 Annual Meeting of Stockholders (the "Annual Meeting"); (ii) after review by the Board, to file the Annual Materials on behalf of the Corporation with the Securities and Exchange Commission, the New York Stock Exchange and any other applicable or appropriate regulatory bodies; (iii) to distribute the Annual Meeting Materials to stockholders; and (iv) to take any other actions as may be necessary or appropriate in connection with the Annual Meeting.

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

FURTHER RESOLVED, that the following proposals be submitted to the stockholders of the Corporation at the 2008 Annual Meeting:

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

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

(ii) Ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the independent registered public accounting firm for the fiscal year ending November 30, 2008.

(iii) Approve the Executive Incentive Compensation Plan.

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

(v) Consider stockholder proposals received by the Corporation which are neither withdrawn by the proponent nor approved for exclusion by the SEC.

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

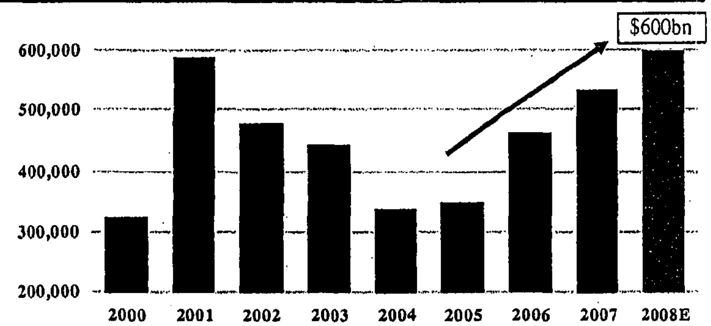
2008 Financial Supply/Demand Dynamics

LEHMAN BROTHERS

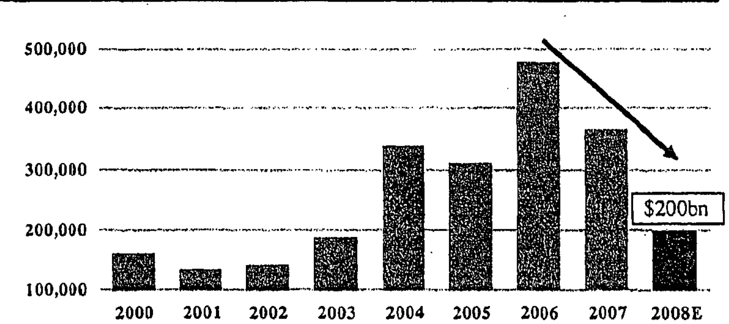
With demand for the front end virtually nonexistent, supply is likely to be concentrated in longer duration instruments going forward . . .

Although aggregate investment grade supply in 2007 was in line with 2006-- totaling over $1 trillion for the second year in a row-- the composition differed significantly. We expect the trends which developed in late 2007 to carry over into 2008, resulting in approximately $950mm total issuance.

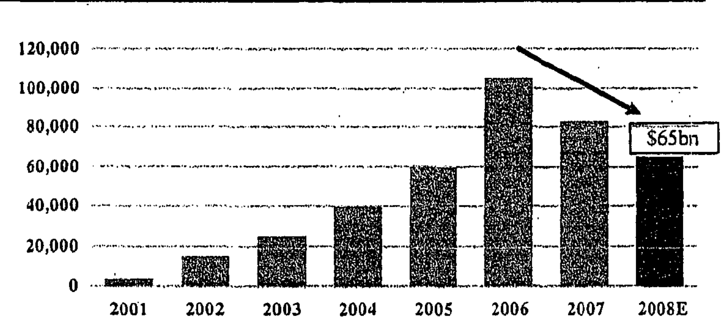
Fixed Supply



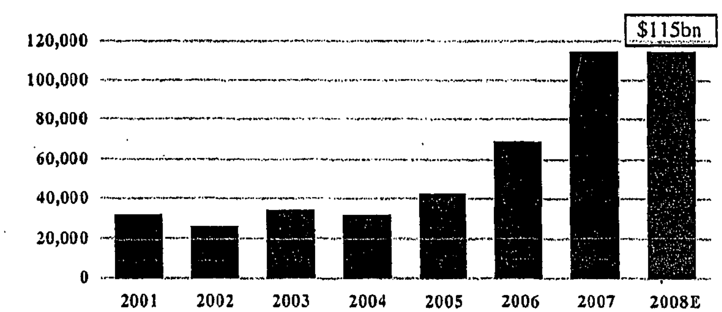
Floating Supply



Extendible Supply

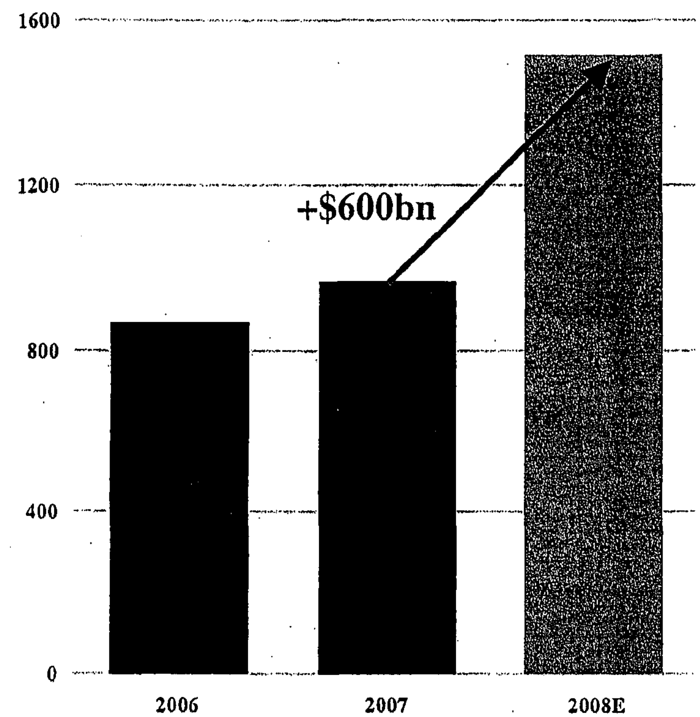


Hybrid Supply



After adjusting for this duration increase, we expect risk-adjusted supply to increase by over 50% in 2008 . . . With many of the key drivers of demand in recent years absent, the Supply/Demand imbalance should continue . . .

5yr Equivalent Notional Supply**



Demand : 2007 vs 2008

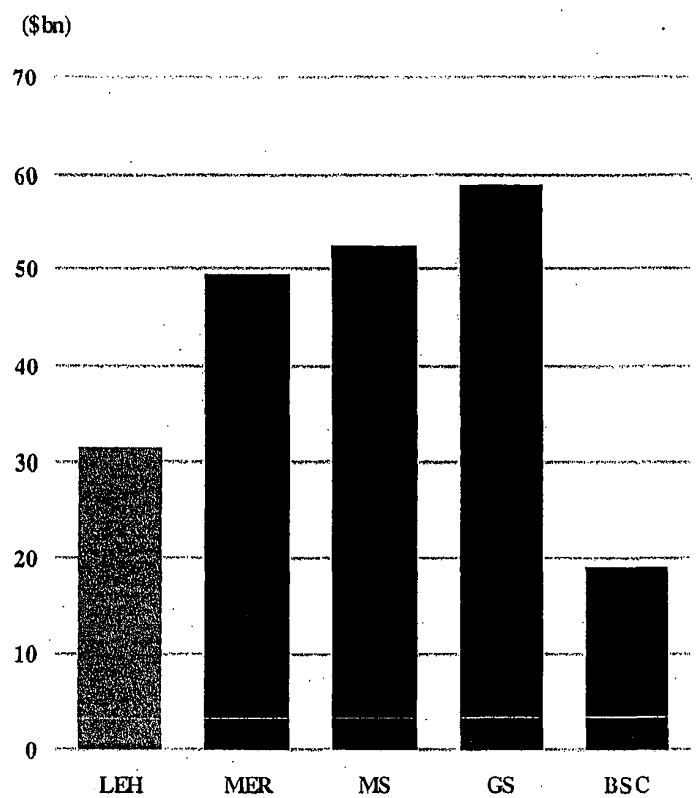
- **International Demand: Down $50bn**
- **Synthetic Demand: Down $175bn**
- **Front End Demand: Down $275bn**
- **Redemptions: Down $80bn**

◆TOTAL : DOWN $500bn

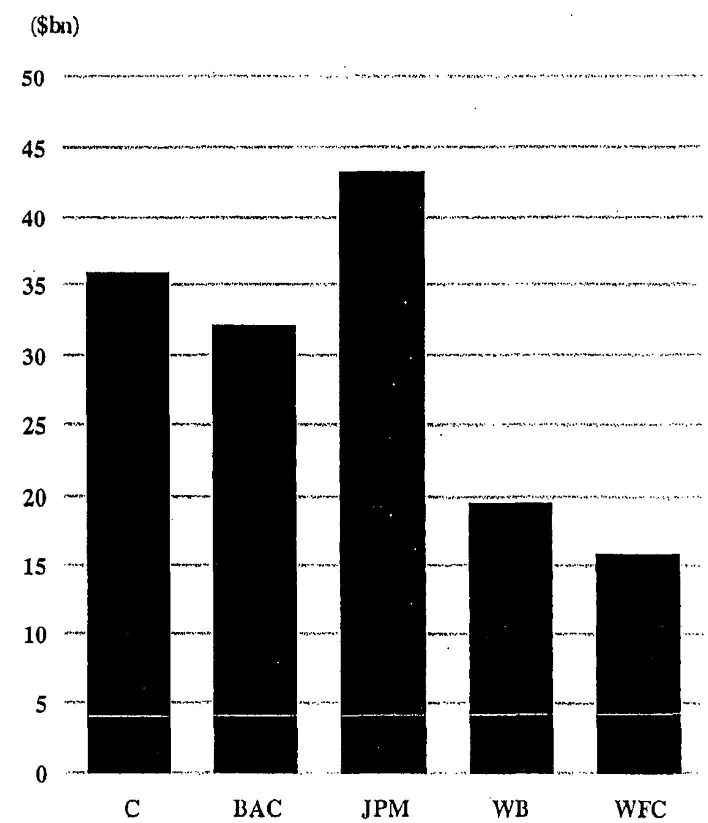
Source: Bloomberg.
• Using Similar Mix to 4Q07
*** Approximation Using Spread Duration*

Across financials, substantial debt maturities need to be refinanced . . .

Broker Debt Maturing in 2008

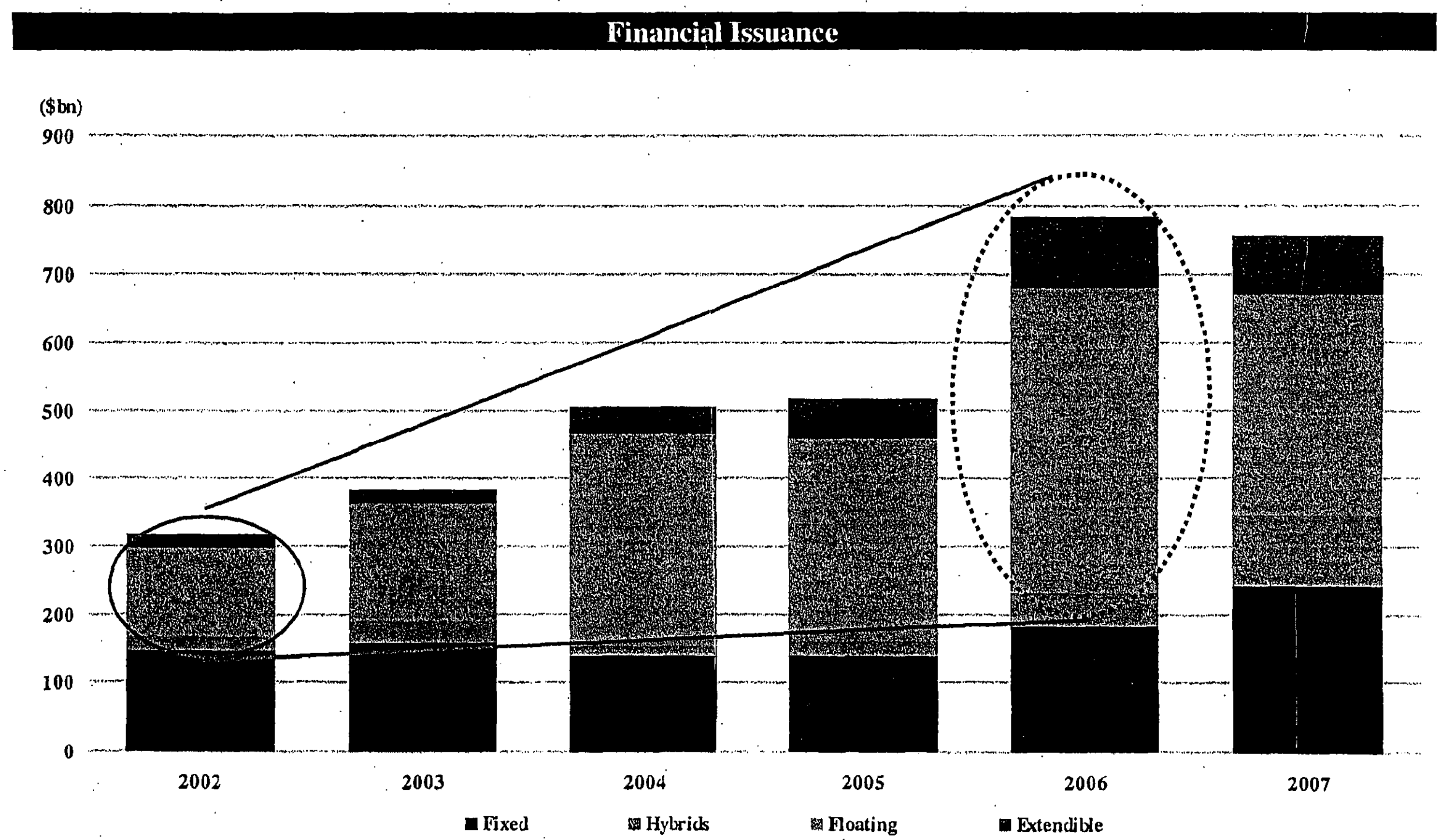


Bank Debt Maturing in 2008



1. *Source: Bloomberg, Lehman Brothers Treasury*
2. *Note: Broker Maturing debt consists of unsecured debt, commercial paper, promissory notes and subordinated debentures. Bank debt maturing consists of unsecured debt and commercial paper*

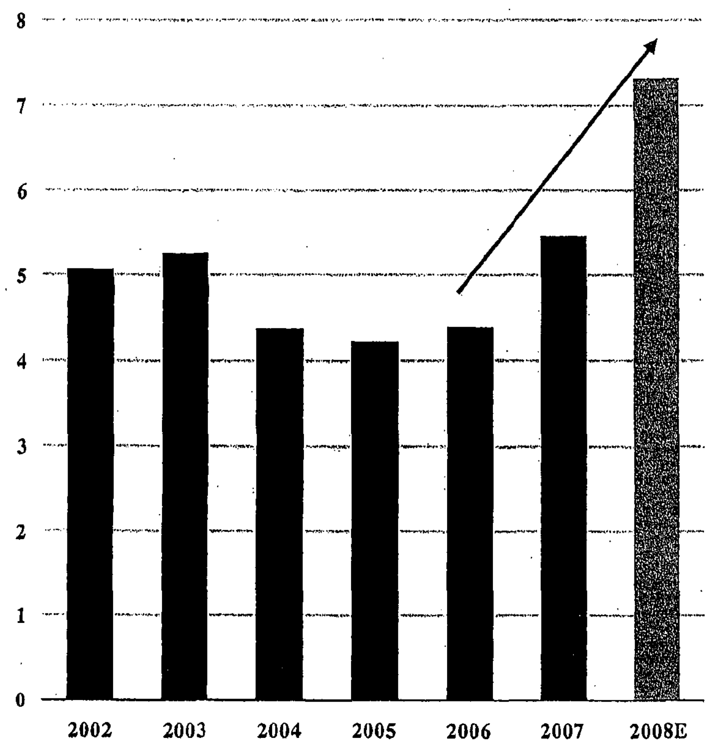
In recent years, a large portion of financial debt has been raised in segments of the market which are no longer available . . .



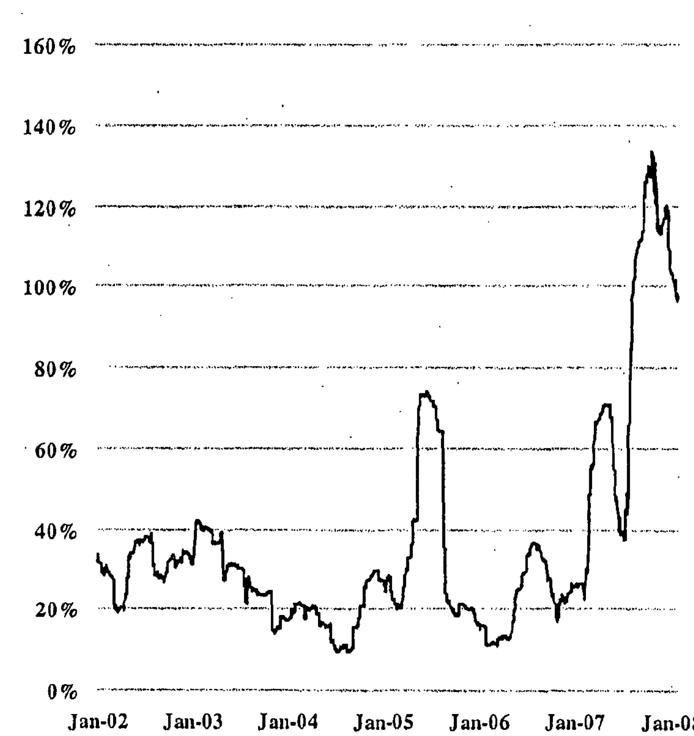
1. Source: Lehman Brothers

With limited demand for the front end, financials will have to issue longer duration paper . . . At the same time, the volatility of the sector has increased

Financials – Weighted Avg. Maturity of Issuance



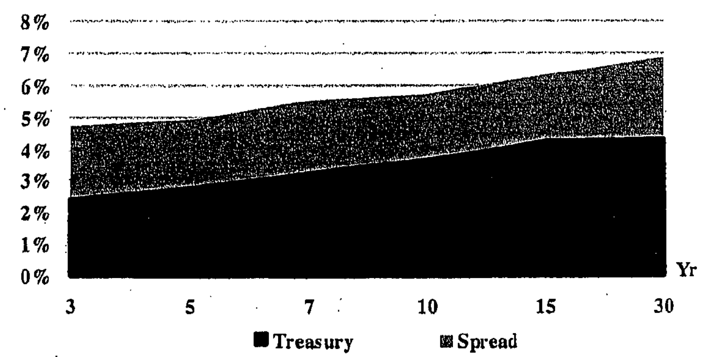
Broker CDS: 3m Realized Volatility



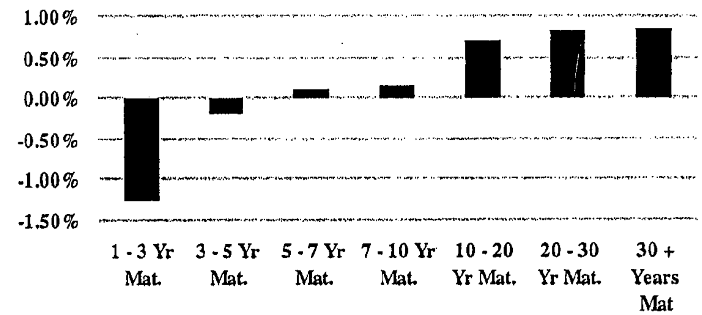
1. *Source: Lehman Brothers*
2. *Note: Weighted average maturity of issuance is computed using average maturity of hybrids as 10 years and extendible bonds as 1 year*

Despite the recent widening in spreads, yields have not risen substantially and remain relatively low . . .

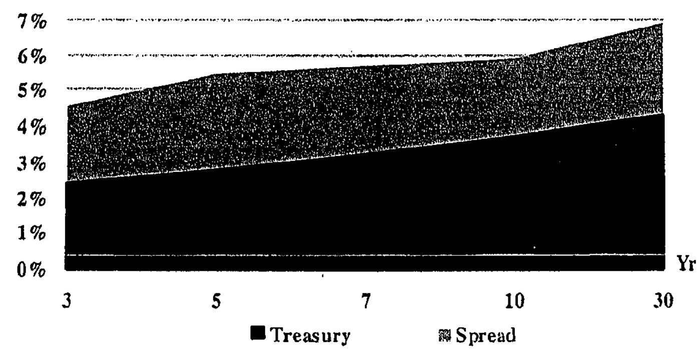
Banks Yield Curve



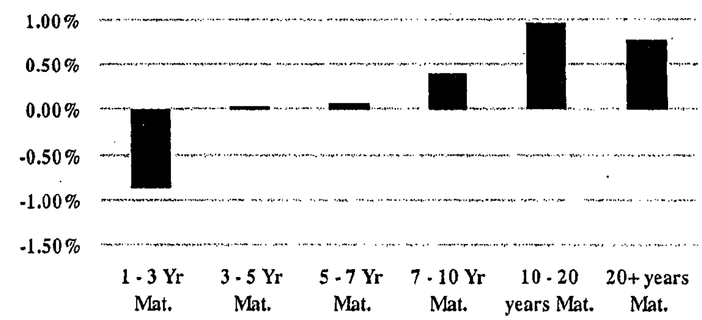
Banks YoY Yield Change



Brokers Yield Curve



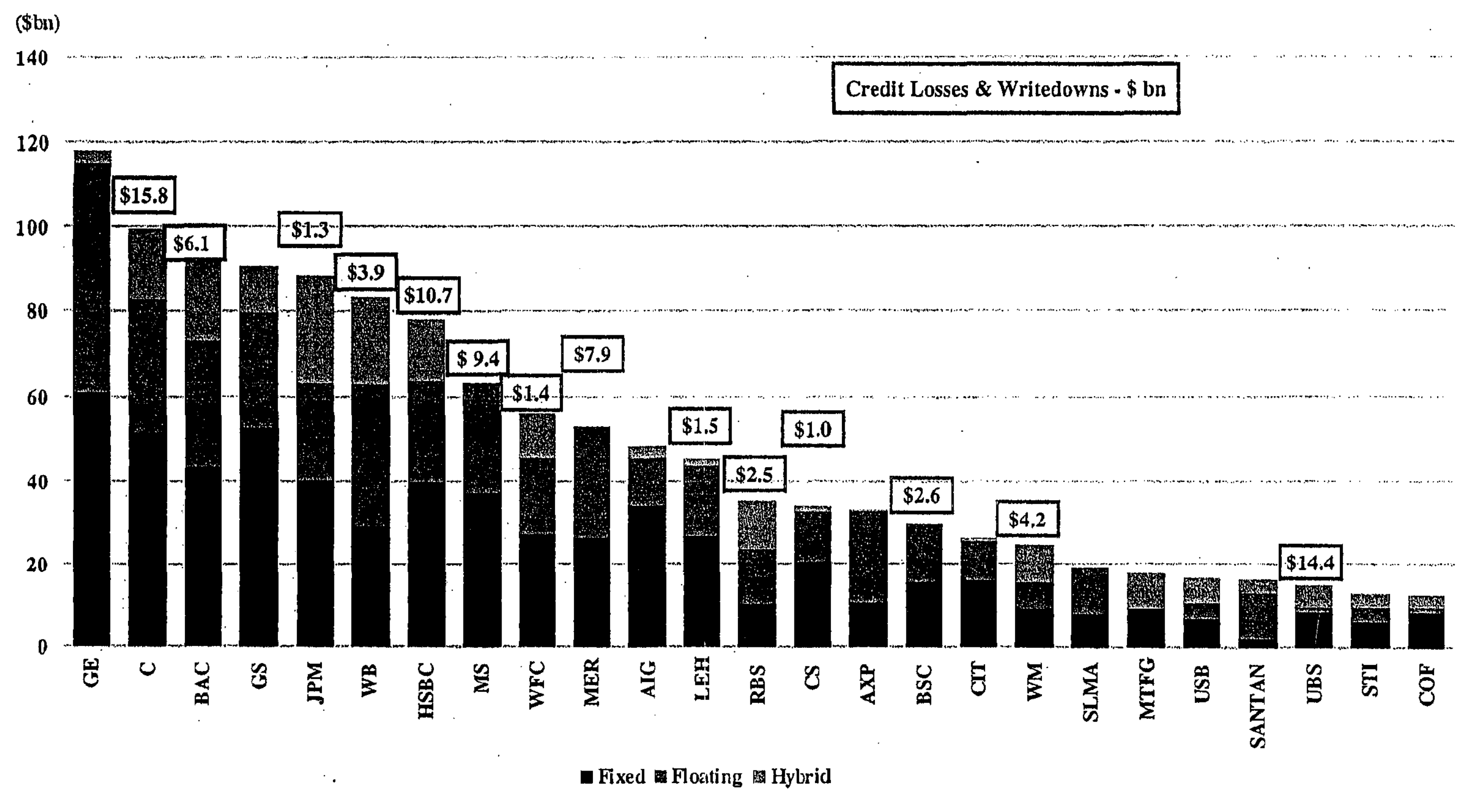
Brokers YoY Yield Change



Source: Lehman Brothers. Yield Change – 12/31/06 vs 1/25/08

Very few of the top financial issuers have been able to escape damage from the subprime fallout . . .

Top 25 Financial Issuers (by US$ Debt Outstanding)



1. *Source: Lehman Brothers, Index Eligible Debt from the Credit Index, FRN Index and Capital Securities Index is considered*
2. *Note: Credit losses and writedowns as per company releases. Data given for select financials*

Recent losses have lead to negative ratings momentum within the space . . .

Upgrades vs. Downgrades for Financials

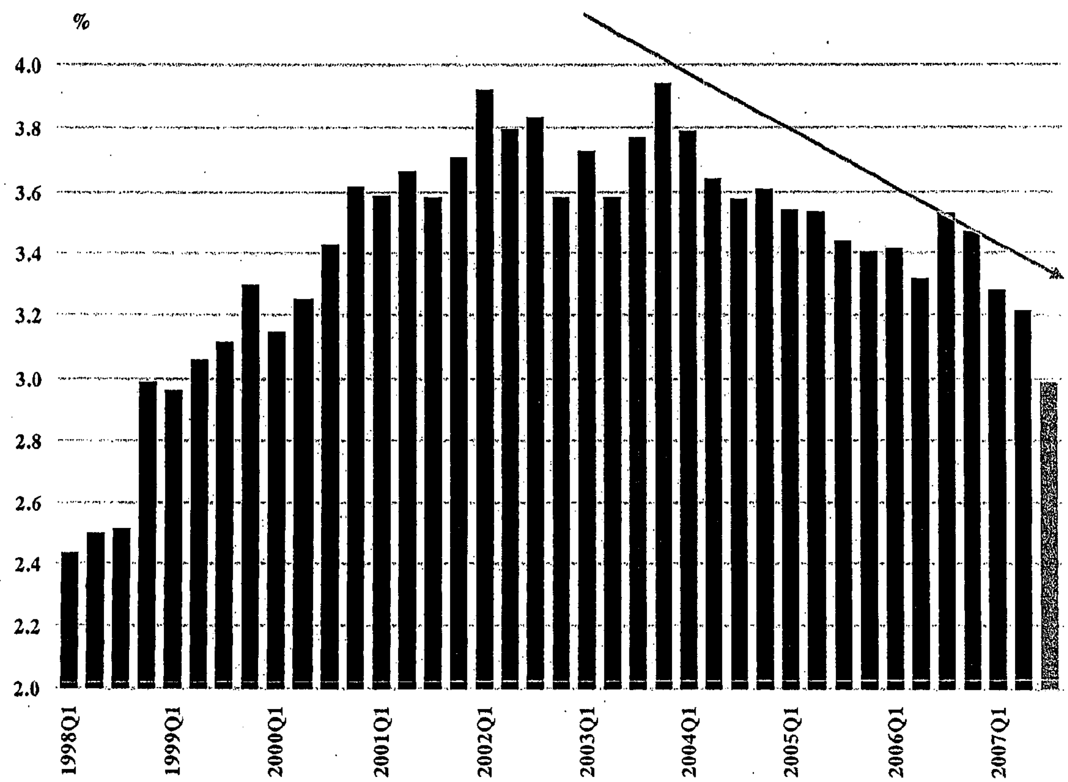
	Rating on 12/31/06	Rating on 12/31/07
GE	AAA	AAA
C	AA1	AA2/AA3
BAC	AA2/AA3	AA1/AA2
GS	AA3	AA3
JPM	AA3/A1	AA3
WB	AA3/A1	AA2/AA3
HSBC	AA2/AA3	AA2/AA3
MS	AA3	AA3
WFC	AA2	AA1
MER	AA3	A1/A2

	Rating on 12/31/06	Rating on 12/31/07
AIG	AA3/A1	AA3/A1
LEH	A1	A1
RBS	AA2	AA2
CS	AA3	AA3
AXP	A1	A1
BSC	A1	A2
CIT	A2	A2
WM	A2/A3	A3
SLMA	A2	BAA1
USB	AA2/AA3	AA2/AA3
UBS	AA1/AA2	AA2
STI	AA3/A1	AA3/A1
COF	A3/BAA1	A3

1. *Source: Moody's*

Leverage ratios are on the rise . . .

5 Largest Brokers : Average Tangible Equity as a % of Tangible Assets

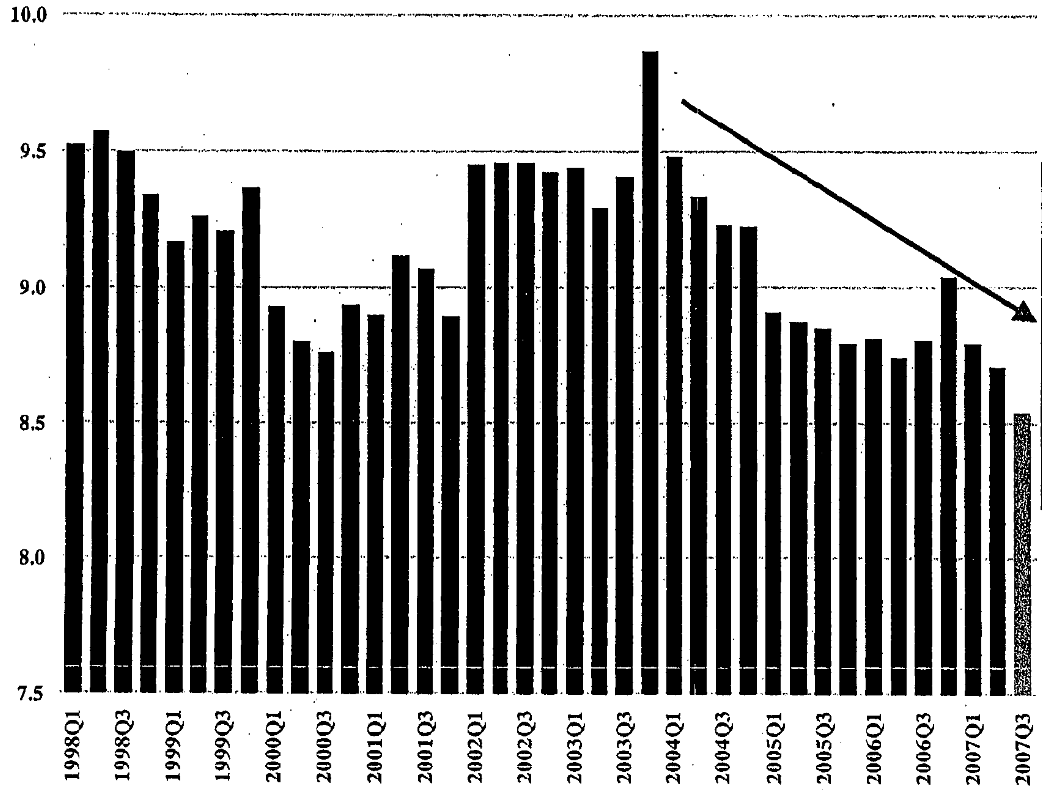


As of 3Q07	Tangible Equity / Tangible Assets (%)
Lehman Brothers	2.69
Merrill Lynch	3.09
Morgan Stanley	2.69
Goldman Sachs	3.23
Bear Stearns	3.25

1. *Source: Lehman Brothers*

And bank capital ratios have deteriorated substantially . . .

Bank Tier I Ratios

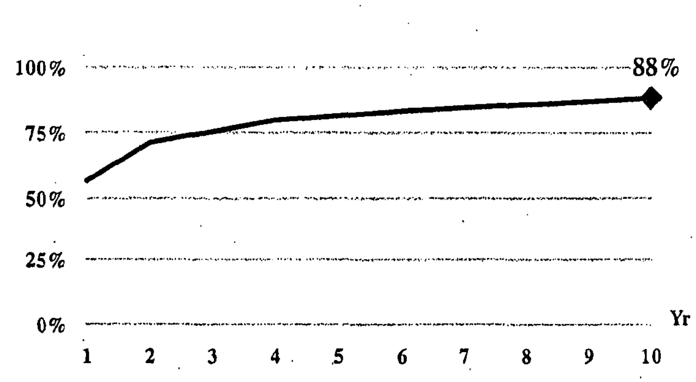


As of 3Q07	Tier I Ratio (%)
Citigroup	7.32
Bank of America	8.22
JP Morgan Chase	8.37
Wachovia	7.10
Wells Fargo	8.21

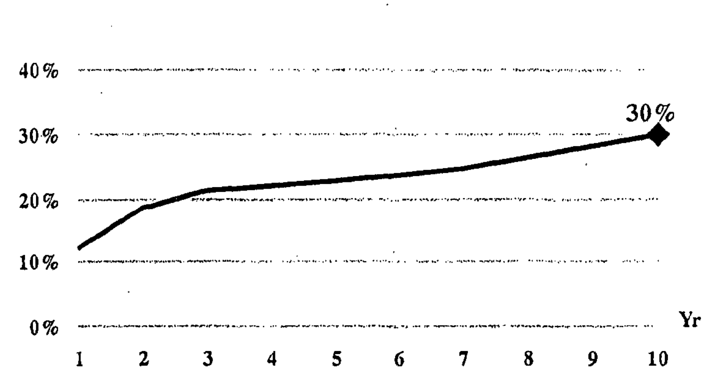
1. *Source: Lehman Brothers*
2. *Note: Ratio is average for 30 large banks*

With technicals and fundamentals deteriorating, sentiment toward the sector is fickle at best . . .

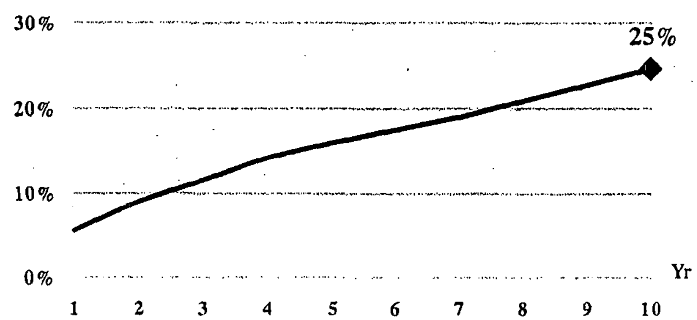
RESCAP Implied Default Probability



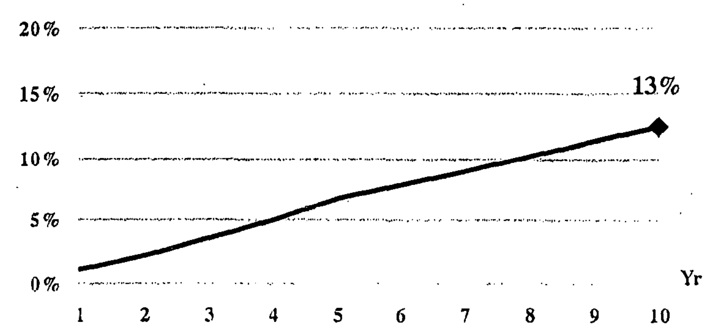
WM Implied Default Probability



BSC Implied Default Probability

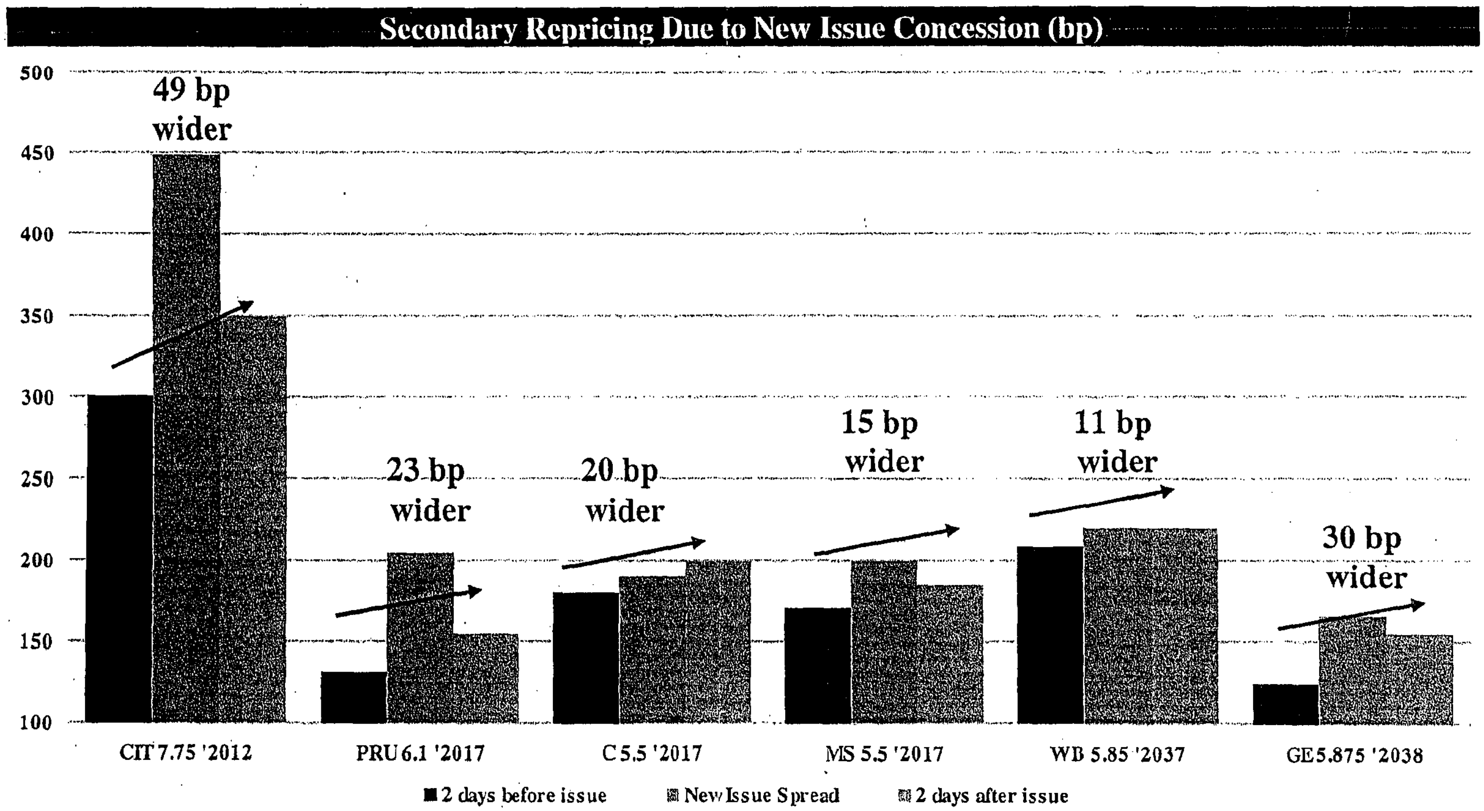


C Implied Default Probability



Source: Lehman Brothers.

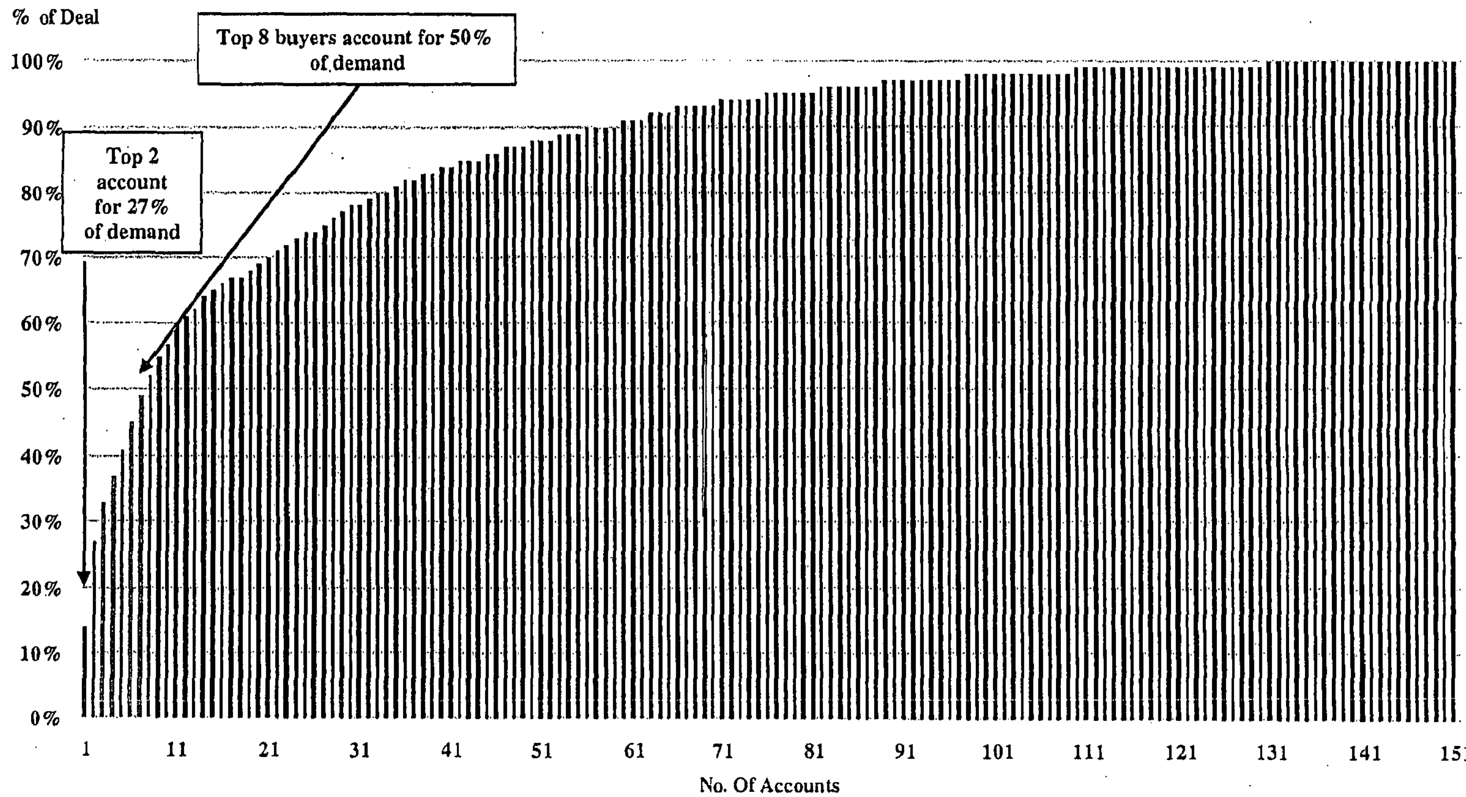
. . . New issues repricing the market substantially wider . . .



Source: Lehman Brothers.

And a small number of investors accounting for a large portion of demand, liquidity can disappear quite fast . . .

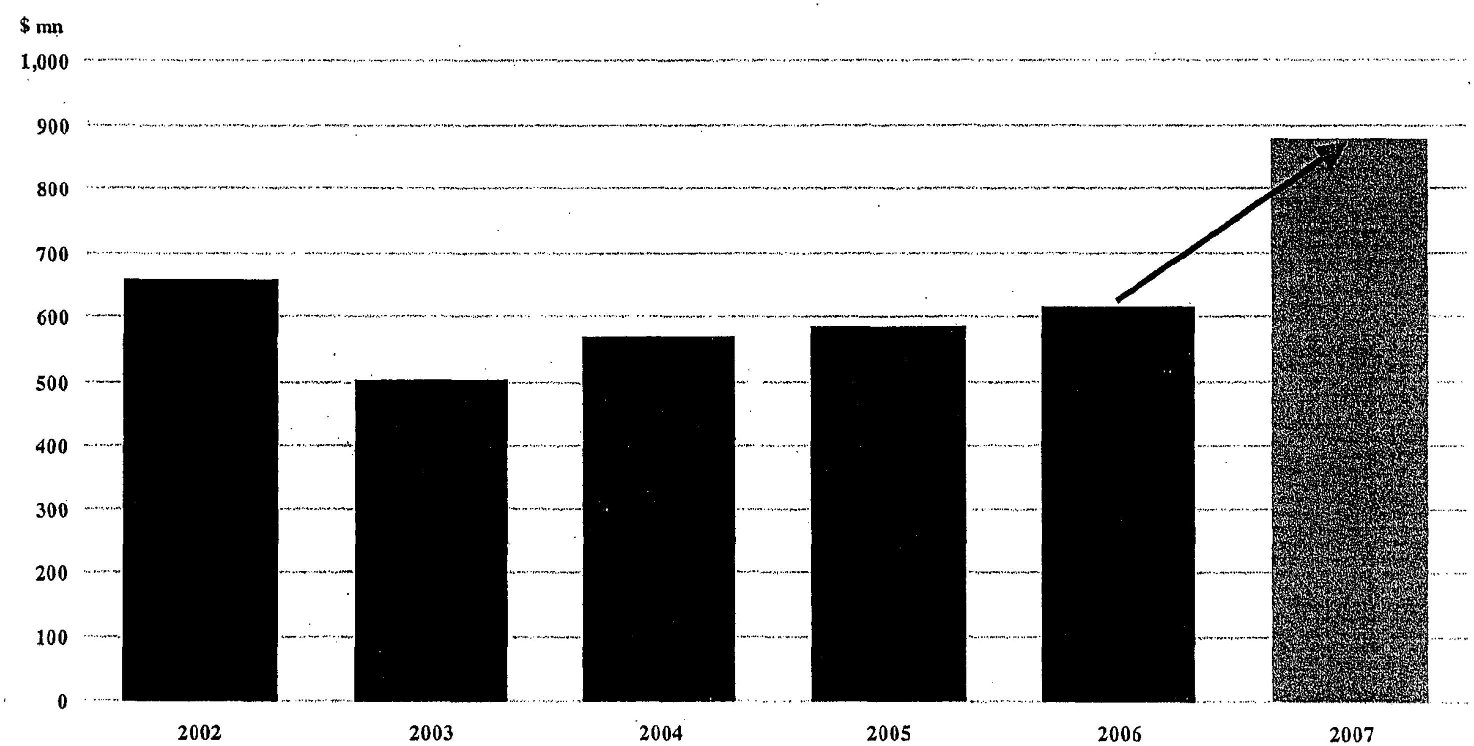
Recent Lehman Issues – Number of Accounts vs. % of Deal Purchased



1. Source: Lehman Brothers Syndicate. 2 Most Recent Deals

With this in mind, issuers are taking increasingly larger size out of the market whenever volatility subsides . . .

Average Tranche Size of Financial New Issue (Fixed Rate)



1. *Source: Lehman Brothers*

Given our funding needs, we should front-load issuance and take advantage of liquidity while it is around . . .

2008 Capital Growth & Rate Assumptions

LTD Cost (excluding fees)	Nov-07 Balance	Nov-07 1ML	2008 Budget Activity Issuances	2008 Budget Activity Roll in	2008 Budget Activity Maturities	2008 Budget Activity Ending	2008 Projection 1ML Rates Issuances	2008 Projection 1ML Rates Roll in	2008 Projection 1ML Rates Maturities	2008 Projection 1ML Rates Ending
Vanilla/Structured	103,634	35	45,695	(20,622)		128,707	73	14		52
Hybrid	4,919	73	1,000			5,919	109			79
Subdebt	8,247	68	2,000			10,247	95			73
Current Portion	17,235	18	-	20,622	(16,813)	21,044		14	16	16
Total Effective Rate	134,035	37	48,695	-	(16,813)	165,917	75		16	50

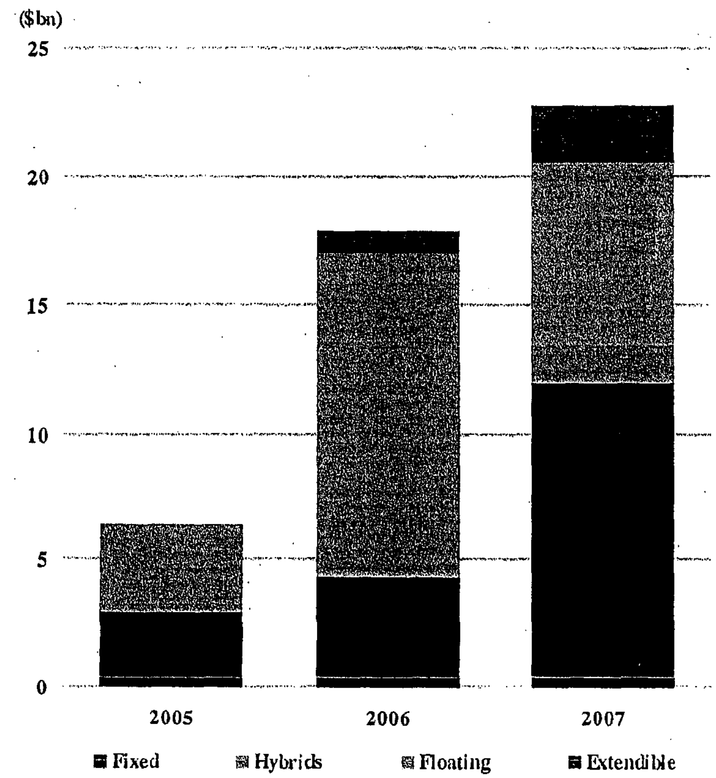
LTD Cost (excluding fees)	2008 Average Balance	1ML	1WL	$Cost
Vanilla/Structured	115,037	39	41	478
Hybrid	5,233	75	77	41
Subdebt	8,780	71	73	65
Current Portion	20,257	39	41	84
Total Effective Rate	149,307	42	44	670

Other Costs	$ cost
Investment Burn	28
STD & Non-CC	-21
Issuances fees	134
Secured Facilities	62
Preferred	51
Common equity allocated	142
Total Other	396
Total Including CC	1,066

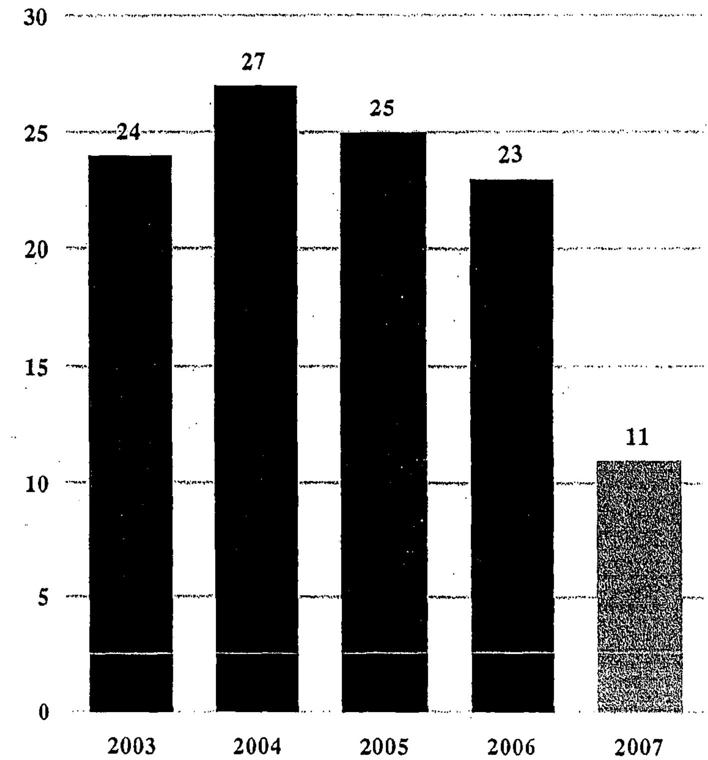
1. *Source: Lehman Brothers Treasury*

Especially given our recent growth in issuance and the smaller number of outlets available going forward …

Lehman Issuance



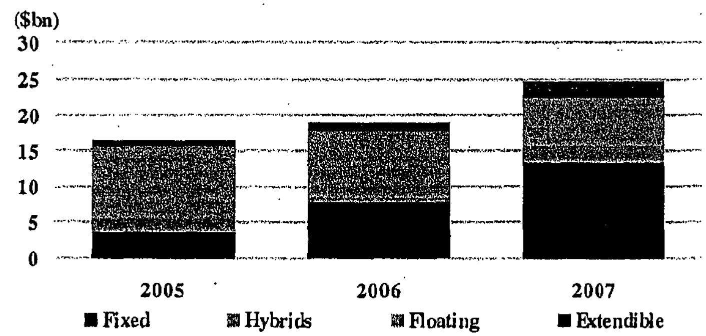
Lehman's Rank in the Credit Index



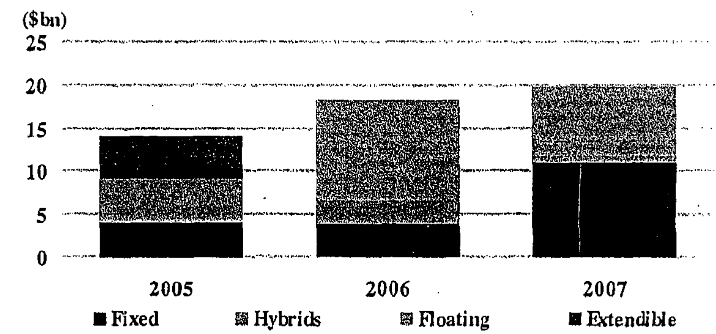
1. *Source: Lehman Brothers*

And the fact that our competitors are in similar situations . . .

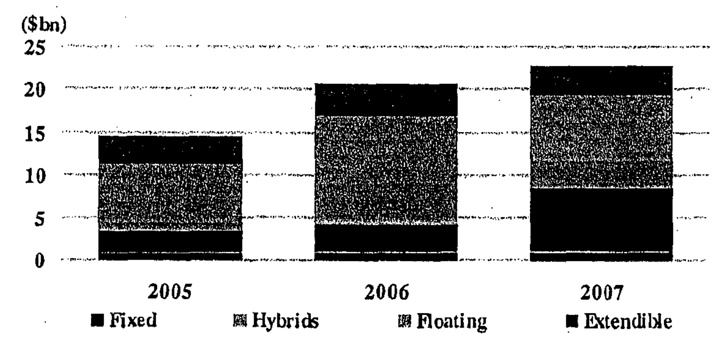
GS



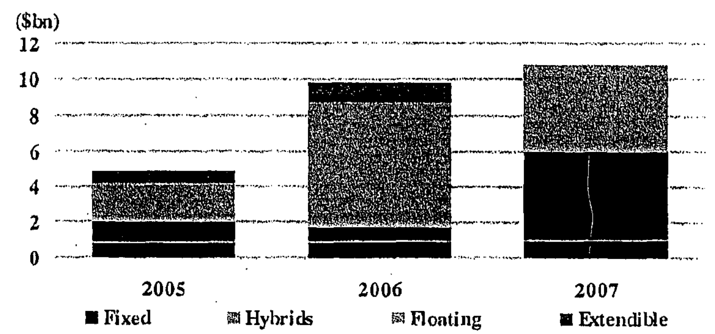
MS



MER

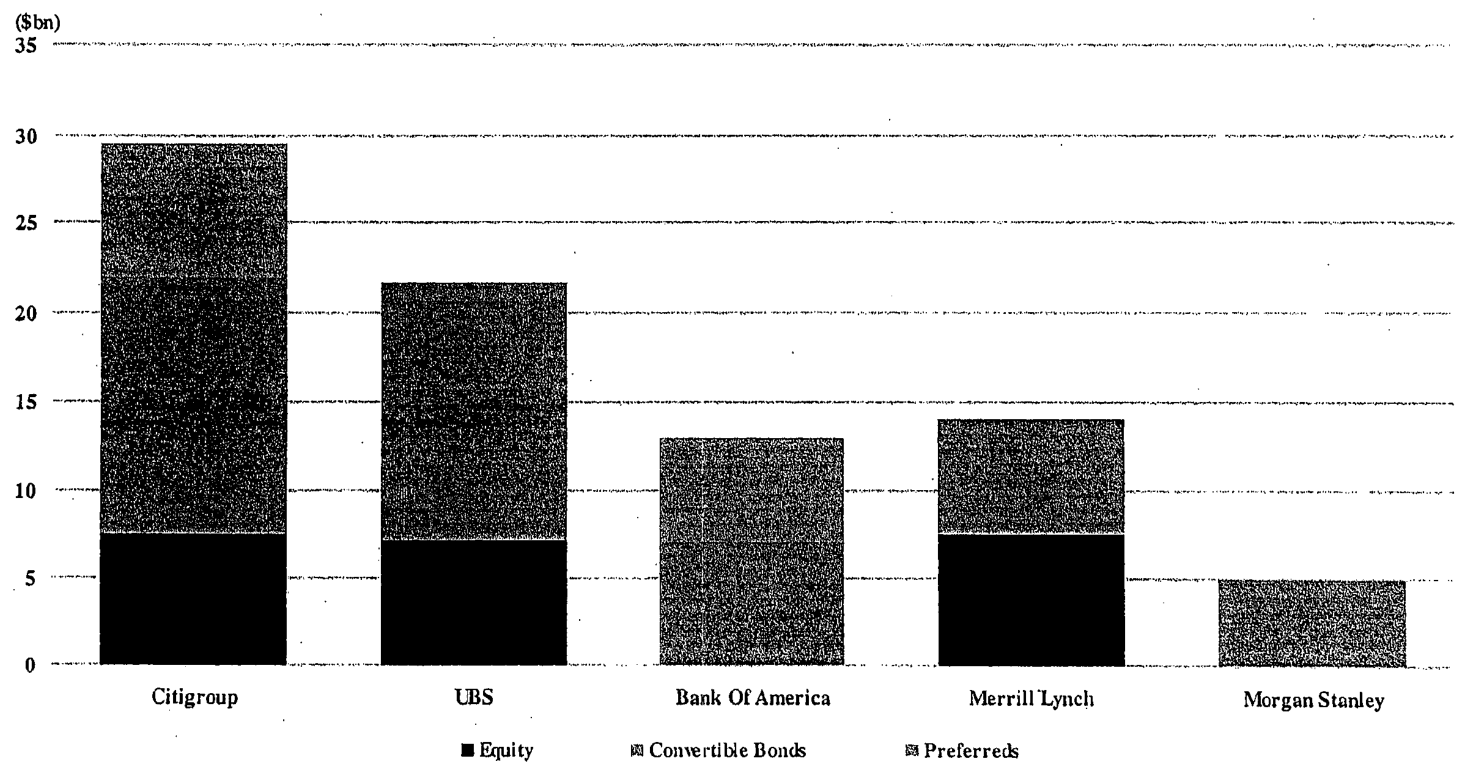


BSC



A lot of capital has already been raised using a variety of instruments

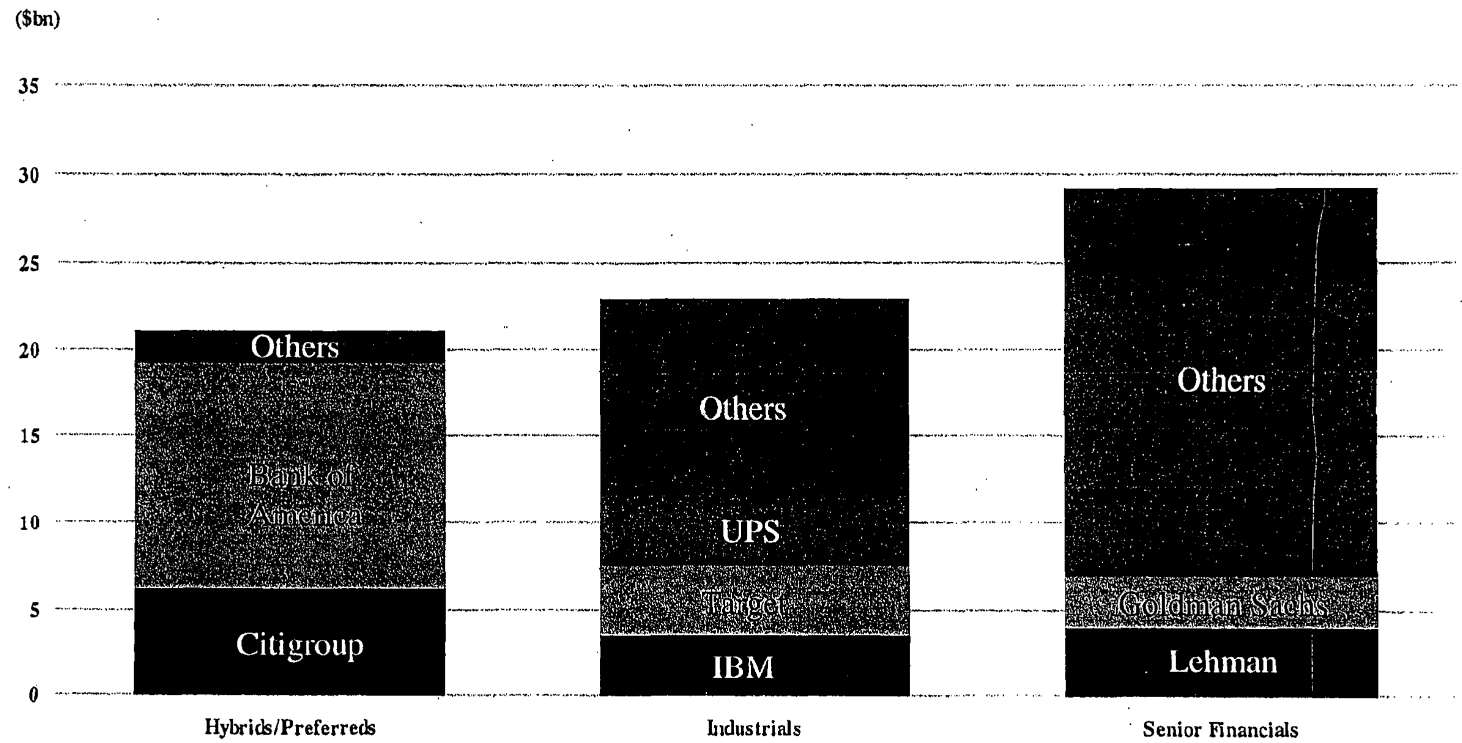
Equity & Equity-Like Capital Raised by Select Banks/Brokers



Source: Lehman Brother Equity Research.
Note: Mandatory Convertible Preferred treated as a convertible. MER – $600mn option to buy stock is considered as exercised. UBS – Treasury stock reissuance and Stock dividend is treated as Equity Issue. Conversion rate of 1CHF = 1.12 USD is used

Senior Financial Paper Issuance is Competing with Hybrid and Industrial Issuance

2008 Year-To-Date New Issuance



Confidential Presentation to:

The Board of Directors

2008 Financial Plan Summary

January 29, 2008

LEHMAN BROTHERS

Budget, Capital, and Risk Summary (I)

- In October 2007, the Firm went through a detailed, bottom-up process to create a budget for 2008
  - Revenue of $23.0 billion, up 19% relative to 2007
  - Non-personnel expense of $4.2 billion, up 12% relative to 2007, primarily due to occupancy (e.g., additional office space both in the US and overseas), technology (e.g., upgrade and expansion of data centers), and increase in transaction volumes
  - Compensation-to-revenue ratio of 49.3%, consistent with prior years, enabling the Firm to pay its existing franchise up 5% and invest $300 million in growth initiatives, primarily outside the U.S.

- With current market conditions, which have worsened since last October, the Management has revised the budget
  - Revenue of $21.0 billion, down $2.0 billion from the original but up $1.7 billion (or 9%) relative to 2007
  - Non-personnel expense essentially unchanged (NPE expenses primarily driven by prior years' decisions and have very limited scope for reduction)
  - The Executive Committee of the Firm and the Compensation & Benefits Committee of the Board are discussing the appropriate budget for compensation expenses in 2008
  - Additionally, the Management is considering modifications to the Firm's equity award plan to make it less costly in the long run. The change may give rise to one-off transition costs

Budget, Capital, and Risk Summary (II)

- The current budget presented by the Management and reviewed and approved by the Finance Committee of the Board sets the following performance targets
  - EPS of $7.01 to 7.89, slightly lower than in 2007, but well ahead of First Call estimate of $6.80
  - Book value per share of $43.7 to $44.6, up 11-13% from $39.45 in 2007
  - ROE of 17.6% to 19.7%, down from 21.5% in 2007

- To support the growth, the Firm will deploy additional resources
  - Net assets are to increase by $60 billion, to $433 billion, lead by Prime Services, Equities, and Principal Investing
  - Risk Appetite to increase to $4.0 billion from $3.5 billion in 2007, driven by increase in central capacity
  - Long-term debt issuance of $51 billion, of which $24 billion will be in public debt markets ($7 billion of public debt issuance already completed)

- As in previous years, the Firm is expected to repurchase sufficient number of shares to fully offset dilution associated with the equity-based awards, but may accelerate or delay repurchases depending on market conditions. We recommend the Board to approve repurchases of up to 100 million shares, same authorization as in 2007

- The Firm is planning an increase in annual common stock dividend to $0.68 per share from $0.60 in 2007, a 13% increase, continuing the long-term policy of annual dividend increases while preserving financial flexibility

2008 Budget Scenarios

The Firm's revised 2008 Budget is based on $21.0 billion revenue forecast. The two scenarios below reflect different growth strategies

Financial Performance

$ billions	2007 Actuals	2008 Initial Budget	*vs. 2007*	2008 Revised Budget (A)	*vs. 2007*	2008 Revised Budget (B)	*vs. 2007*
Net Revenues	19.3	23.0	*19%*	21.0	*9%*	21.0	*9%*
Personnel Expenses	9.5	11.3	*19%*	10.4	*9%*	11.1	*17%*
Non-Personnel Expenses	3.8	4.2	*12%*	4.2	*11%*	4.2	*12%*
Total Expenses	13.2	15.5	*17%*	14.5	*10%*	15.3	*15%*
Pretax Income	6.0	7.5	*24%*	6.5	*8%*	5.7	*-5%*
Income Tax	1.8	2.3	*27%*	2.0	*8%*	1.7	*-6%*
Net Income	4.2	5.1	*23%*	4.5	*7%*	4.0	*-5%*
Performance Indicators							
First Call Revenue Estimate, $B [1]		19.3		19.3		19.3	
EPS, $/share	$7.26	$8.99	*24%*	$7.89	*9%*	$7.01	*-3%*
First Call EPS Estimate, $/share [1]		$6.80		$6.80		$6.80	
ROE	20.8%	21.5%	*+0.7pp*	19.7%	*(1.1)pp*	17.6%	*(3.2)pp*
ROTE	25.7%	26.3%	*+0.6pp*	24.3%	*(1.3)pp*	21.9%	*(3.8)pp*
Average Common Equity, $B	19.8	23.7	*20%*	22.6	*14%*	22.4	*13%*
Diluted Share Count, million	568.3	568.5	-	563.7	-	563.7	-
Compensation / Net Revenue	49.3%	49.3%	-	49.3%	-	52.8%	-
NPE / Net Revenue	19.5%	18.3%	*(1.2)pp*	19.9%	*+0.4pp*	20.0%	*+0.5pp*
Pretax Margin	31.2%	32.4%	*+1.2pp*	30.8%	*(0.4)pp*	27.2%	*(4.0)pp*
Book Value Per Share, $/share	$39.45	$47.43	*20%*	$44.64	*13%*	$43.72	*11%*

1. First Call estimate as of January 17, 2008

Growth Opportunities By Business

Budget

Fixed Income

- Focus on Commodities and Fx and expansion into newer product areas (e.g., Infrastructure, Insurance)
- Continued geographical expansion into China, India, Singapore, Australia, Eastern Europe, Scandinavia, Spain, Middle East and Latin America
- Development of eCommerce platform (e.g., FXLive)

Equities

- Expansion into Asia, Emerging Markets (Brazil, Mexico, Russia, Turkey and South Africa)
- Further diversification of the business franchise by growing Prime Services
- Investment in technology to create a market leading trading platform providing additional capacity and speed to the Firm's clients

Investment Banking

- Global expansion with particular focus on Australia, Brazil, Canada, India, Middle East and Russia
- Focus on Financial Institutions, Natural Resources and Industrials
- Global fee share expected to increase to 4.8% from 4.4% at the end of 2007

Investment Management

- 27% growth of Assets Under Management to $358 billion by the end of 2008
- 45% increase in Asset Management net flows to $45bn in 2008
- Rolling out of new Private Equity funds
- Build out of the European asset management platform

Principal Investing

- Build out of a scalable origination and investing platform – particularly in Europe and Asia
- Asset class expansion (e.g., Insurance, Emerging Markets)

Infrastructure & Technology

- Reengineer front-to-back trade processing for Equity Derivatives and Fixed Income growth
- Continue to migrate functionality to modularized components to reduce reliance on mainframe processes
- Improve scalability and control of middle office processes

Market Developments And Competitive Dynamics

Current environment presents a unique long-term growth opportunity for the Firm

- The market environment has become more challenging in the past three months
  - Economic growth slowing down in all major markets
  - U.S. housing crisis more severe than previously anticipated
  - Lack of activity seen in several fixed income markets, e.g., real estate, leveraged loans, sub-prime-related products
  - Outlook uncertainty is much higher than usual

- The Firm's competitors, with the notable exceptions of Goldman Sachs and JPMorgan Chase, have sustained large losses, weakening their competitive position
  - Despite recent capital raising efforts, most competitors are still capital-constrained; more likely to retrench to the core of their franchises than to invest in growth
  - Senior management changes (e.g., BofA, Bear Stearns, Citigroup, Merrill Lynch, Morgan Stanley and UBS), causing organizational turmoil
  - Significant pool of talent will become available, as many of our competitors' top performers become disillusioned with their firms' strategies and risk management

- This presents an opportunity for the Firm to pursue a countercyclical growth strategy, similar to what it did during the 2001-2002 downturn, to improve its competitive position and, over time, generate superior returns for our shareholders

Share Repurchase Plan

- The Firm is committed to fully offsetting dilution associated with employee awards and to effective utilization of capital. Between 2004 and 2007, we repurchased shares in excess of dilution requirements, reducing Book Value shares from 551 million to 543 million[(1)]
- In 2008, we intend to fully offset dilution, but may accelerate or delay repurchases depending on the market conditions
- We request the Board to approve repurchases of up to 100 million common shares for the management of the Firm's equity capital, including offsetting dilution due to employee awards, subject to market conditions. This authorization supersedes the previous share repurchase authorization

Share Repurchase Plan

						2007-08 Change	
(# of Shares In Millions)	2004	2005	2006	2007	2008B	# of Shares	%
RSU Amortization	24	25	19	34	42	8	22%
Option Exercises	34	51	22	15	19	4	26%
Equity Award Dilution	58	76	42	50	61	12	23%
Acquisitions & Other			-	2	-	(2)	
Total Dilution	**58**	**76**	**42**	**51**	**61**	**10**	**19%**
Repurchases to Offset Current Year Dilution	58	76	42	43	61		
Accelerated Repurchases	-	4	11	-	-		
Total Repurchases	**58**	**81**	**53**	**43**	**61**	**18**	**42%**
Book Value Shares	**551**	**546**	**534**	**543**	**543**	**0**	**0%**

1. *In 2007 we repurchased less than dilution which reflects the acceleration of repurchases in 2004-2006*

Impact of Share Repurchases and Equity Awards on Equity

- In 2008, we enhanced our share repurchase program by entering into a short-term structured buyback contract. The transaction allows us to repurchase shares at a discounted price or gain equity premium
- We project the net impact of share repurchases and equity awards on equity to be approximately $766 million. The actual cost will be affected by the number of options exercised in 2008 and the share price dynamics

Net Impact of Equity Awards and Share Repurchases On Equity

($ millions)					2008		
Impact on Stockholders' Equity	2004	2005	2006	2007	2008B	Δ	%
RSU Amortization / Option Expense	800	1,054	923	1,953	1,958	5	0%
Options Exercised (Proceeds)	626	1,245	637	444	610	167	38%
Tax Benefit on Options Exercised	285	537	385	239	284	45	19%
Tax Benefit on RSU Issuances	216	467	451	202	427	225	112%
Increase in Equity from Employee Awards	**1,927**	**3,304**	**2,396**	**2,838**	**3,279**	**441**	**16%**
Cost of Share Repurchases	(2,267)	(4,157)	(3,681)	(3,178)	(4,045)	(867)	27%
Net Impact on Equity	(341)	(853)	(1,285)	(341)	(766)	(426)	125%
Number of Shares Repurchased, millions	58	81	53	43	61	18	42%
Average Purchase Price Per Share	$39	$52	$70	$74	$66	($8)	-10%

2008 Dividend Increase Recommendation ($0.08 increase)

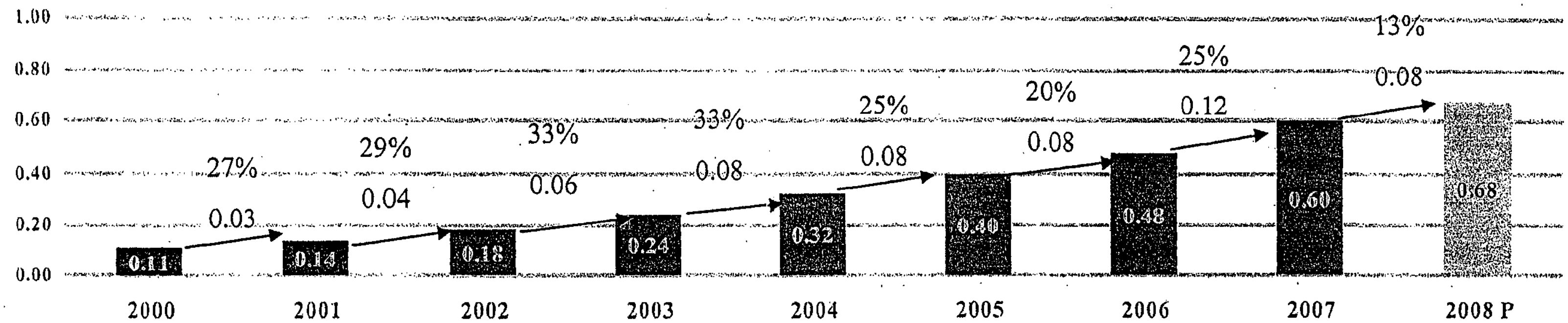
- Similar to previous years, we propose to continue our approach of maintaining strong record of dividend increases while keeping a low payout ratio
  - Signal management's confidence in the financial health of the Firm
  - Position Lehman Brothers as a "growth" stock

- We recommend increasing Lehman Brothers' annual common stock dividend from $0.60 in 2007 ($0.15 per quarter) to $0.68 in 2008 ($0.17 per quarter), a 13% increase. The proposed dividend would return approximately $360 million of retained earnings to shareholders
  - Projected dividend payout ratio[1] remains below 10%, which we believe to be an important threshold for maintaining flexibility, at approximately 9.2%
  - Projected dividend yield of 1.0%, lower than, but consistent with, peer average of 1.2%
  - Dividend growth consistent with revenue and income growth

1. *Payout ratio calculated as a ratio of common dividends to net income applicable to common.*
2. *Dividend yield calculated as a ratio of dividends per share / projected average stock price.*

2008 Dividend Increase Recommendation ($0.08 increase)

Lehman's Dividend Trend and 2008 Recommendation, $ / Share



Total Cost $mm	53	69	96	128	186	233	256	320	360

Peer Group Dividend Benchmarking

		Lehman Brothers	Goldman Sachs	Morgan Stanley	Merrill Lynch	Bear Stearns
Dividend per Share	Last Announcement	February 1, 2007	December 18, 2007	December 19, 2007	January 28, 2008	December 20, 2007
	Increase of	13%	No Change			
	Projected 2008	$0.68	$1.40	$1.08	$1.40	$1.28
Dividend CAGR	5 Year 2002 - 2007	27%	24%	3%	17%	16%
Payout Ratio [1]	2007	9.8%	5.8%	12.8%	49.9%	10.6%
	Lehman 2008 B	9.2%				
Dividend Yield [2,3]	2007	0.9%	0.7%	1.6%	1.8%	0.9%
	Lehman 2008 B	1.0%				

1. *Calculated as: Common Dividends Paid / Net Income Applicable to Common. Since 2007 full year data not yet available, 2007 data is Q3 2007 YTD.Dividend Yield calculated based on average stock price during period*
2. *Dividend yield based on current stock price*
3. *Lehman 2008 budgeted year-end stock price of $77.*

Capital Raising Alternatives

We are monitoring potential alternative sources of capital, however, we believe that currently capital raising is not in the best interests of our shareholders.

- Significant capital has been raised by several banks and broker-dealers over the past three months. The actions have been motivated by the need to shore up capital ratios, negatively affected by large losses
- For Lehman, aggressive capital raising is not necessary
  - Capital raising leads to dilution of existing shareholders
  - The Firm remains adequately capitalized
  - Capital generated by earnings and issuance of capital securities sufficient to support growth
- Nonetheless, we are continuously monitoring opportunities and are prepared to take action if/when appropriate
  - Slowing down buybacks
  - Tapping into alternative capital sources, such as sovereign wealth funds and Asian banks

Risk Appetite

We recommend establishing a 2008 Risk Appetite limit of $4.0 billion, up 14% relative to 2007. The Risk Appetite limits allocated to businesses are unchanged, while $0.5 billion central capacity will allow the Firm to focus its risk-bearing capacity more strategically.

Risk Appetite Limits, $millions

Business	Limits: 2007 Year End	Limits: 2008 Budget
Risk Appetite		
Fixed Income	2,500	2,500
Equities	800	800
Capital Markets Prime Services	150	150
Investment Mgt/ Principal Investing	2,000	2,000
Investment Banking	100	100
Central Capacity		500
Total Risk Appetite	**3,500**	**4,000**
Risk Appetite Diversification %	37%	28%
Total VaR (95% 1-day)	**135**	**150**

Risk Appetite is an aggregate risk measure which includes Market Risk, Event Risk, and Counterparty Credit Risk, and assumes a 95% confidence level over a 1-year time horizon

Holdings
Board of Directors
1/29/08

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

As amended January ~~24~~29, 200~~5~~8

LEHMAN BROTHERS HOLDINGS INC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The purpose of the Audit Committee of the Board of Directors shall be to:

A. Assist the Board of Directors in fulfilling its oversight of:

1. The quality and integrity of the Corporation's financial statements;
2. The Corporation's compliance with legal and regulatory requirements;
3. The qualifications and independence of the Corporation's independent auditors; and
4. The performance of the Corporation's internal audit and compliance functions and its independent auditors.

B. Prepare any reports that the rules of the Securities and Exchange Commission ("SEC") require be included in the Corporation's annual proxy statement.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

1. The Audit Committee shall be comprised of three or more members of the Board of Directors and shall comply with the "independent director" requirements under the rules of the New York Stock Exchange (the "NYSE"), the federal securities laws and the rules of the SEC promulgated thereunder.
2. Each member of the Audit Committee shall have a working familiarity with basic finance and accounting terminology and practices, and at least one member shall have accounting or related financial management expertise.

B. Compensation

No member of the Audit Committee shall receive from the Corporation or any of its subsidiaries (collectively, the "Firm") compensation prohibited by, or which violates the independence requirements of, applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC and the NYSE.

C. Appointment and Removal

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

D. Chairman

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

III. MEETINGS

A. The Audit Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Audit Committee shall periodically meet separately with each of management, the head of Corporate Audit, the head of Compliance and the independent auditors to discuss any matters that the Audit Committee or any of these persons or groups believes would be appropriate to discuss privately. In addition, the Audit Committee shall meet with the Corporation's independent auditors, Corporate Audit and management quarterly to review the Corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter. The Chairman of the Board or any member of the Audit Committee may call meetings of the Audit Committee. All meetings of the Audit Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.

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

IV. RESPONSIBILITIES AND DUTIES

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

The Audit Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Audit Committee deems appropriate. In this regard, the Audit Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to and expenses of such advisors and any other terms of retention, and any such fees and expenses so approved shall be obligations of the Corporation.

The Audit Committee shall be given full access to the Firm's books and records, Corporate Audit and Compliance departments, the Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the Audit Committee shall have all the authority of the Board of Directors.

Notwithstanding the foregoing, the Audit Committee is not responsible for certifying the Corporation's financial statements or guaranteeing the independent auditors' report. The fundamental responsibility for the Corporation's financial statements and disclosures rests with management. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

A. Documents/Reports Review

1. Meet to review and discuss with management, Corporate Audit and the independent auditors prior to public dissemination the Corporation's annual audited financial statements and quarterly financial statements, including the notes thereto, and the Corporation's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", contained or incorporated in its annual and quarterly reports filed with the SEC, and discuss with the independent auditors the matters required to be discussed by Statements of Auditing Standards Nos. 61 and 90.

2. Review and discuss the Corporation's earnings press releases (paying particular attention to the use of any "pro forma", "adjusted" or other non-GAAP financial measures and compliance thereof with relevant rules of the SEC), as well as financial information and earnings guidance provided to analysts and rating agencies, as required by applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the Public Company Accounting Oversight Board (the "PCAOB") or the NYSE.

3. Review reports from management or Compliance of material findings, and the responses thereto, resulting from examinations by regulatory agencies, and discuss the foregoing, where appropriate, with Corporate Audit and the independent auditors.

4. Perform any functions required to be performed by it or otherwise appropriate under applicable laws, rules and regulations, the Corporation's By-Laws and the resolutions or other directives of the Board.

B. Independent Auditors

1. Appoint, retain and terminate the Corporation's independent auditors (subject to shareholder ratification).

2. Inform each registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work that such firm shall report directly to the Audit Committee.

3. Oversee the work of any registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work, or performing other audit, review or attest services for the Corporation, including the resolution of any disagreement between management and the auditors regarding financial reporting.

4. (a) Approve in advance all audit, review and attest services and all non-audit services (including, in each case, the engagement fees therefor and terms thereof) to be performed by the independent auditors, in accordance with applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

   (b) The fees and expenses of the independent auditors approved by the Audit Committee shall be obligations of the Corporation.

   (c) Notwithstanding the foregoing, the Audit Committee shall not approve or permit the performance by the independent auditors of any non-audit services that are prohibited or that, in the judgment of the Audit Committee, impair the independence of the auditors under applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

5. Review, at least annually, the qualifications, performance and independence of the independent auditors (including financial, employment and business relationships between the independent auditors and the Firm and rotation and compensation of audit personnel (each as defined in, and as prohibited or required by, applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE)) and present its conclusions to the Board of Directors.

C. Financial Reporting Process

1. In consultation with the independent auditors, management and the Financial Control and Corporate Audit departments, review the Corporation's disclosure controls and procedures and accounting and financial reporting processes and controls.

   (a) The Audit Committee shall review with management and the independent auditors the scope of the proposed audit for the current year and the audit procedures to be utilized, including the staffing plan;

   (b) The Audit Committee shall obtain and discuss with management and the independent auditors, prior to the filing of each audit report with the SEC, a report regarding:

      (i) all critical accounting policies and practices of the Firm;

      (ii) all alternative treatments within GAAP, for policies and practices related to material items, that have been discussed with management, including the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors;

(iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles;

(iv) major issues as to the adequacy of the Corporation's internal controls and any specific audit steps adopted in light of material control deficiencies; and

(v) any other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

2. Review periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

3. Review with the independent auditors (i) any audit problems or other difficulties encountered by the auditors in the course of the audit process, including any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management, and (ii) management's responses to such matters. The Audit Committee should review with the independent auditors (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any material communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any letter issued, or proposed to be issued, by the independent auditors to the Corporation reporting material observations or recommendations regarding the Firm's internal controls.

D. Corporate Audit

1. Review the appointment, compensation and/or replacement of the head of the Firm's Corporate Audit department.

2. Discuss with management and the independent auditors (i) the responsibilities, budget and staffing of the Corporate Audit department and (ii) its proposed annual audit plan.

3. Review a summary of findings from completed internal audits and management's responses and progress reports on the current internal audit plan.

E. Legal/Compliance

1. Review periodically the scope of Compliance department activities and confer with Compliance representatives on significant compliance issues and the management process for correcting them.

2. Review any reports from management, Compliance, Corporate Audit and the independent auditors with respect to any material failures by the Firm to comply with applicable laws, rules and regulations.

3. Review significant cases of employee misconduct or fraud as brought to the Committee's attention by management, Compliance, Corporate Audit or the independent auditors.

F. Other

1. Discuss with management and the independent auditors the Corporation's guidelines and policies with respect to risk assessment and risk management. The Audit Committee should discuss the Corporation's major financial and other risk exposures (including technology risks) and the steps management has taken to monitor and control such exposures.

2. Set clear policies for hiring by the Firm of current employees of the independent auditors (and their close family members), and of former employees of the independent auditors, that satisfy all applicable provisions of laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

3. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Firm of concerns regarding questionable accounting or auditing matters.

4. Perform such other functions as from time to time may be mandated by applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

5. Review on at least an annual basis the budgeting and expense allocation process with respect to the equity research business conducted by the Corporation or its subsidiaries to ensure that the equity research budget and allocation of equity research expenses have been determined by the Firm's senior management (other than investment banking personnel) without input from the Investment Banking Division and without regard to specific revenues or results derived from investment banking activities (though revenues and results of the Firm as a whole may be considered in determining the equity research budget and allocation of equity research expenses).

G. Reports

1. Prepare or cause to be prepared all reports, policies and procedures of the Audit Committee required to be included in the Corporation's proxy statement, pursuant to and in accordance with applicable rules and regulations of the SEC.

2. Report regularly to the Board of Directors including:

   (a) with respect to any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Firm's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditors or the performance of the Corporate Audit department;

(b) with respect to meetings of the Audit Committee; and

(c) with respect to such other matters as are relevant to the Audit Committee's discharge of its responsibilities.

The Audit Committee shall provide such recommendations as the Audit Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

3. Maintain or cause to be maintained minutes or other records of meetings and activities of the Audit Committee.

V. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

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

B. In addition, the Audit Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Audit Committee considers necessary or valuable.

C. The Audit Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

INDEPENDENCE DETERMINATIONS

Director	NYSE Disqualifying Relationships	Relationships that Exceed or Are Not Covered by the Categorical Standards	Relationships that Fall Below the Categorical Standards		
	• None.	• The only relationships that exceed the Categorical Standards of which the Firm is aware are the directors' investments in certain investment partnerships sponsored by the Firm, which were offered to the directors on favorable employee terms. These investments are disclosed in the proxy statement. Updated information regarding these investments is included on the following pages. • The Board will need to determine whether or not these investments impair the directors' independence. ➢ In the Firm's 2007, 2006 and 2005 proxy statements, these investments were explained from an independence perspective on the basis that none of the rights of the directors in these partnerships are contingent in any way on their continued service as directors. ➢ No director has made any commitment to any of these partnerships since mid-2001. • The only relationship that is not covered by the Categorical Standards of which the Firm is aware is the employment of the son of Roland Hernandez as a summer analyst. Mr. Hernandez's son was a summer analyst in 2007 and is expected to return as a summer analyst in 2008. Mr. Hernandez's son was paid $9,230 in 2007 (with the same amount expected for 2008), in line with his position and with respect to market standards. This relationship will be disclosed in the 2008 proxy statement.	• These relationships are considered immaterial under the Categorical Standards for Independence Determinations adopted by the Board. • A "Yes" below indicates that: ➢ In the case of "Personal Relationships," the Director has personal account(s) with the Firm or is the managing member of a family limited liability company that has account(s) with the Firm. In each such case, the Director has stated that such business is conducted in the ordinary course of the Firm's business and on arms-length terms. In addition, each Director has stated that no member of his or her immediate family conducts personal business with the Firm except in the ordinary course of the Firm's business and on arms-length terms. Under the Categorical Standards for Independence Determinations, an unlimited amount of ordinary course, arms-length personal business with the Firm can be conducted. ➢ In the case of "Business Relationships," the Firm receives revenues from a company with which the Director is associated, as described more fully on the following pages. ➢ In the case of "Charitable Relationships," the Firm makes charitable contributions to a charity with which the Director is associated, as described more fully on the following pages.		
			Personal Relationships	Business Relationships	Charitable Relationships
Ainslie	—	Yes	Yes	—	Yes
Akers	—	Yes	Yes	—	—
Berlind	—	Yes	Yes	—	Yes
Cruikshank	—	Yes	Yes	—	—
Evans	—	—	—	Yes	—
Gent	—	—	Yes	Yes	—
Hernandez	—	Yes	Yes	Yes	—
Kaufman	—	Yes	Yes	—	Yes
Macomber	—	Yes	Yes	Yes	Yes

MICHAEL L. AINSLIE

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Palm Beach Civic Association	$2,000 (Palm Beach Civic's revenues not available)	$4,000 (0.7% of Palm Beach Civic's revenues)	—
Palm Beach Day Academy	$1,000 (Palm Beach Day's revenues not available)	—	—
Posse Foundation	$100,000 (Posse's revenues not available)	$100,000 (0.4% of Posse's revenues)	$75,000 (0.9% of Posse's revenues)
Society of the Four Arts	$15,000 (Society's revenues not available)	$25,250 (0.3% of Society's revenues)	$15,000 (0.2% of Society's revenues)

JOHN F. AKERS

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$7,280	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

ROGER S. BERLIND

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners II, L.P.	$0	$0	—
Lehman Brothers Capital Partners III, L.P.	$29,880	$0	—
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	$22,350	$203,000	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
American Academy of Dramatic Arts	—	—	$7,500 (0.1% of American Academy of Dramatic Art's revenues)
The World Monuments Fund	$25,000 (World Monuments Fund's revenues not available)	—	—

THOMAS H. CRUIKSHANK

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

MARSHA JOHNSON EVANS

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Huntsman Corporation	$1,014,262 (0.0% of Huntsman's revenues)	$1,487 (0.0% of Huntsman's revenues)	$2,980,183 (0.0% of Huntsman's revenues)

SIR CHRISTOPHER GENT

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
GlaxoSmithKline Plc	$35,636,353 (0.1% of GlaxoSmithKline's revenues)	$39,258,758 (0.1% of GlaxoSmithKline's revenues)	$1,993,626 (0.0% of GlaxoSmithKline's revenues)

ROLAND HERNANDEZ

Employment of Immediate Family Member

Mr. Hernandez's son worked for the Firm as a summer analyst during the summer of 2007 and is expected to return to the Firm as a summer analyst during the summer of 2008. Mr. Hernandez's son was paid $9,230 in 2007 (with the same amount expected for 2008), in line with his position and with respect to market standards. The Categorical Standards for Independence Determinations do not address the employment of an immediate family member.

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Wal-Mart Stores, Inc.	$5,881,884 (0.0% of Wal-Mart's revenues)	$1,485,862 (0.0% of Wal-Mart's revenues)	$6,010,438 (0.0% of Wal-Mart's revenues)
Nordstrom Inc.*	$1,398 (0.0% of Nordstrom's revenues)	$7,170 (0.0% of Nordstrom's revenues)	$32,313 (0.0% of Nordstrom's revenues)
Wells Fargo & Company*	$44,274,230 (0.1% of Wells Fargo's revenues)	$57,510,687 (0.2% of Wells Fargo's revenues)	$54,732,119 (0.2% of Wells Fargo's revenues)

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

HENRY KAUFMAN

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners III, L.P.	$29,880	$0	—
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Economic Club of New York	$500 (Economic Club's revenues not available)	—	—
Institute of International Education	$60,000 (IIE's revenues not available)	$220,000 (0.1% of IIE's revenues)	$140,000 (0.1% of IIE's revenues)
New York University	$10,000 (NYU's revenues not available)	$25,000 (0.0% of NYU's revenues)	$10,000 (0.0% of NYU's revenues)
Stern School of Business, New York University	$47,000 (Stern School's revenues not available)	$23,500 (0.4% of Stern School's revenues)	$7,338 (0.2% of Stern School's revenues)

JOHN D. MACOMBER

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$7,280	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	$22,350	$203,000	—
Lehman Brothers Real Estate Capital Partners I, L.P.	$101,200	$140,880	—

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
AEA Investors LLC (related to AEA Investors Inc.)	$128,414 (0.0% of AEA's revenues)	$167,837 (AEA's revenues not available)	$5,640,117 (AEA's revenues not available)

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
American Museum of Natural History	$255,000 (0.2% of American Museum of Natural History's revenues)	$40,000 (0.0% of American Museum of Natural History's revenues)	—
Atlantic Council	$25,000 (Atlantic Council's revenues not available)	—	$20,000 (0.9% of Atlantic Council's revenues)
National Campaign to Prevent Teen Pregnancy	—	—	$10,000 (0.5% of National Campaign's revenues)
New York Philharmonic	$50,000 (N.Y. Philharmonic's revenues not available)	$50,000 (0.1% of N.Y. Philharmonic's revenues)	—
The Morgan Library	$25,000 (Morgan Library's revenues not available)	$25,000 (Morgan Library's revenues not available)	—

Independence of Audit Committee Members

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

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

ridgeway PARTNERS LLC

Durant A. Hunter
Direct: (617) 279 8050
andy.hunter@ridgewaypartners.com

C. Douglas Mercer II
Direct: (212) 901 2606
doug.mercer@ridgewaypartners.com

BOSTON LONDON NEW YORK

STRICTLY PRIVATE AND CONFIDENTIAL

Board of Directors

January 28, 2008

Prepared for

LEHMAN BROTHERS

ridgeway PARTNERS LLC

Table of Contents

ridgeway PARTNERS LLC

STRICTLY PRIVATE AND CONFIDENTIAL

Board of Directors

Leading Candidates

January 28, 2008

LEHMAN BROTHERS

Durant A. Hunter
Direct: (617) 279 8050
andy.hunter@ridgewaypartners.com

C. Douglas Mercer II
Direct: (212) 901 2606
doug.mercer@ridgewaypartners.com

BOSTON LONDON NEW YORK

ridgeway PARTNERS LLC

Leading Candidates

NAME	A	DIVERSITY	FE	CURRENT ROLE	EXPERIENCE PAST PROFESSIONAL / CURRENT BOARD	COMMENTS
DR JAMES I. **CASH** JR	60	African-American, Male	M	Consultant and Board Member	PROF: Professor, Harvard Business School BRDS: Chubb, GE (A), Microsoft (A), Phase Forward, Wal-Mart Stores (A)	Retired HBS Professor and former head of HBS Publishing. Well known and highly respected consultant and board member. Dr. Cash is interested but will not be available until late 2008. M. Evans met with him in December and arrangements will be made to meet with T. Russo, J. Gregory and Nominating Committee members in coming months.
CHRISTINA A. **GOLD**	59	Caucasian, Female	M	President and CEO, Western Union Co	PROF: President, Western Union Financial Services / Vice Chair and CEO, Excel Communications / Executive VP and President NA, Avon Products BRDS: Western Union Co, ITT Corp (A), New York Life Insurance (private), Torstar Corp (private)	Relatively new CEO of Western Union. Has global marketing, e-commerce and consumer expertise. Experienced board member. M. Evans spoke with Ms. Gold who is delighted to continue conversations with a view to joining the board in 2009. Arrangements will be made for her to meet with D. Fuld, T. Russo, and J. Gregory in coming months and she will be invited to speak at Lehman.

(A) = Member of the Audit Committee

ridgeway PARTNERS LLC

Leading Candidates

NAME	A	DIVERSITY	FE	CURRENT ROLE	EXPERIENCE PAST PROFESSIONAL / CURRENT BOARD	COMMENTS
JERRY A. **GRUNDHOFER**	62	Caucasian, Male	H	Boards	**PROF:** Chairman, Pres and CEO, Firstar Corp and Star Banc Corp **BRDS:** US Bancorp, Ecolab Inc, Midland Co, Clearing House Payments (private)	Recently retired as Chairman of US Bancorp, the 6th largest bank in the US. Mr. Grundhofer is interested in joining the board. He is getting approval from US Bancorp's Board, and precluding any conflicts, he will be able to join in early 2008.
SHERRY L. **LANSING**	63	Caucasian, Female	L	Chairman, Sherry Lansing Foundation	**PROF:** Chair, Motion Picture Group of Paramount Pictures **BRDS:** Qualcomm Inc	Talented entertainment executive that now leads a philanthropic organization and is well regarded for her active role in civic organizations in health and education. Known to M. Evans and is interested in joining the board. Have received favorable Qualcomm Board references. Met with D. Fuld and need to determine next steps.

(A) = Member of the Audit Committee

ridgeway PARTNERS LLC

STRICTLY PRIVATE AND CONFIDENTIAL

Board of Directors

Additional Candidates

January 28, 2008

Durant A. Hunter
Direct: (617) 279 8050
andy.hunter@ridgewaypartners.com

C. Douglas Mercer II
Direct: (212) 901 2606
doug.mercer@ridgewaypartners.com

LEHMAN BROTHERS

BOSTON LONDON NEW YORK

ridgeway PARTNERS LLC

Additional Candidates

NAME	A	DIVERSITY	FE	CURRENT ROLE	EXPERIENCE PAST PROFESSIONAL / CURRENT BOARD	COMMENTS
SUSAN E. **ARNOLD**	53	Caucasian, Female	M	President – Global Business Units, Procter & Gamble Co	**PROF:** Vice Chair / Division President, Procter & Gamble **BRDS:** Walt Disney Co	Senior level executive with significant marketing and general management experience. Will cultivate/invite to speak at Lehman.
CLAIRE H. **BABROWSKI**	50	Caucasian, Female	M	EVP and COO, Toys "R" Us	**PROF:** Pres and COO, RadioShack / EVP and Division Pres, McDonalds Corp **BRDS:** Delaine Group (A)	Had a 30-year career with McDonalds and has extensive operational and global experience. Will cultivate/invite to speak at Lehman.
DAVID BAKER **LEWIS**	57	African-American, Male	H	Chairman, Lewis & Munday PC	**PROF:** Chair and Pres, Lewis & Munday **BRDS:** H&R Block Inc (A), Kroger Co (A)	Legal expert specializing in municipal and corporate finance. Has been tapped by several boards throughout his career for his guidance and counsel. J. Macomber will reference.
HUGH B. **PRICE**	66	African-American, Male	M	Boards	**PROF:** Pres and CEO, National Urban League / Senior Adviser, Piper Rudnick Gray Cary **BRDS:** MetLife Inc (A), Verizon Communications Inc (A)	A not-for-profit innovator who tripled the League's endowment during his reign. Dedicated his life and legal background to the advancement of equal rights and the funding of public education. J. Macomber received a very favorable reference. J. Gregory will arrange to meet.

(A) = Member of the Audit Committee

ridgeway PARTNERS LLC

Additional Candidates

NAME	A	DIVERSITY	FE	CURRENT ROLE	EXPERIENCE PAST PROFESSIONAL / CURRENT BOARD	COMMENTS
CLARENCE **OTIS, JR.**	51	African-American, Male	H	Chairman and CEO, Darden Restaurants	**PROF:** SVP and CFO, Darden Restaurants/ Managing Director, Chemical Securities (JPMorgan) **BRDS:** Darden Restaurants, Verizon Communications (A), VF Corp (A)	Experienced executive with substantial financial and operating experience. Serves as Financial Expert on VF Corp's Board. Known to and recommended by Lehman bankers. Need to determine whether there is a conflict regarding a recent Lehman transaction with Darden Restaurants. Attending a Lehman diversity event in February and will meet with D. Fuld and J. Gregory at that time.
LLOYD G. **TROTTER**	61	African-American, Male	M	Vice Chairman, General Electric Co CEO, GE Industrials	**PROF:** EVP / SVP, General Electric **BRDS:** None current Prospective Boards: Pepsi Co, Textron Inc	Well regarded senior executive with responsibility for a $28 billion global business. Spent entire career at GE and is expected to retire in the near future. D. Fuld will contact J. Immelt and reference.
RAYFORD **WILKINS**, JR.	56	African-American, Male	M	Group President, AT&T Inc	**PROF:** Division President, AT&T / Pres & CEO, Pacific Bell / Pres & CEO, Southwestern Bell **BRDS:** America Movil SA, H&R Block Inc (A), Telefonos de Mexico SA	Has been at the helm of leading telecommunications companies and has received awards for technological expertise. D. Fuld will contact J. Kahn (sp) and reference.

(A) = Member of the Audit Committee

ridgeway PARTNERS LLC

Additional Candidates

NAME	A	DIVERSITY	FE	CURRENT ROLE	EXPERIENCE PAST PROFESSIONAL / CURRENT BOARD	COMMENTS
RONALD A. **WILLIAMS**	58	African-American, Male	M	Chairman and CEO, Aetna Inc	**PROF:** Chair, Pres and CEO, Aetna / Exec VP, Wellpoint Health Network **BRDS:** Aetna Inc, American Express (A)	Runs a $25 billion corporation and is a leader in the healthcare industry. Respected for taken on issues such as racial and ethnic disparities in healthcare. D. Fuld received a favorable reference.

(A) = Member of the Audit Committee

ridgeway PARTNERS LLC

Board of Directors

Leading Candidate Checklist

January 28, 2008

Prepared for

LEHMAN BROTHERS

Durant A. Hunter
Direct: (617) 279 8050
andy.hunter@ridgewaypartners.com

C. Douglas Mercer II
Direct: (212) 901 2606
doug.mercer@ridgewaypartners.com

BOSTON LONDON NEW YORK

ridgeway PARTNERS LLC

Leading Candidates Checklist

Name	Expected Start Date	RP Profile / Research	Reference Checks	Lehman Legal / Internal / ISS Screen	Fuld Meeting	Evans Meeting	Gregory / Russo Meetings	Nominating Committee Meetings	External Background Check	D&O Questionnaire to Candidate	D&O Questionnaire Cleared	Other Lehman Board / /Mgmt Meetings
JAMES I. **CASH**	Late 2008	✓	✓	✓	✓	✓	Q1 2008	Q1 2008				
CHRISTINA A. **GOLD**	Spring 2009	✓	✓	✓		✓						
JERRY A. **GRUNDHOFER**	Spring 2008	✓	✓	✓	✓	Feb 2008	Feb 2008	Feb 2008	TBD	Jan 2008		
SHERRY L. **LANSING**	Spring 2008	✓	✓	✓	✓	✓	✓	TBD	Jan 2008			

LEHMAN BROTHERS

MEMORANDUM

DATE: January 24, 2008

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

FROM: Tracy Binkley, Global Head of Human Resources

SUBJECT: Material for the January Meeting

Attached for your review is a document regarding Lehman Brothers 2007 performance, which the Compensation Committee discussed at their last meeting. John Akers asked that this document be shared with the full Board, to lay the foundation for your discussion regarding 2007 executive compensation at the January 29th Board meeting.

cc: J.F. Akers
R.S. Fuld, Jr.
J.M. Gregory

2007 Year in Review

January 2008

I) Shareholder Value & Financial Performance

Financial Results

- The Firm achieved record revenue of $19.3B (up 10% vs. $17.6B in '06)
  - Achieved highest level of Pretax Income, Net Income and EPS in history of the Firm

Financial Performance Summary

	LB YOY Performance			
	2007	2006	% YOY Change	5 Yr CAGR
Net Revenues ($B)	19.3	17.6	*10%*	*26%*
Pretax Income ($B)	6.0	5.9	*2%*	*34%*
Pretax Margin	*31%*	*34%*		
Net Income ($B)	4.2	4.0	*5%*	*34%*
Net Margin	*22%*	*23%*		
Earnings Per Share ($)	7.26	6.73[1]	*8%*	*33%*
Return on Average Common Equity	*20.8%*	*23.4%*	*-2.6%*	*N/A*
Return on Average Tangible Common Equity	*25.7%*	*29.1%*	*-3.4%*	*N/A*

1. 2006 annual EPS excludes $0.08 of one time accounting gain from the adoption of FAS 123R.

- Increased annual dividend by 25%, from $0.48 per share to $0.60 per share

Performance During '07 Credit Crisis – Financial Results vs. Peers

- Firm achieved fourth best Q/Q net income performance and lowest net writedowns across full peer group

3Q 2007 Net Income Change[1]

Firm	YOY 3Q'07 NI Change
Goldman Sachs	79%
Deutsche Bank	31%
JP Morgan	4%
Lehman Brothers	**(3%)**
Morgan Stanley	(7%)
Bank of America	(32%)
Citi	(55%)
Bear Stearns	(61%)
UBS	(117%)
Merrill Lynch	(175%)
Average	**(34%)**

1. Data based on Net Income from Continuing Operations.

2007 Net Announced Writedowns as of 11/30/07[1]

Firm	Net 3Q Writedowns ($B)	Other[2]	Total
Lehman Brothers	$0.7	–	$0.7
Goldman Sachs	$1.2	–	$1.2
JP Morgan	$1.2	–	$1.2
Bear Stearns	$0.5	$1.2	$1.7
Deutsche Bank	$3.1	–	$3.1
Bank of America	$1.5	$3.0	$4.5
Morgan Stanley	$0.8	$3.7	$4.5
UBS	$4.8	–	$4.8
Merrill Lynch	$7.8	–	$7.8
Citi	$3.1	$11.0	$14.1
Average	$2.5	$4.7	$4.3

1. Competitor headline figures adjusted to reflect relevant comparisons (e.g., includes P&L from structured notes, etc.).
2. Expected writedowns announced after 3Q earnings (assumed max of range).

Total Capital

- Increased total capital 46% YOY

Total Capital, Debt and Equity			
	LB YOY Performance		
	11/30/07	11/30/06	% Change
Total Long Term Capital ($B)	146	100	*46%*
Total Debt ($B)	123	81	*52%*
Total Equity ($B)	22	19	*17%*

Liquidity Profile

- Maintained a conservative funding framework to mitigate risk
  - Holding company liquidity pool of $35B vs. short term debt of $28B at 4Q'07
  - Unencumbered collateral at $96B, evenly split between regulated and unregulated subsidiaries
  - Additional pre-funded structures with capacity to accept a significant portion of HY and HG contingent commitment loans
  - Issued $86B of long term debt at attractive prices, front loading requirements
- Recognized as having the strongest liquidity position in Fitch Ratings' August '07 analysis of US securities firms

Credit Ratings

- **Fitch** Ratings upgraded Lehman's credit rating to AA- from A+ in June '07
  - Emphasized Lehman's "carefully executed expansion over the last several years with subsequent improvement in revenue diversification, stability of management, reduced reliance on short-term funding, stable capital levels and increased diversification of funding sources"
- **S&P** Rating Services affirmed Lehman's credit rating of A+ with "stable" outlook in August '07 and again in November '07
  - Highlighted Lehman's strong franchise, including growing product diversity and strengthened global platform
  - Pointed out that "Lehman maintains a strong risk culture, which results in the firms comparatively lower risk appetite and excellent liquidity and funding profile"
- **Moody's** Investor Service also affirmed Lehman's credit rating of A1 with "positive" outlook in September '07
  - Commented on "continuous progress in increasing the scale and breadth of its franchise"
  - Stressed that "Lehman has evolved into a firm that consistently follows a disciplined, pragmatic customer-focused approach to all risk and strategic decisions that it makes"
- **Dominion** Bond Rating Service also affirmed Lehman's rating and cited the Firm's powerful and diversified businesses, strong financial profile, skillful risk management and strong liquidity

II) Business Performance

Continued Brand-Building Effort

- Top 5 ranked firm in each of the following categories:

Top 5 Ranking	
– Global Hybrid Capital Origination	– Global Asset Backed Debt Origination
– Global MBS Origination	– US Short Term Trading
– US Government Trading	– US Distressed Trading
– US Agency Trading	– Europe CDO Trading
– US Interest Rate Derivative Trading	– US Governments eTrading
– US MBS Trading	– US Agencies eTrading
– US CMBS Trading	– US Commercial Paper eTrading
– US ABS Trading	– Europe ABS Trading
– US High Grade Corporate Trading	– Total US Equity Origination
– US High Grade Flow Credit Derivs Trading	– US IPO Origination
– US High Yield Flow Credit Derivs Trading	– US Announced M&A
– US High Yield Corporate Trading	– US Completed M&A
– US Fixed Income Origination	– US Block Trades

- Top 10 ranked firm in each of the following categories (in addition to previous list):

Top 10 Ranking	
– Global Announced M&A	– US CDO Trading
– Global Completed M&A	– US Emerging Markets Trading (FID)
– Global Debt and Equity Origination	– US Leveraged Loans Trading
– Global Fixed Income Origination	– US Mortgage TBAs Trading
– Global LT Investment Grade Origination	– Europe High Yield Corporate Trading
– Global High Yield Origination	– Europe Emerging Markets Trading
– Global Leverage Loan Origination	– Europe High Yield Flow Credit Derivs Trading
– Global IBD Fee Share	– Global IPO Origination
– US Market Corporate – LT IG Origination	– Global Convertible Origination
– US High Yield Corporate Origination	– Global Equity and Equity Linked Origination
– US Federal Credit Agency Origination	– Global Block Trades
– US Leveraged Syndicated Loans Origination	– Total US Equity and Equity Linked Origination
– US Follow-On Origination	– US Convertible Origination
– Global Municipal Debt Origination	– Asia Convertible Origination

- Major awards won in '07 include:

Firmwide

- Named "Most Admired Securities Company" by *Fortune*
- Ranked as *Institutional Investor*'s #1 "Most Shareholder-Friendly Company" in the "Brokers and Asset Managers" category
- Named to *BusinessWeek's* "50 Best-Performing Companies" list (2nd straight year)
- CEO named to *Barron's* "The World's Most Respected CEOs" list (3rd straight year)
- CEO named *Institutional Investor*'s #1 CEO in the "Brokers & Asset Managers" category (2nd straight year)

Businesses

- Ranked #1 in *Institutional Investor* All-America Research Team survey in both Fixed Income and Equities
- Ranked #1 in U.S. Fixed Income Market Share, Overall Quality, Sales Quality, Research Quality, and Trading Quality by *Greenwich Associates*
- Recognized by *Global Finance* as the "Best Investment Bank" in the Consumer sector
- Recognized by *Global Finance* for "Best M&A Deal of the Year" (TXU Leveraged Buyout)
- Named "Bank of the Year for Credit Derivatives" by *The Banker*
- Named "Best Credit House," "Best Securitization House," "Best High-Grade Research," "Best Credit Strategy," "Best Trade Ideas (for credit-related trades)," in the U.S. and "Best Index Provider" in Europe and the U.S. by *Credit* magazine
- Awarded "Credit Derivatives House of the Year" by *Risk* magazine and *IFR*
- Ranked #1 globally in Transition Management (portfolio asset transitions) by *Global Investor*

Europe

- Named *Euromoney*'s "Best Investment Bank in the Netherlands"
- Ranked "#1 Prime Broker in Europe" by *Global Custodian*
- Ranked #4 "All-Europe Research Team" (Fixed Income) by *Institutional Investor*
- Recognized by the Great Place to Work® Institute as among the "50 Best Workplaces in the U.K." (3rd consecutive year) and received the "Special Award for Disability Excellence" (2nd consecutive year)

Asia

- Recognized by *Asia Risk*:
  - "Credit Derivatives House of the Year"
  - "Deal of the Year" (START II Collateralized Loan Obligation)
- START III Collateralized Loan Obligation recognized as:
  - "Best Securitization" and "Best Structured Product" (*Finance Asia*)
  - "Best Structured Deal" and "Best Synthetic CLO" (*The Asset*)
  - "Singapore Deal of the Year" (*The Banker*)

Diversity

- Named to *Conceive* magazine's "50 Best Companies" list
- Named to Dave Thomas Foundation for Adoption's "Best Adoption-Friendly Workplaces" list
- Received "Ability First" Employer award from Just One Break
- Ranked in Top 25 employers of Gay and Lesbian employees by *Stonewall Workplace Equality Index*
- Named to *Working Mother*'s "Working Mother 100 Best Companies"
- Received "Disability Matters" award from *WorkLife Matters* magazine
- Received Global Award from Opportunity Now in recognition of the Encore℠ program

Recruiting

- Named to *Fortune*'s "20 Great Employers for New Grads" list
- Named to *BusinessWeek*'s "Best Places to Launch a Career" list
- Ranked #4 in "Vault Guide to the Top 50 Banking Employers"

Philanthropy

- Received Guangming Corporate Social Responsibility Award from *Guangming Daily*

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

As amended January ~~24~~29, 200~~5~~8.

LEHMAN BROTHERS HOLDINGS INC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The purpose of the Audit Committee of the Board of Directors shall be to:

A. Assist the Board of Directors in fulfilling its oversight of:

1. The quality and integrity of the Corporation's financial statements;
2. The Corporation's compliance with legal and regulatory requirements;
3. The qualifications and independence of the Corporation's independent auditors; and
4. The performance of the Corporation's internal audit and compliance functions and its independent auditors.

B. Prepare any reports that the rules of the Securities and Exchange Commission ("SEC") require be included in the Corporation's annual proxy statement.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

1. The Audit Committee shall be comprised of three or more members of the Board of Directors and shall comply with the "independent director" requirements under the rules of the New York Stock Exchange (the "NYSE"), the federal securities laws and the rules of the SEC promulgated thereunder.
2. Each member of the Audit Committee shall have a working familiarity with basic finance and accounting terminology and practices, and at least one member shall have accounting or related financial management expertise.

B. Compensation

No member of the Audit Committee shall receive from the Corporation or any of its subsidiaries (collectively, the "Firm") compensation prohibited by, or which violates the independence requirements of, applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC and the NYSE.

C. Appointment and Removal

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

D. Chairman

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

III. MEETINGS

A. The Audit Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Audit Committee shall periodically meet separately with each of management, the head of Corporate Audit, the head of Compliance and the independent auditors to discuss any matters that the Audit Committee or any of these persons or groups believes would be appropriate to discuss privately. In addition, the Audit Committee shall meet with the Corporation's independent auditors, Corporate Audit and management quarterly to review the Corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter. The Chairman of the Board or any member of the Audit Committee may call meetings of the Audit Committee. All meetings of the Audit Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.

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

IV. RESPONSIBILITIES AND DUTIES

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

The Audit Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Audit Committee deems appropriate. In this regard, the Audit Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to and expenses of such advisors and any other terms of retention, and any such fees and expenses so approved shall be obligations of the Corporation.

The Audit Committee shall be given full access to the Firm's books and records, Corporate Audit and Compliance departments, the Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the Audit Committee shall have all the authority of the Board of Directors.

Notwithstanding the foregoing, the Audit Committee is not responsible for certifying the Corporation's financial statements or guaranteeing the independent auditors' report. The fundamental responsibility for the Corporation's financial statements and disclosures rests with management. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

A. Documents/Reports Review

1. Meet to review and discuss with management, Corporate Audit and the independent auditors prior to public dissemination the Corporation's annual audited financial statements and quarterly financial statements, including the notes thereto, and the Corporation's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", contained or incorporated in its annual and quarterly reports filed with the SEC, and discuss with the independent auditors the matters required to be discussed by Statements of Auditing Standards Nos. 61 and 90.

2. Review and discuss the Corporation's earnings press releases (paying particular attention to the use of any "pro forma", "adjusted" or other non-GAAP financial measures and compliance thereof with relevant rules of the SEC), as well as financial information and earnings guidance provided to analysts and rating agencies, as required by applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the Public Company Accounting Oversight Board (the "PCAOB") or the NYSE.

3. Review reports from management or Compliance of material findings, and the responses thereto, resulting from examinations by regulatory agencies, and discuss the foregoing, where appropriate, with Corporate Audit and the independent auditors.

4. Perform any functions required to be performed by it or otherwise appropriate under applicable laws, rules and regulations, the Corporation's By-Laws and the resolutions or other directives of the Board.

B. Independent Auditors

1. Appoint, retain and terminate the Corporation's independent auditors (subject to shareholder ratification).

2. Inform each registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work that such firm shall report directly to the Audit Committee.

3. Oversee the work of any registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work, or performing other audit, review or attest services for the Corporation, including the resolution of any disagreement between management and the auditors regarding financial reporting.

4. (a) Approve in advance all audit, review and attest services and all non-audit services (including, in each case, the engagement fees therefor and terms thereof) to be performed by the independent auditors, in accordance with applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

   (b) The fees and expenses of the independent auditors approved by the Audit Committee shall be obligations of the Corporation.

   (c) Notwithstanding the foregoing, the Audit Committee shall not approve or permit the performance by the independent auditors of any non-audit services that are prohibited or that, in the judgment of the Audit Committee, impair the independence of the auditors under applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

5. Review, at least annually, the qualifications, performance and independence of the independent auditors (including financial, employment and business relationships between the independent auditors and the Firm and rotation and compensation of audit personnel (each as defined in, and as prohibited or required by, applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE)) and present its conclusions to the Board of Directors.

C. Financial Reporting Process

1. In consultation with the independent auditors, management and the Financial Control and Corporate Audit departments, review the Corporation's disclosure controls and procedures and accounting and financial reporting processes and controls.

   (a) The Audit Committee shall review with management and the independent auditors the scope of the proposed audit for the current year and the audit procedures to be utilized, including the staffing plan;

   (b) The Audit Committee shall obtain and discuss with management and the independent auditors, prior to the filing of each audit report with the SEC, a report regarding:

      (i) all critical accounting policies and practices of the Firm;

      (ii) all alternative treatments within GAAP, for policies and practices related to material items, that have been discussed with management, including the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors;

(iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles;

(iv) major issues as to the adequacy of the Corporation's internal controls and any specific audit steps adopted in light of material control deficiencies; and

(v) any other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

2. Review periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

3. Review with the independent auditors (i) any audit problems or other difficulties encountered by the auditors in the course of the audit process, including any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management, and (ii) management's responses to such matters. The Audit Committee should review with the independent auditors (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any material communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any letter issued, or proposed to be issued, by the independent auditors to the Corporation reporting material observations or recommendations regarding the Firm's internal controls.

D. Corporate Audit

1. Review the appointment, compensation and/or replacement of the head of the Firm's Corporate Audit department.

2. Discuss with management and the independent auditors (i) the responsibilities, budget and staffing of the Corporate Audit department and (ii) its proposed annual audit plan.

3. Review a summary of findings from completed internal audits and management's responses and progress reports on the current internal audit plan.

E. Legal/Compliance

1. Review periodically the scope of Compliance department activities and confer with Compliance representatives on significant compliance issues and the management process for correcting them.

2. Review any reports from management, Compliance, Corporate Audit and the independent auditors with respect to any material failures by the Firm to comply with applicable laws, rules and regulations.

3. Review significant cases of employee misconduct or fraud as brought to the Committee's attention by management, Compliance, Corporate Audit or the independent auditors.

F. Other

1. Discuss with management and the independent auditors the Corporation's guidelines and policies with respect to risk assessment and risk management. The Audit Committee should discuss the Corporation's major financial and other risk exposures (including technology risks) and the steps management has taken to monitor and control such exposures.

2. Set clear policies for hiring by the Firm of current employees of the independent auditors (and their close family members), and of former employees of the independent auditors, that satisfy all applicable provisions of laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

3. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Firm of concerns regarding questionable accounting or auditing matters.

4. Perform such other functions as from time to time may be mandated by applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

5. Review on at least an annual basis the budgeting and expense allocation process with respect to the equity research business conducted by the Corporation or its subsidiaries to ensure that the equity research budget and allocation of equity research expenses have been determined by the Firm's senior management (other than investment banking personnel) without input from the Investment Banking Division and without regard to specific revenues or results derived from investment banking activities (though revenues and results of the Firm as a whole may be considered in determining the equity research budget and allocation of equity research expenses).

G. Reports

1. Prepare or cause to be prepared all reports, policies and procedures of the Audit Committee required to be included in the Corporation's proxy statement, pursuant to and in accordance with applicable rules and regulations of the SEC.

2. Report regularly to the Board of Directors including:

   (a) with respect to any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Firm's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditors or the performance of the Corporate Audit department;

(b) with respect to meetings of the Audit Committee; and

(c) with respect to such other matters as are relevant to the Audit Committee's discharge of its responsibilities.

The Audit Committee shall provide such recommendations as the Audit Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

3. Maintain or cause to be maintained minutes or other records of meetings and activities of the Audit Committee.

V. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

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

B. In addition, the Audit Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Audit Committee considers necessary or valuable.

C. The Audit Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

INDEPENDENCE DETERMINATIONS

<table>
<tr><th>Director</th><th>NYSE Disqualifying Relationships</th><th>Relationships that Exceed or Are Not Covered by the Categorical Standards</th><th colspan="3">Relationships that Fall Below the Categorical Standards</th></tr>
<tr><td></td><td>• None.</td><td>• The only relationships that exceed the Categorical Standards of which the Firm is aware are the directors' investments in certain investment partnerships sponsored by the Firm, which were offered to the directors on favorable employee terms. These investments are disclosed in the proxy statement. Updated information regarding these investments is included on the following pages.
• The Board will need to determine whether or not these investments impair the directors' independence.
➢ In the Firm's 2007, 2006 and 2005 proxy statements, these investments were explained from an independence perspective on the basis that none of the rights of the directors in these partnerships are contingent in any way on their continued service as directors.
➢ No director has made any commitment to any of these partnerships since mid-2001.
• The only relationship that is not covered by the Categorical Standards of which the Firm is aware is the employment of the son of Roland Hernandez as a summer analyst. Mr. Hernandez's son was a summer analyst in 2007 and is expected to return as a summer analyst in 2008. Mr. Hernandez's son was paid $9,230 in 2007 (with the same amount expected for 2008), in line with his position and with respect to market standards. This relationship will be disclosed in the 2008 proxy statement.</td><td colspan="3">• These relationships are considered immaterial under the Categorical Standards for Independence Determinations adopted by the Board.
• A "Yes" below indicates that:
➢ In the case of "Personal Relationships," the Director has personal account(s) with the Firm or is the managing member of a family limited liability company that has account(s) with the Firm. In each such case, the Director has stated that such business is conducted in the ordinary course of the Firm's business and on arms-length terms. In addition, each Director has stated that no member of his or her immediate family conducts personal business with the Firm except in the ordinary course of the Firm's business and on arms-length terms. Under the Categorical Standards for Independence Determinations, an unlimited amount of ordinary course, arms-length personal business with the Firm can be conducted.
➢ In the case of "Business Relationships," the Firm receives revenues from a company with which the Director is associated, as described more fully on the following pages.
➢ In the case of "Charitable Relationships," the Firm makes charitable contributions to a charity with which the Director is associated, as described more fully on the following pages.</td></tr>
<tr><td></td><td></td><td></td><td>Personal Relationships</td><td>Business Relationships</td><td>Charitable Relationships</td></tr>
<tr><td>Ainslie</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td><td>Yes</td></tr>
<tr><td>Akers</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td><td>—</td></tr>
<tr><td>Berlind</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td><td>Yes</td></tr>
<tr><td>Cruikshank</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td><td>—</td></tr>
<tr><td>Evans</td><td>—</td><td>—</td><td>—</td><td>Yes</td><td>—</td></tr>
<tr><td>Gent</td><td>—</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td></tr>
<tr><td>Hernandez</td><td>—</td><td>Yes</td><td>Yes</td><td>Yes</td><td>—</td></tr>
<tr><td>Kaufman</td><td>—</td><td>Yes</td><td>Yes</td><td>—</td><td>Yes</td></tr>
<tr><td>Macomber</td><td>—</td><td>Yes</td><td>Yes</td><td>Yes</td><td>Yes</td></tr>
</table>

MICHAEL L. AINSLIE

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Palm Beach Civic Association	$2,000 (Palm Beach Civic's revenues not available)	$4,000 (0.7% of Palm Beach Civic's revenues)	—
Palm Beach Day Academy	$1,000 (Palm Beach Day's revenues not available)	—	—
Posse Foundation	$100,000 (Posse's revenues not available)	$100,000 (0.4% of Posse's revenues)	$75,000 (0.9% of Posse's revenues)
Society of the Four Arts	$15,000 (Society's revenues not available)	$25,250 (0.3% of Society's revenues)	$15,000 (0.2% of Society's revenues)

JOHN F. AKERS

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$7,280	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

ROGER S. BERLIND

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners II, L.P.	$0	$0	—
Lehman Brothers Capital Partners III, L.P.	$29,880	$0	—
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	$22,350	$203,000	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
American Academy of Dramatic Arts	—	—	$7,500 (0.1% of American Academy of Dramatic Art's revenues)
The World Monuments Fund	$25,000 (World Monuments Fund's revenues not available)	—	—

THOMAS H. CRUIKSHANK

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

MARSHA JOHNSON EVANS

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Huntsman Corporation	$1,014,262 (0.0% of Huntsman's revenues)	$1,487 (0.0% of Huntsman's revenues)	$2,980,183 (0.0% of Huntsman's revenues)

SIR CHRISTOPHER GENT

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
GlaxoSmithKline Plc	$35,636,353 (0.1% of GlaxoSmithKline's revenues)	$39,258,758 (0.1% of GlaxoSmithKline's revenues)	$1,993,626 (0.0% of GlaxoSmithKline's revenues)

ROLAND HERNANDEZ

Employment of Immediate Family Member

Mr. Hernandez's son worked for the Firm as a summer analyst during the summer of 2007 and is expected to return to the Firm as a summer analyst during the summer of 2008. Mr. Hernandez's son was paid $9,230 in 2007 (with the same amount expected for 2008), in line with his position and with respect to market standards. The Categorical Standards for Independence Determinations do not address the employment of an immediate family member.

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Wal–Mart Stores, Inc.	$5,881,884 (0.0% of Wal-Mart's revenues)	$1,485,862 (0.0% of Wal-Mart's revenues)	$6,010,438 (0.0% of Wal-Mart's revenues)
Nordstrom Inc.*	$1,398 (0.0% of Nordstrom's revenues)	$7,170 (0.0% of Nordstrom's revenues)	$32,313 (0.0% of Nordstrom's revenues)
Wells Fargo & Company*	$44,274,230 (0.1% of Wells Fargo's revenues)	$57,510,687 (0.2% of Wells Fargo's revenues)	$54,732,119 (0.2% of Wells Fargo's revenues)

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

HENRY KAUFMAN

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners III, L.P.	$29,880	$0	—
Lehman Brothers Capital Partners IV, L.P.	$3,640	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—

Relationships that Fall Below the Categorical Standards

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
Economic Club of New York	$500 (Economic Club's revenues not available)	—	—
Institute of International Education	$60,000 (IIE's revenues not available)	$220,000 (0.1% of IIE's revenues)	$140,000 (0.1% of IIE's revenues)
New York University	$10,000 (NYU's revenues not available)	$25,000 (0.0% of NYU's revenues)	$10,000 (0.0% of NYU's revenues)
Stern School of Business, New York University	$47,000 (Stern School's revenues not available)	$23,500 (0.4% of Stern School's revenues)	$7,338 (0.2% of Stern School's revenues)

JOHN D. MACOMBER

Investment Partnerships

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

Partnership	Fiscal 2007 Distributions	LP Capital Remaining Invested as of 11/30/07	Recourse Financing Remaining as of 11/30/07
Lehman Brothers Capital Partners IV, L.P.	$7,280	$0	$0
Lehman Brothers Partnership Account 2000/2001, L.P.	$110,000	$0	$0
Lehman Brothers Venture Capital Partners I, L.P.	$3,140	$71,445	—
Lehman Brothers Communications Capital Partners I, L.P.	$0	$24,164	—
Lehman Brothers Venture Capital Partners II, L.P.	$22,350	$203,000	—
Lehman Brothers Real Estate Capital Partners I, L.P.	$101,200	$140,880	—

Relationships that Fall Below the Categorical Standards

Business Relationships

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

Company	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
AEA Investors LLC (related to AEA Investors Inc.)	$128,414 (0.0% of AEA's revenues)	$167,837 (AEA's revenues not available)	$5,640,117 (AEA's revenues not available)

Charitable Relationships

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

Organization	Fiscal Year 2007	Fiscal Year 2006	Fiscal Year 2005
American Museum of Natural History	$255,000 (0.2% of American Museum of Natural History's revenues)	$40,000 (0.0% of American Museum of Natural History's revenues)	—
Atlantic Council	$25,000 (Atlantic Council's revenues not available)	—	$20,000 (0.9% of Atlantic Council's revenues)
National Campaign to Prevent Teen Pregnancy	—	—	$10,000 (0.5% of National Campaign's revenues)
New York Philharmonic	$50,000 (N.Y. Philharmonic's revenues not available)	$50,000 (0.1% of N.Y. Philharmonic's revenues)	—
The Morgan Library	$25,000 (Morgan Library's revenues not available)	$25,000 (Morgan Library's revenues not available)	—

Independence of Audit Committee Members

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

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

R. FULD'S SCRIPT Draft 1/22/08

BOARD OF DIRECTORS MEETING 1/29/08

1. NEED TO APPROVE MINUTES OF BOARD MEETING HELD ON NOVEMBER 8, 2007. (RESOLUTION IS BEHIND ITEM 1 IN FOLDER.) ASK FOR MOTION AND SECOND TO APPROVE RESOLUTION.

2. ASK MARTY EVANS TO GIVE A REPORT ON JANUARY 28, 2008 NOMINATING AND CORPORATE GOVERNANCE COMMITTEE MEETING. COMMITTEE WILL RECOMMEND THAT THE BOARD DESIGNATE EACH OF THE DIRECTORS AS A DIRECTOR NOMINEE FOR RE-ELECTION AT ANNUAL MEETING OF STOCKHOLDERS. (RESOLUTION IS BEHIND ITEM 2 IN FOLDER.) ASK FOR MOTION AND SECOND TO APPROVE RESOLUTION.

3. ASK HENRY KAUFMAN TO GIVE A REPORT ON TODAY'S FINANCE AND RISK COMMITTEE MEETING, INCLUDING THE RECOMMENDED DIVIDEND INCREASE AND A DISCUSSION OF THE STOCK BUYBACK PROGRAM.

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

4. ASK JOHN AKERS TO GIVE A REPORT ON COMPENSATION AND BENEFITS COMMITTEE MEETINGS HELD ON DECEMBER 7, 2007 AND JANUARY 28, 2008. COMMITTEE WILL RECOMMEND THAT THE BOARD ADOPT AMENDMENTS TO THE COMPENSATION AND BENEFITS COMMITTEE CHARTER AND APPROVE THE EXECUTIVE INCENTIVE COMPENSATION PLAN (F/K/A THE SHORT-TERM EXECUTIVE COMPENSATION PLAN). (RESOLUTIONS AND MATERIALS ARE BEHIND ITEM 4 IN FOLDER.)

5. ASK TOM CRUIKSHANK TO GIVE A REPORT ON AUDIT COMMITTEE MEETINGS HELD ON DECEMBER 12, 2007, JANUARY 24 AND JANUARY 28, 2008.

6. **ASK ERIN CALLAN TO GIVE THE FINANCIAL UPDATE. (MATERIALS ARE BEHIND ITEM 6 IN FOLDER.)**

7. **ASK ERIC FELDER TO GIVE HIS PRESENTATION ON THE MARKET ENVIRONMENT FOR FINANCIAL SERVICE COMPANY DEBT. (ERIC WILL DISTRIBUTE HIS PRESENTATION.)**

8. **ASK ERIN CALLAN TO GIVE THE 2008 BUDGET PRESENTATION. (ERIN WILL DISTRIBUTE HER PRESENTATION.)**

9. **ASK TOM TO PRESENT MATERIALS FOR DIRECTOR INDEPENDENCE DETERMINATIONS. (RESOLUTIONS ARE BEHIND ITEM 9 IN FOLDER.) (MATERIALS ARE IN A SEPARATE FOLDER AT EACH DIRECTOR'S SEAT.)** [*TOM WILL PRESENT, THEN ASK FOR A MOTION TO PASS THE RESOLUTIONS.*]

10. **ASK TOM TO GIVE UPDATE ON ANNUAL MEETING. (RESOLUTIONS ARE BEHIND ITEM 10 IN FOLDER.)** [*TOM WILL PRESENT, THEN ASK FOR A MOTION TO PASS THE RESOLUTIONS.*]

11. **ASK TOM TO GIVE LEGAL UPDATE.**

12. **PRIVATE SESSION OF ALL DIRECTORS (OPTIONAL).**

13. **ASK FOR MOTION AND SECOND TO ADJOURN MEETING.**

14. **THE NON-MANAGEMENT DIRECTORS WILL MEET IN EXECUTIVE SESSION TO DISCUSS CEO COMPENSATION.**

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

DATE	**SUMMARY** (Executive Committee Action by Written Consent unless otherwise noted)
1. November 16, 2007 (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
2. November 19, 2007 (Officer Changes)	Effective December 1, 2007, Ed Grieb became Global Head of Investor Relations, replacing Shaun Butler who is retiring, and Martin Kelly became Global Financial Controller, replacing Ed Grieb in that role.
3. December 13, 2007 (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
4. December 20, 2007 (Enhancement to Share Repurchase Program)	Authorized an enhancement to Holdings' share repurchase program intended to lower the cost of repurchases of Holdings' Common Stock by using call options.
5. January 15, 2008 (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.

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

DATE	SUMMARY (Executive Committee Action by Written Consent unless otherwise noted)
1. November 30, 2007 (Dividend Committee)	Authorized the payment of a dividend to Holdings on Lehman's common stock, out of retained earnings, in the amount of $400 million.
2. December 7, 2007 (Officer Changes)	Effective December 1, 2007, Erin Callan became Chief Financial Officer and Controller, replacing Chris O'Meara; Ed Grieb became Global Head of Investor Relations, replacing Shaun Butler; and Martin Kelly became Global Financial Controller, replacing Ed Grieb.