REVISED AGENDA

LEHMAN BROTHERS HOLDINGS INC. ("Holdings")

BOARD OF DIRECTORS MEETING

July 22, 2008
745 Seventh Avenue
31st Floor – Board Room
12:15 p.m. – 2:45 p.m.

1) Approval of Minutes of Holdings' Board of Directors Meetings held on June 11, 2008, June 19, 2008, July 13, 2008 and July 14, 2008. (Resolution and Minutes Attached) (Fuld)

2) Report of July 8, 2008 and July 22, 2008 Audit Committee Meetings. (Cruikshank)

3) Report of July 1, 2008 Compensation and Benefits Committee Meeting. (Akers)

4) Financial Update. (Lowitt)

5) Presentation on Liquidity. (Materials Attached) (Lowitt)

6) Update on Strategic Initiatives. (McGee/ Shafir/ Weiss)

7) Presentation on Resizing the Firm. (McDade)

8) Independent Advisor Perspectives. (Gary Parr, Deputy Chairman, Lazard)

9) Legal Update. (Russo)

10) Executive Session.

WORKING LUNCH

LEHMAN BROTHERS

DATE: July 18, 2008

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

FROM: Madeline L. Shapiro, Assistant Secretary

RE: **JULY 22, 2008 MEETING OF THE BOARD OF DIRECTORS**

Enclosed please find an Agenda for the July 22, 2008 meeting of the Board of Directors and accompanying materials.

The meeting is scheduled to be held in the Board Room on the 31st floor, 745 Seventh Avenue (between 49th and 50th Streets), from 12:15 p.m. to 2:45 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. Jerry A. Grundhofer
Mr. Roland A. Hernandez
Mr. Henry Kaufman
Mr. John D. Macomber

Copy to:

Mr. Ian T. Lowitt
Mr. Herbert H. McDade III
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

AGENDA

LEHMAN BROTHERS HOLDINGS INC. ("Holdings")

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3) Report of July 1, 2008 Compensation and Benefits Committee Meeting. (Akers)

4) Financial Update. (Lowitt)

5) Presentation on Liquidity. (Materials Attached) (Lowitt)

6) Update on Strategic Initiatives. (McGee/ Shafir/ Weiss)

7) Presentation on Asset Reduction Scenario. (McDade)

8) Independent Advisor Perspectives. (Gary Parr, Deputy Chairman, Lazard)

9) Legal Update. (Russo)

10) Executive Session.

WORKING LUNCH

HOLDINGS

07/22/2008 BOARD MEETING

Item 1

Holdings
Board of Directors
07/22/08

RESOLVED, that the Minutes of the meetings of the Board of Directors held on June 11, 2008, June 19, 2008, July 13, 2008 and July 14, 2008 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
June 11, 2008

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held telephonically on June 11, 2008, at 4 p.m.

PRESENT – BOARD MEMBERS

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. Jerry A. Grundhofer
Mr. Roland A. Hernandez
Mr. Henry Kaufman
Mr. John D. Macomber

ABSENT – BOARD MEMBERS

Mr. Michael L. Ainslie

ALSO PRESENT BY INVITATION

Mr. Joseph M. Gregory
Mr. Thomas A. Russo

Mr. Fuld and Mr. Gregory discussed proposed changes to the Firm's senior management with the Board of Directors. They described that the proposed changes were to appoint Mr. Bart McDade, currently serving as Global Head of Capital Markets/ Equities, as President and Chief Operating Officer, and to appoint Mr. Ian Lowitt, currently serving as Co-Chief Administrative Officer, as Chief Financial Officer. Mr. Fuld and Mr. Gregory discussed the rationale behind the proposed changes and the qualifications of Mr. McDade and Mr. Lowitt. Mr. Gregory then left the meeting, and Mr. Fuld and Mr. Russo continued to discuss the proposed changes with the Board of Directors. Mr. Russo left the meeting, and the Board discussed the proposed changes to senior management in private session. The Board of Directors was in agreement with the proposed changes.

Draft

LEHMAN BROTHERS HOLDINGS INC.
Minutes of the Board of Directors
June 19, 2008

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, 745 Seventh Avenue, at 12:00 p.m. on June 19, 2008, pursuant to written notice.

PRESENT – BOARD MEMBERS

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

ALSO PRESENT BY INVITATION

Mr. Ian. T. Lowitt
Mr. Herbert H. McDade III
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 meetings held on May 7, 2008 and June 6, 2008. Upon motion duly made and seconded, it was unanimously

> **RESOLVED**, that the Minutes of the meetings of the Board of Directors held on May 7, 2008 and June 6, 2008 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 AUDIT COMMITTEE

Mr. Cruikshank reported that the Audit Committee held a telephonic meeting on June 13, 2008 with management and representatives of Ernst & Young to review and discuss in advance the Corporation's earnings press release for the second quarter of 2008. He reported that the income statement information in the earnings press release was consistent with the information in the earnings pre-announcement press release issued on June 9, 2008. Mr. Cruikshank stated that the asset reductions in the earnings press release (both gross and net) were larger than anticipated in the earnings pre-announcement press release. He reported that the Committee also reviewed with Mr. Lowitt plans for the second quarter earnings conference call.

Mr. Cruikshank stated that the Committee received a report from Ms. Beth Rudofker, Global Head of Corporate Audit, regarding a letter sent to senior management by an employee in the Financial Control group raising questions regarding the Firm's accounting controls and resource levels. He noted that, at the time the employee sent the letter, a decision had already been made to eliminate the employee's position as part of the Firm's May 2008 reduction in force. Mr. Cruikshank reported that the Committee has directed that all of the questions raised in the letter be investigated, and that Corporate Audit is conducting a detailed review of the employee's questions in partnership with the Finance division and Ernst & Young. He reported that no material issues have been identified to date or are expected and that the employee's area was not considered a primary internal control.

REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Ms. Evans gave a report on the morning's meeting of the Nominating and Corporate Governance Committee. She stated that the Committee reviewed the current committee structure of the Board of Directors and that it is not recommending to the Board any changes to this structure. Ms. Evans reported that representatives from Ridgeway Partners attended the meeting and reviewed with the Committee materials regarding potential director candidates. A discussion among the Board of Directors ensued regarding potential director candidates.

SECOND QUARTER RESULTS OF OPERATIONS

Mr. Lowitt reviewed the Firm's financial results for the second quarter of 2008. As part of such review, he discussed, among other things, market environment, net loss, revenues, expenses, loss per share, capital position (including leverage ratios), as well as the performance of the Firm by business unit and by region. Mr. Lowitt compared the results for the quarter to the second quarter of 2007 and to the first quarter of 2008, and he provided results for the months of March, April, and May. Mr. Lowitt described the components of the second quarter revenues in more detail, including an analysis of net revenues by business unit and region showing the impact of defensive positions, principal portfolios, hedges, and mark-to-market adjustments on the run-rate revenues of the business units and regions.

Mr. Lowitt presented analyses regarding the Firm's liquidity pool and cash capital surplus (noting the increase in the liquidity pool from the end of the second quarter to date), long term capital, average risk appetite usage, and long term capital roll-forward. Mr. Lowitt then discussed the Firm's balance sheet and capital strength and presented information regarding the Firm's balance sheet and leverage ratios, as well as its exposures to mortgage and asset-backed securities, acquisition finance, and real estate held for sale. He also provided an analysis of competitor information and an a monthly financial performance trend analysis. The Board directed questions to Mr. Lowitt and to senior management regarding the gain on the Firm's structured note liabilities, the impact of run-rate revenues on projections of return on equity, the Firm's Level III assets and potential changes to these levels, the Firm's plans regarding leverage and composition of assets, and potential changes to GAAP which would potentially require companies to bring certain assets back onto the balance sheet.

UPDATE ON RISK

Mr. Christopher O'Meara, Global Head of Risk Management, presented an Update on Risk to the Board of Directors, which included a discussion of the impact of de-leveraging on the Firm. He discussed the reductions in the gross and net balance sheet in the second quarter, in addition to the reductions in the second quarter in the Firm's exposure to commercial and residential mortgages, real estate, other asset-backed securities, and acquisition facilities. Mr. O'Meara described that over the past three quarters, the Firm's average risk appetite usage has remained unchanged, although the average usage for the third quarter to date had declined. He also described that the Firm's average quarterly value-at-risk decreased from the first quarter to the second quarter, and decreased further from the second quarter to the third quarter to date.

Mr. O'Meara presented information regarding exposure to high yield acquisition facilities, including a description of the Firm's largest exposures in this area and a discussion of current market and portfolio conditions. He presented information regarding exposure to commercial real estate, including a description of the Firm's largest exposures in this area and a discussion of regional balance sheet trends, as well as current market and portfolio conditions. Mr. O'Meara then discussed the Firm's exposure to securitized products, specifically non-agency residential mortgage exposures. As part of such discussion, he presented information regarding balance sheet assets and asset trends, non-agency risk exposures and hedges, as well as current market and portfolio conditions. He then discussed exposure to monolines and hedge funds (as a counterparty).

The Board directed questions to Mr. O'Meara and senior management regarding the Firm's risk appetite usage, stress testing, concentration risk, cumulative write-downs in high-yield acquisition facilities, the amount of commercial real estate in Level III assets, its Archstone exposure, its hedging strategy and the possibility of future market dislocations, event risk, counterparty risk, the transfer of assets to R3 Capital Partners, and the Firm's valuation of assets.

LEGAL UPDATE

Mr. Russo reported to the Board on a new purported 10b-5 class action lawsuit and a demand letter which was received by the Firm. Mr. Russo explained that the demand letter asks the Board to investigate and decide whether to bring legal action against the Board and senior management for breaches of fiduciary duty and corporate waste. Mr. Russo asked Mr. Joseph Polizzotto, the Firm's General Counsel, to discuss the demand letter. Mr. Polizzotto distributed copies of the demand letter to the Directors, and Mr. Fuld excused himself from the meeting.

Mr. Polizzotto described the allegations in the demand letter in greater detail and explained that one response would be for the Board to delegate to a subcommittee the task of looking into the allegations and reporting back to the Board of Directors, and to retain outside counsel to assist in the investigation. He described that under Delaware law, speaking hypothetically, if the Board were to conclude that after investigating the facts set forth in the letter, there was no basis to charge or discipline management, or to otherwise take legal action against itself and management, that that decision would be reviewed by the Delaware Courts under the business judgment rule, i.e., a lawsuit would be allowed to proceed only if plaintiffs could allege facts indicating that the Board acted in bad faith or without conducting a reasonable investigation. Mr. Polizzotto stated that he understood that a subcommittee comprised of Mr. Grundhofer, Mr. Akers, and Ms. Evans was being considered, with Mr. Grundhofer serving as Chairman. He discussed that the subcommittee should interview and retain outside counsel, and he distributed biographical information of two potential outside counsel candidates to the subcommittee members. Mr. Polizzotto, Mr. Lowitt, Mr. McDade, and Mr. Welikson were excused, at which time Mr. Fuld returned to the meeting for the report of the Compensation and Benefits Committee.

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

Mr. Akers gave a report on the Compensation and Benefits Committee meeting held that morning and on action taken by the Committee by unanimous written consent in May.

PRIVATE SESSION

Mr. Russo was excused, and the Board met in private session.

EXECUTIVE SESSION

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

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

Respectfully submitted,

Jeffrey A. Welikson
Secretary of the Meeting

Draft

LEHMAN BROTHERS HOLDINGS INC.

Minutes of the Board of Directors
July 13, 2008

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held telephonically on July 13, 2008, at 1 p.m.

PRESENT – BOARD MEMBERS

Mr. John F. Akers
Mr. Roger S. Berlind
Mr. Thomas H. Cruikshank
Mr. Richard S. Fuld, Jr.
Sir Christopher Gent
Mr. Roland A. Hernandez
Mr. Henry Kaufman
Mr. John D. Macomber

ABSENT – BOARD MEMBERS

Mr. Michael L. Ainslie
Ms. Marsha Johnson Evans
Mr. Jerry A. Grundhofer

ALSO PRESENT BY INVITATION

Mr. Herbert H. McDade III
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

STRATEGIC UPDATE

Mr. Fuld provided a strategic update to the Board of Directors. He referenced prior discussions with the Board regarding the potential conversion of the Firm to a financial holding company and stated that the Firm has concluded that this action does not appear to be a good option for the Firm. Mr. Fuld reported that the Firm is working on obtaining regulatory authority to expand the scope of its industrial loan company. Mr. Fuld also reported that the Firm is working on selling residential mortgage assets.

Mr. Fuld stated that the Firm believes that the Securities and Exchange Commission ("SEC") and the Federal Reserve will announce that evening an injection of liquidity into Fannie Mae and Freddie Mac, and that the Firm is hopeful that this action will improve the market for residential mortgage assets. Mr. Fuld also reported that the Firm is working on an employee communication to give employees an update on the Firm.

Mr. Russo discussed the expected actions by the SEC and the Federal Reserve in greater detail. He reported that the SEC is expected to announce a street sweep to broker-dealers and hedge funds regarding the spreading of rumors in order to profit from short positions. He described that the examination would be broad-based and would not be limited to activity in the Firm's stock. He reported that the SEC may also announce an emergency "hard locate" rule, which would eliminate naked short selling. Mr. Russo described that the Federal Reserve was expected to provide additional liquidity and possibly an investment to Fannie Mae and Freddie Mac.

Mr. Fuld then updated the Board on strategic discussions that have taken place with a number of foreign and domestic potential partners, including a meeting planned for later that day with one of the potential domestic partners. Mr. Fuld also discussed the possibility of repurchasing shares of the Firm's Convertible Preferred Stock and the Firm's Common Stock. He described that the authorization to repurchase shares of Common Stock would be in addition to the approximately 84 million shares of Common Stock which remain available for repurchase under the 100 million share authorization approved by the Board of Directors in January 2008. A discussion ensued, and the Board directed questions to management regarding the proposed buyback authorizations. Management stated that it had no current intention of using the proposed buyback authorizations. After discussion, upon motion duly made and seconded, the following resolutions were unanimously approved

> **WHEREAS**, on January 29, 2008, the Board of Directors approved a Common Stock repurchase plan under which the Corporation was authorized to repurchase, subject to market conditions, up to 100 million shares of its Common Stock for the management of the Corporation's equity capital, now, therefore, be it
>
> **RESOLVED**, that the Board of Directors hereby authorizes the repurchase by the Corporation, subject to market conditions, of up to 100 million additional shares of the Corporation's Common Stock as proper officers of the Corporation deem necessary or advisable; and be it further
>
> **RESOLVED**, that the Board of Directors hereby authorizes the repurchase by the Corporation, subject to market conditions, of shares of the Corporation's 7.25% Non-Cumulative Perpetual Convertible Preferred Stock, Series P, and 8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series Q, with an aggregate repurchase price of up to $1.0

billion as proper officers of the Corporation deem necessary or advisable; and be it further

RESOLVED, that the proper officers of the Corporation be, and each of them hereby is, authorized and directed, for and in the name and on behalf of the Corporation, to take any and all steps and do any and all things which they may deem necessary or advisable in order to effectuate the purposes of the foregoing resolutions; and be it further

The Board directed questions to management regarding: market conditions, including the value of residential mortgage positions; business prospects, including with existing clients and counterparties; the Firm's recent discussions with the SEC and the Federal Reserve; and the expected announcements by the SEC and the Federal Reserve.

Mr. Russo reported that the SEC had issued a press release regarding the spreading of rumors in order to profit from short positions, and he described the content of the press release to the Board of Directors.

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

Draft

LEHMAN BROTHERS HOLDINGS INC.

Minutes of the Board of Directors
July 14, 2008

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held telephonically at 4 p.m. on July 14, 2008, pursuant to written notice.

PRESENT – BOARD MEMBERS

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

ALSO PRESENT BY INVITATION

Mr. Ian T. Lowitt
Mr. Herbert H. McDade III
Mr. Thomas A. Russo
Mr. Jeffrey A. Welikson

STRATEGIC UPDATE

Mr. Fuld provided a strategic update to the Board of Directors. He reported that the actions taken by the Federal Reserve and Securities Exchange Commission ("SEC") had not improved the overall market tone. Mr. Fuld stated that the Firm's stock traded well for most of the day, but traded very badly during the last few minutes of trading.

Mr. Fuld described the "Dear Colleague" letter which had been sent to the Firm's employees that morning. He noted that a copy of the letter was circulated to the Board members that morning, and that a copy of the letter also was sent to the SEC, the Federal Reserve, and the Treasury Department. Mr. Fuld discussed the Firm's continued conversations with the Federal Reserve and the SEC. He reported that the Firm is still

LEHMAN BROTHERS

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

July 18, 2008

Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Tuesday, July 22.

Ian Lowitt, our Chief Financial Officer, will discuss the estimated financial results for the month of June 2008 and update us on the Firm's liquidity. Following that, Skip McGee, our global head of Investment Banking, Mark Shafir, our global co-head of Mergers and Acquisitions, and Jeff Weiss, our global head of the Financial Institutions Group, will deliver a presentation on strategic initiatives. In addition, Bart McDade, our President and COO, will give a presentation on a Firm downsizing scenario. Finally, Gary Parr, Deputy Chairman of Lazard, will lead an independent advisory discussion.

I look forward to seeing you on Tuesday.

Sincerely,

RSF:aj
Enclosures

LEHMAN BROTHERS

July 22, 2008

Lehman Brothers Board of Directors

June 2008 Financial Information

Confidential Presentation

Table of Contents

Appendices

Components of June '08 Results

$ millions	June '08 Run Rate	Principal	Gross Writedown	Net Writedown	June '08 Total Firm[1]	FY 2007 Monthly Average
FID	797		(940)	(410)	387	501
EQ	329				329	506
IBD	458		(73)	23	481	298
IMD	264				264	238
PI	0	(203)			(203)	143
Debt Valuation	0			172	172	104
Corporate	(397)[2]				(397)	19
Banking Offset	(192)		37	(12)	(204)	(98)
PIM Offset	(109)				(109)	(106)
June '08	**1,150**	**(203)**	**(977)**	**(227)**	**721**	**1,605**
Europe	63	(41)	(48)	(36)	(14)	456
Asia	157	(24)			133	243

(1) Include fees and offset on Lehman capital raise in EQ (+$89mm) , IBD (+$177mm), Corporate (-$177mm), and IBD Offset (-$89mm). Adjusted divisional revenues excluding the fees and offset would be: EQ (+$241mm), IBD (+$304mm), Corporate (-$220mm) and IBD Offset (-$115mm).

(2) Include -$177mm of internal fees on Lehman capital raise and -$260mm on CVA

June 2008 Financial Results

	Monthly Performance					Year to Date Performance		
$ millions, except per share data	June 2008	May 2008	% Δ	Avg. Month 2008	% Δ	2008	2007	% Δ
Segment Revenues								
Investment Banking	228	379	(40)%	292	(22)%	1,953	2,373	(18)%
Capital Markets	233	(91)	n/m	(119)	n/m	(470)	8,424	(106)%
Investment Management	260	303	(14)%	308	(15)%	2,077	1,740	19%
Total Revenues	**721**	**591**	**22%**	**481**	**50%**	**3,560**	**12,537**	**(72)%**
Expenses								
Personnel	720	1,219	(41)%	705	2%	4,886	6,181	(21)%
Non Personnel	340	426	(20)%	355	(4)%	2,437	2,088	17%
Pre Tax Income	**(340)**	**(1,054)**	**68%**	**(580)**	**41%**	**(3,764)**	**4,268**	**n/m**
Income Taxes	(102)	(499)	80%	(193)	47%	(1,240)	1,380	n/m
Net Income	**(238)**	**(556)**	**57%**	**(387)**	**39%**	**(2,523)**	**2,888**	**n/m**
Preferred Dividends	50	42	20%	21	n/m	173	39	n/m
Net Income to Common	**(288)**	**(598)**	**52%**	**(408)**	**29%**	**(2,697)**	**2,849**	**n/m**
Additional Data								
Earnings per Common Share	($0.44)	($1.06)	59%	($0.73)	40%	($4.77)	$4.98	n/m
EPS Share Count	654.3	562.8	16%	556.6	18%	566.2	572.0	(1)%
Return on Common Equity	n/m	n/m	n/m	n/m	n/m	n/m	25.2%	n/m
Pre Tax Margin	n/m	n/m	n/m	n/m	n/m	n/m	34.0%	n/m
Compensation / Revenue	n/m	n/m	n/m	n/m	n/m	n/m	49.3%	n/m
Effective Tax Rate	30.0%	47.3%	-17.3pp	33.2%	-3.2pp	33.0%	32.3%	+0.6pp

LBEX-AM 153661

June '08 Run Rate and Quarterly Revenue Composition

June '08 Run Rate Income Statement

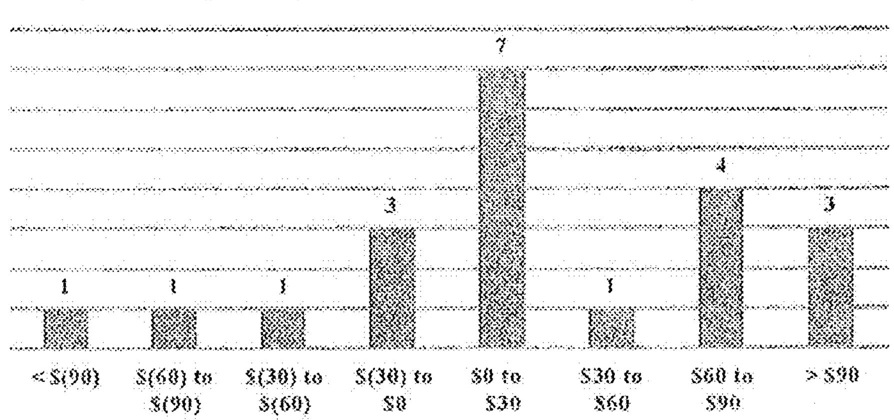
$ millions	June '08	Q3 '08 @ June Run Rate
Run Rate Revenues	**$1,150**	**$3,450**
Compensation and Benefits	720	2,160
Non-Personnel Expenses	340	1,020
Total Expenses	**1,060**	**3,180**
Pre Tax Income	90	270
Taxes	27	80
Run Rate Net Income	**63**	**190**
Preferred Dividends	50	150
RR Net Income to Common	**$12**	**$40**
Pretax Margin	8%	8%

Quarterly Revenue Composition

$ billions	Q2 '08	June '08	Q3 '08 @ June RR
Run Rate Revenues	$4.2	$1.2	$3.5
Gross Writedown	(4.0)	(1.0)	(3.0)
Hedge Gain / (Loss)	(0.1)	0.6	1.8
Debt Valuation	0.4	0.2	0.5
Net Writedown	(3.7)	(0.2)	(0.7)
Principal / Defensive	(1.2)	(0.2)	(0.6)
Total Firm	**($0.7)**	**$0.7**	**$2.1**

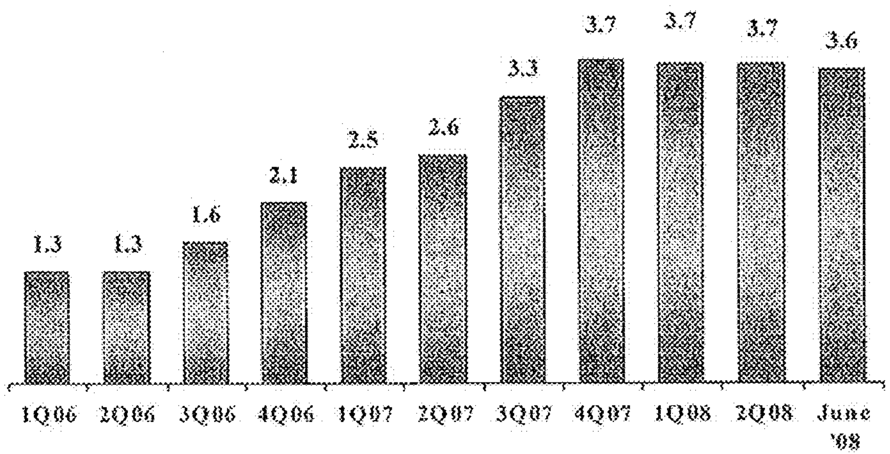
Revenue Volatility and Risk Update

Distribution of June Daily Trading Net Revenues



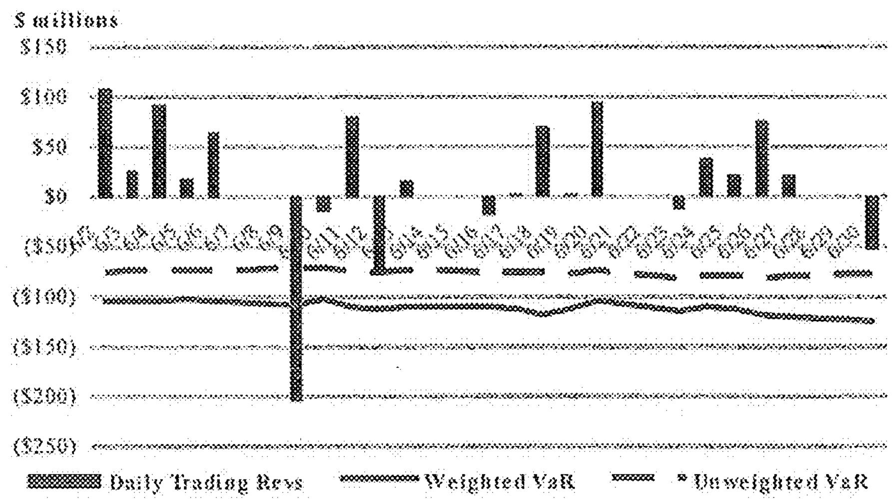
- # of net trading loss days in June: 6 out of 21 trading days
- Largest loss day: $(205) million on 6/9 - losses in Interest Rate Products driven by the biggest one day sell-off in 12 years as short-term rates across the US, GBP and Euro curves increased dramatically
- # of days net trading loss exceeded historical simulation VaR: 1 day (6/9)

Average Risk Appetite Usage ($ billions)



Figures represent average daily usage.

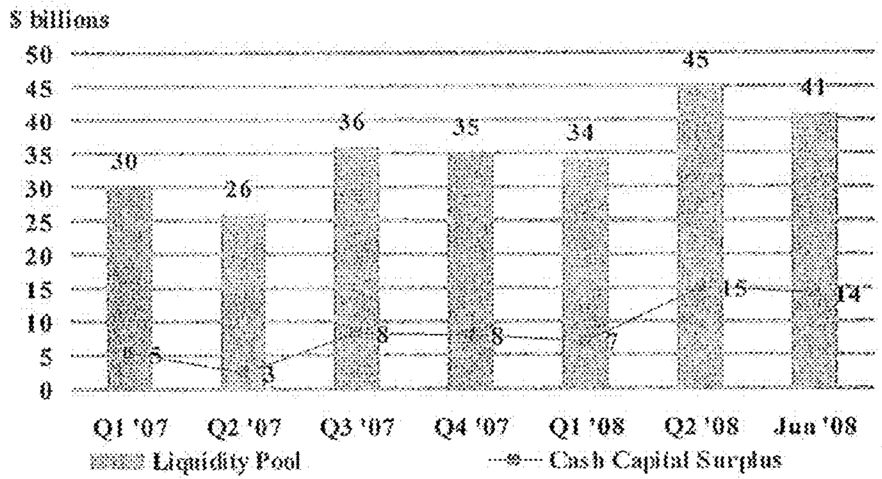
Daily Trading Net Revs & Historical Simulation VaR



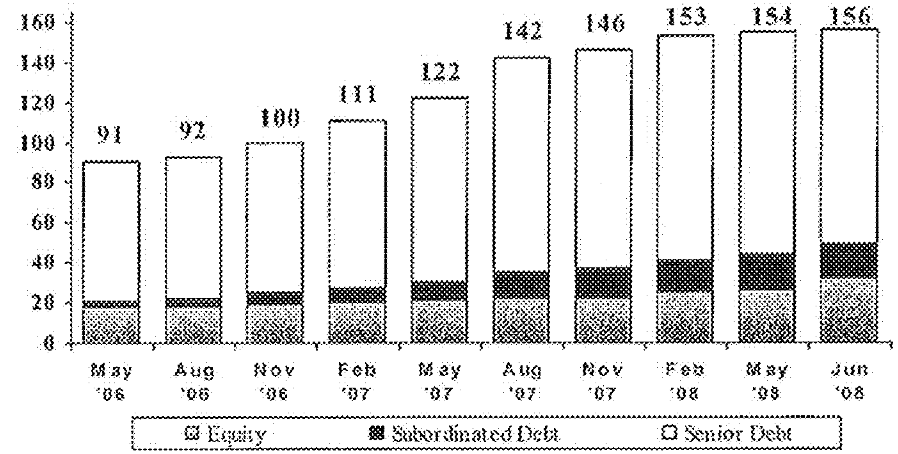
LBEX-AM 153663

Liquidity, Balance Sheet, and Capital

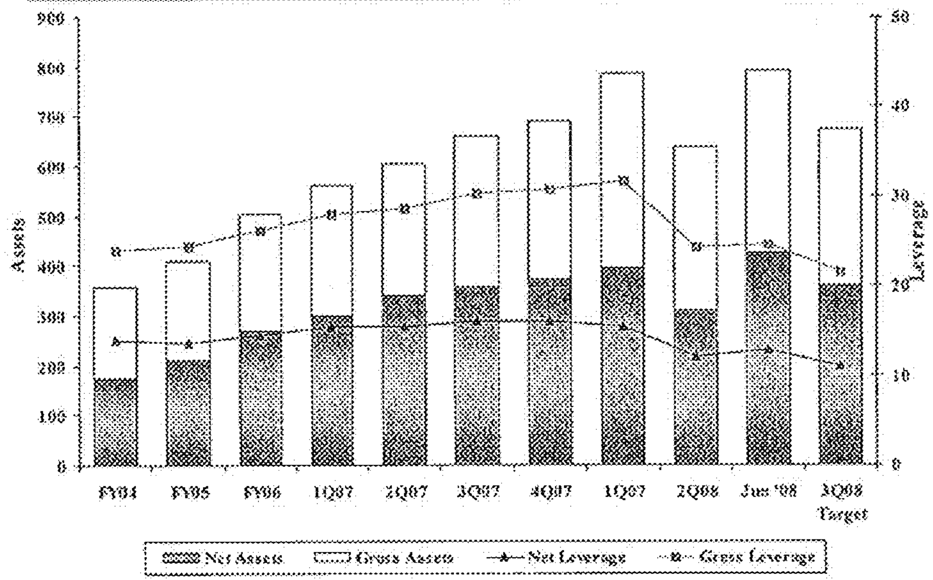
Liquidity Pool and Cash Capital Surplus ($ billions)



Long Term Capital ($ billions)



Balance Sheet ($ billions) / Leverage



Long Term Capital Roll Forward ($ billions)

	May '08	*June '08 Activity* Issuances	Maturities	Other / Earnings	Estimated Jun '08
Senior Notes	110.6	1.4	(4.4)	(1.0)	106.6
Subordinated Debt	17.6	0.0	(0.3)	0.1	17.4
Total Long Term Borrowings	128.2	1.4	(4.6)	(1.0)	124.0
Preferred Stock	7.0	2.0			9.0
Common Equity	19.3	4.0		(0.2)	23.1
Total Long Term Capital	154.5	7.4	(4.6)	(1.2)	156.1

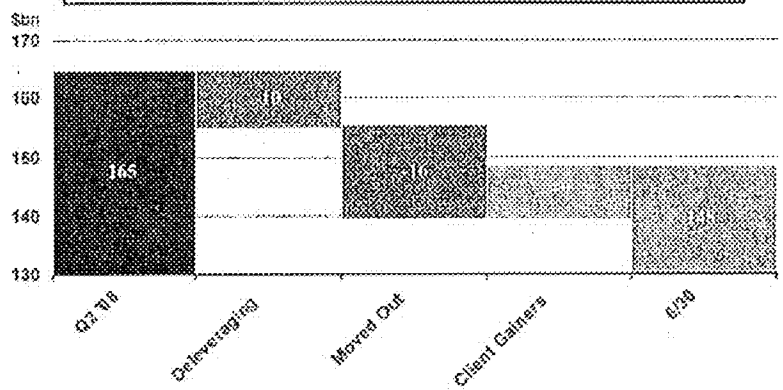
Client Franchise

Capital Markets Sales Credits ($ millions) Through 6/30

($ millions)	June MTD	Q2 Monthly Avg	2008 Monthly Avg	2007 Monthly Avg
FIXED INCOME				
Global Rates	115	122	137	103
Foreign Exchange	43	57	60	42
Credit Products	203	213	230	211
Securitized Products	97	107	92	73
Prime Services	41	48	55	45
Energy Trading	47	39	30	14
Muni/Real Estate/Other	32	35	25	22
TOTAL FID	578	620	629	510
EQUITIES				
Execution Services	167	188	197	196
Convertibles	37	35	26	10
Volatility	57	66	92	109
Prime Services	85	122	105	81
Equity Corporate	(6)	(2)	(7)	(18)
TOTAL EQUITIES	340	408	413	378

Prime Broker Balances By Strategy ($ billions)

	6/30	Q2	ΔQ2
Multi-Strategy	65.1	77.7	-12.6
Equity Quant	24.7	28.0	-3.3
Fixed Income	9.5	11.1	-1.6
Equity L/S	32.1	33.7	-1.6
Total HF	131.4	150.5	-19.1
Non-HF	14.3	11.3	3.0
PIM	2.7	2.9	-0.2
Total Non-HF	17	14.2	2.8
Total Net Balances	**148.4**	**164.7**	**-16.3**



Assets under Management (AUM)

($ in millions)	May 2008	Net Flows	Market Change	June 2008
Private Investment Management	5,860	(277)	(122)	5,460
Private Asset Management	62,714	590	(3,324)	59,980
AM Equities	57,471	625	(3,447)	54,649
AM Fixed Income	111,828	15,068	(804)	126,092
Alternatives	9,047	252	103	9,402
Private Equity Total	30,259	(272)	32	30,020
Total Assets Under Management	277,179	15,985	(7,562)	285,603

- AUM in June increased by $8 billion to $286 billion with $16 billion in net inflows partially offset by $8 billion in market depreciation.
- Increase in inflows was driven by a $22 billion mandate from the Government of Saxony to liquidate its fixed income portfolio over time.
- This was partially offset by $4 billion of outflows across the Liquidity Fund platform, as well as $2 billion in other Fixed Income Institutional products.

Appendices

Executive Summary – BPM View

- **Monthly net revenues** of $721 million.
  - **Fixed Income Division** recorded revenues of $387 million, significantly higher than average month '08:
    - Very strong revenues out of High Grade Credit (2nd highest month in '08) on the back of spread widening
    - Strong performance in Commodities on higher natural gas and power trading
    - Client revenues trailed average month '08 by 8% but were up 4% versus May led by increase in Commodities
  - **Equities Division** revenues of $329 million fell below average month '08:
    - Revenue loss in Volatility; lower activity in Execution Services and in Prime Services due to the seasonality of the Structured Arbitrage business
  - **Banking Division** reported revenues of $481 million, above average month '08:
    - The month's results included $177 million of internal fees on the $6 billion capital raise
    - Recorded gains from sales of loans above previously marked levels
  - **Investment Management Division** revenues of $264 million surpassed average month '08 but were down 12% versus May:
    - Asset Management and Private Equity management fees were in line with average month and the prior month
    - Private Investment Management revenues declined mainly due to lower activity given current market conditions
  - **Principal Investments** reported negative revenues of $(203) million:
    - Losses in Global Trading Strategies (GTS) were led by Distressed Debt Trading and other trading strategies
    - Losses on our investments in Blue Bay, GLG, Gulfmark and Private Equity funds as the global equity markets declined
    - Revenues from minority investments in hedge fund managers were lower in June
  - Included in the month's results was a gain of $172 million on our structured note liabilities, and a loss of $(260) million related to credit valuation adjustments.
- **Non-U.S. regions** reported revenues of $119 million, 26% lower than average month '08:
  - Europe: continued negative revenues in Interest Rate Products and Volatility, as well as investments on Blue Bay and GLG
  - Asia: recovery in Equities led by profitable trading strategies in Non Japan markets, partially offset by losses in GTS
- **Personnel expenses** for the month were at $720 million. **Non-personnel expenses** were $340 million.
- **Net loss** of $(238) million and **Diluted Loss per share** of $(0.44) for June.

June 2008 BPM Financial Results

$ millions, except per share data	Monthly Performance					Year to Date Performance		
	June 2008	May 2008	% Δ	Avg. Month 2008	% Δ	2008	2007	% Δ
Divisional Revenues								
Fixed Income	387	(804)	n/m	(196)	n/m	(771)	5,325	(114)%
Equities	329	383	(14)%	423	(22)%	2,827	3,621	(22)%
Banking	481	25	n/m	(13)	n/m	402	2,647	(85)%
Investment Management	264	298	(12)%	107	n/m	897	1,668	(46)%
Principal Investments	(203)	(71)	n/m	(35)	n/m	(408)	1,036	n/m
Banking & PIM Elimination	(313)	(112)	n/m	(80)	n/m	(786)	(1,759)	55%
Credit Valuation Adjustment	(260)	701	n/m	145	n/m	596	7	n/m
Debt Valuation	172	251	(31)%	179	(4)%	1,231	(6)	n/m
Other Corporate	(137)	(80)	(71)%	(49)	n/m	(429)	(2)	n/m
Total Revenues	**721**	**591**	**22%**	**481**	**50%**	**3,560**	**12,537**	**(72)%**
Regional Revenues								
Americas (Excluding CVA and Debt Valuation)	690	(300)	n/m	(3)	n/m	670	7,503	(91)%
Europe	(14)	(7)	(111)%	(41)	65%	(257)	3,484	(107)%
Asia	133	(55)	n/m	201	(34)%	1,319	1,548	(15)%

Monthly Financial Performance Trend

$ millions, except per share data	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008
Segment Revenues													
Investment Banking	373	394	304	168	316	347	296	264	306	203	276	379	228
Capital Markets	1,329	953	154	961	1,485	282	922	58	692	(551)	(1,732)	(91)	233
Investment Management	277	314	211	215	298	319	273	338	358	274	271	303	260
Total Revenues	1,978	1,661	669	1,343	2,099	948	1,491	660	1,356	(74)	(1,185)	591	721
Expenses													
Personnel	975	819	330	662	1,035	467	735	325	781	558	548	1,219	720
Non Personnel	313	318	348	322	351	324	320	345	338	332	336	426	340
Pre Tax Income	690	524	(9)	359	713	157	435	(9)	237	(964)	(2,068)	(1,054)	(340)
Income Taxes	221	157	(59)	106	210	28	135	(12)	51	(256)	(558)	(499)	(102)
Net Income	469	367	51	254	503	129	300	3	186	(708)	(1,510)	(556)	(238)
Preferred Dividends	5	6	6	6	6	5	6	6	12	18	39	42	50
Net Income to Common	464	361	45	248	498	124	295	(3)	174	(726)	(1,549)	(598)	(288)
Additional Data													
Earnings per Common Share	$0.81	$0.64	$0.09	$0.44	$0.88	$0.22	$0.51	($0.01)	$0.30	($1.31)	($2.77)	($1.06)	($0.44)
EPS Share Count	570.4	567.9	561.4	561.9	571.9	589.9	574.1	572.6	572.9	555.5	559.5	562.8	654.3
Return on Common Equity	27.4%	21.0%	2.6%	14.3%	28.1%	6.9%	16.3%	-0.3%	9.6%	n/m	n/m	n/m	n/m
Pre Tax Margin	34.9%	31.6%	-1.3%	26.7%	34.0%	16.6%	29.2%	-1.4%	17.5%	n/m	n/m	n/m	n/m
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	57.6%	n/m	n/m	n/m	n/m
Effective Tax Rate	32.0%	30.0%	n/m	29.4%	29.4%	17.7%	31.0%	126.9%	21.5%	26.5%	27.0%	47.3%	30.0%
Divisional Revenues													
Fixed Income	935	481	(169)	668	441	(732)	952	149	(121)	(904)	(430)	(804)	387
Equities	545	533	459	529	734	197	509	587	318	165	535	383	329
Banking	471	(113)	(111)	214	683	260	268	(184)	35	(411)	188	25	481
Investment Management	236	226	202	210	294	259	186	171	(49)	(175)	203	298	264
Principal Investments	78	(34)	(123)	171	249	415	(37)	(286)	473	(289)	5	(71)	(203)
Banking & PIM Elimination	(309)	18	5	(170)	(385)	(161)	(205)	29	(109)	111	(188)	(112)	(313)
Credit Valuation Adjustment	-	(63)	61	-	(116)	328	(160)	(33)	383	399	(434)	701	(260)
Debt Valuation	43	520	290	(280)	193	530	(78)	267	428	958	(767)	251	172
Other Corporate	(21)	93	55	2	6	(147)	55	(40)	(3)	72	(297)	(80)	(137)
Total Revenues	1,978	1,661	669	1,343	2,099	948	1,491	660	1,356	(74)	(1,185)	591	721
Regional Revenues													
Americas (Excluding CVA and Debt Valuation)	1,102	536	35	1,073	1,145	(887)	1,103	(21)	(147)	(1,028)	373	(300)	690
Europe	569	353	243	269	409	711	333	131	12	(320)	(393)	(7)	(14)
Asia	264	315	40	282	468	267	292	316	679	(83)	37	(55)	133

Quarterly and Annual Financial Performance Trend

$ millions, except per share data	2006 Q1 '06	2006 Q2 '06	2006 Q3 '06	2006 Q4 '06	2007 Q1 '07	2007 Q2 '07	2007 Q3 '07	2007 Q4 '07	2008 Q1 '08	2008 Q2 '08	Full Year 2006	Full Year 2007
Segment Revenues												
Investment Banking	835	741	726	858	850	1,150	1,071	831	867	858	3,160	3,903
Capital Markets	3,046	3,078	2,847	3,035	3,502	3,594	2,435	2,727	1,672	(2,374)	12,006	12,257
Investment Management	580	592	605	640	695	768	802	832	968	848	2,417	3,097
Total Revenues	4,461	4,411	4,178	4,533	5,047	5,512	4,308	4,390	3,507	(668)	17,583	19,257
Segment Revenues												
Personnel	2,199	2,175	2,060	2,235	2,488	2,718	2,124	2,164	1,841	2,325	8,669	9,494
Non Personnel	711	738	751	809	860	915	979	996	1,003	1,094	3,009	3,750
Pre Tax Income	1,551	1,498	1,367	1,489	1,699	1,879	1,205	1,230	663	(4,087)	5,905	6,013
Income Taxes	513	496	451	485	553	606	318	344	174	(1,313)	1,945	1,821
Net Income Before Accounting Change	1,038	1,002	916	1,004	1,146	1,273	887	886	489	(2,774)	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	489	(2,774)	4,007	4,192
Preferred Dividends	16	16	17	17	17	17	17	17	24	99	66	67
Net Income to Common	1,069	986	899	988	1,130	1,256	870	870	465	(2,873)	3,941	4,125
Additional Data												
Earnings per Common Share	$1.83	$1.69	$1.57	$1.72	$1.96	$2.21	$1.54	$1.54	$0.81	($5.14)	$6.81	$7.26
EPS Share Count	584.2	582.8	573.3	573.1	575.4	568.1	565.8	563.7	572.8	559.3	578.4	569.8
Return on Common Equity	25.7%	23.7%	21.0%	22.3%	24.4%	25.8%	17.1%	16.6%	8.6%	n/m	23.4%	20.8%
Pre Tax Margin	34.8%	34.0%	32.7%	32.8%	33.7%	34.1%	28.0%	28.0%	18.9%	n/m	33.6%	31.2%
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	52.5%	n/m	49.3%	49.3%
Effective Tax Rate	33.1%	33.1%	33.0%	32.5%	32.5%	32.3%	26.4%	27.9%	26.3%	32.1%	32.9%	30.3%
Divisional Revenues												
Fixed Income	2,365	2,497	2,081	2,086	2,184	2,207	1,247	377	980	(2,138)	9,029	6,015
Equities	1,000	1,103	914	1,015	1,297	1,778	1,537	1,460	1,414	1,083	4,031	6,073
Banking	808	740	711	1,079	862	1,314	247	1,157	119	(198)	3,338	3,581
Investment Management	563	583	609	638	690	742	664	762	307	326	2,393	2,858
Principal Investments	231	80	210	366	512	446	(80)	834	150	(356)	888	1,712
Banking & PIM Elimination	(531)	(504)	(548)	(730)	(604)	(846)	(286)	(716)	(285)	(188)	(2,313)	(2,452)
Credit Valuation Adjustment	(22)	(20)	(14)	(41)	25	(17)	(2)	213	191	666	(98)	218
Debt Valuation	-	-	-	-	-	(49)	853	442	617	442	-	1,246
Other Corporate	48	(69)	216	120	81	(62)	127	(139)	13	(305)	315	6
Total Revenues	4,461	4,411	4,178	4,533	5,047	5,512	4,308	4,390	3,507	(668)	17,583	19,257
Regional Revenues												
Americas (Excluding CVA and Debt Valuation)	2,920	3,068	2,806	3,163	3,258	3,142	1,673	1,330	935	(955)	11,957	9,403
Europe	1,007	949	1,025	1,084	1,222	1,693	1,165	1,389	477	(719)	4,065	5,469
Asia	557	413	361	328	541	744	619	1,017	1,287	(101)	1,659	2,921

Competitor Information

	LEH	GS	MS	MER	C	BAC	JPM
Financial Statistics							
Price to Book [1,2]	0.6x	1.9x	1.3x	1.2x	1.0x	0.9x	1.1x
Price to Earnings [1,3]	n/m	10.7x	8.5x	n/m	n/m	11.9x	16.1x
Dividend Yield [4]	1.7%	0.8%	2.4%	4.3%	10.3%	6.5%	4.4%
Book Value per Share [2]	$34.21	$97.49	$30.11	$24.94	$20.04	$31.11	$37.02
Market Cap (billions) [1]	$13	$78	$43	$30	$105	$122	$137
Share Price Performance							
2008 Calendar Year to Date [1]	-71%	-15%	-27%	-42%	-34%	-33%	-8%
Calendar Year 2007	-16%	8%	-21%	-42%	-47%	-23%	-10%
Calendar Year 2006	22%	56%	44%	37%	15%	16%	22%
Return on Equity [5]	n/m	20%	12%	n/m	n/m	9%	6%
Ten Year Debt Spreads (Basis Points)							
Spread vs. 1 Month Libor (6/30/08)	275	199	265	300	208	178	180
Spread vs. 1 Month Libor (5/30/08)	266	160	215	251	171	135	135
Spread vs. 1 Month Libor (2/29/08)	240	141	183	192	179	127	147
Spread vs. 10 Year UST (6/30/08)	340	265	330	365	275	245	245
Spread vs. 10 Year UST (5/30/08)	325	220	275	310	232	197	195
Spread vs. 10 Year UST (2/29/08)	300	200	245	250	240	190	210
Long Term Debt Credit Ratings							
Standard & Poors	A	AA-	A+	A	AA-	AA	AA-
Moody's	A2	Aa3	Aa3	A2	Aa3	Aa2	Aa2
Fitch	A+	AA-	AA-	A+	AA-	A+	AA-

Notes

1- Share price as of July 18, 2008.

2- Book values are per 2Q08 press release. Book value per share is reflected on a pro-forma basis for MER to include the conversion of the mandatory convertible issuances. Excluding adjustments, book value per share was 21.43.

3- Based on full year 2008 First Call estimates, updated on July 18, 2008.

4- Dividend Yield per Bloomberg as of July 18, 2008.

5- ROE values are per 2Q08 press releases.

HOLDINGS

07/22/2008 BOARD MEETING

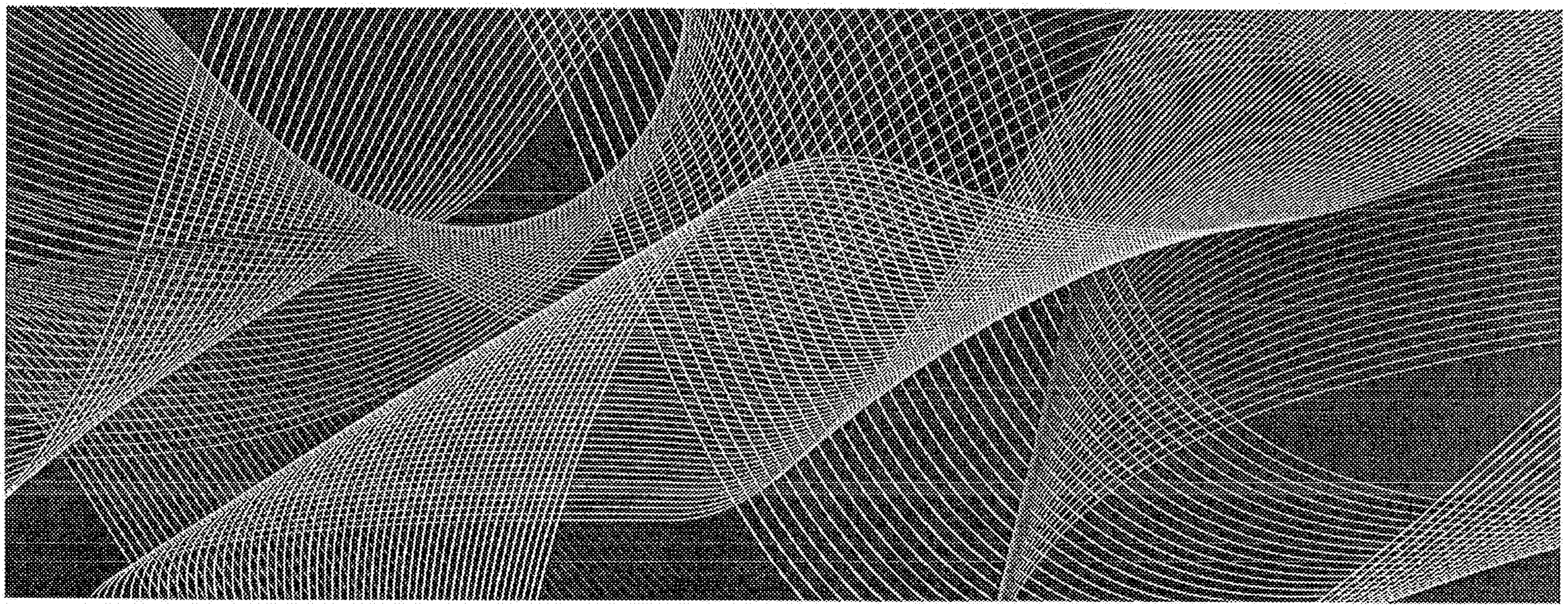
Item 5

Confidential

LEHMAN BROTHERS

July 22, 2008

Presentation to the Board of Directors
Liquidity Update



Confidential Presentation

LBEX-AM 153673

Overview

- Firm has significantly strengthened its liquidity position during 2008 Q2
  - Holdings' liquidity pool increased from $34 billion to $45 billion
  - Holdings' cash capital surplus increased from $7 billion to $15 billion
  - Average tenor of non-Government, non-Agency repo book increased from 22 days to 35 days
  - Assets funded in Lehman bank entities grew by $2 billion

- Funding environment in 2008 Q3 has been challenging so far but liquidity position has remained stable
  - Industry-wide concerns about funding less liquid asset classes (asset backed securities, high yield corporates)
  - Industry-wide lack of demand for term repos and term CP
  - Holdings' liquidity pool, net of commercial paper outstanding, has remained stable around $36 billion
    - E.g., $45 billion of Holdings' liquidity pool minus $8 billion of CP outstanding at quarter end=$37 billion
  - Non-Government, non-Agency repo book has remained stable in the $105-110 billion range

- We have been working with the Federal Reserve and the S.E.C. on developing a very severe short-term stress scenario
  - Severe disruption of repo funding – far greater than anything that the Firm has ever experienced
  - Cash outflows due to rating downgrades and debt maturities and buybacks
  - Inability to access additional sources of funding
  - Liquidity pool remains above $10 billion after one month assuming no asset sales or reduction in client funding

2008 Q2 Liquidity Position

2008 Q2 Liquidity Position

We ended 2008 Q2 in our strongest liquidity position ever

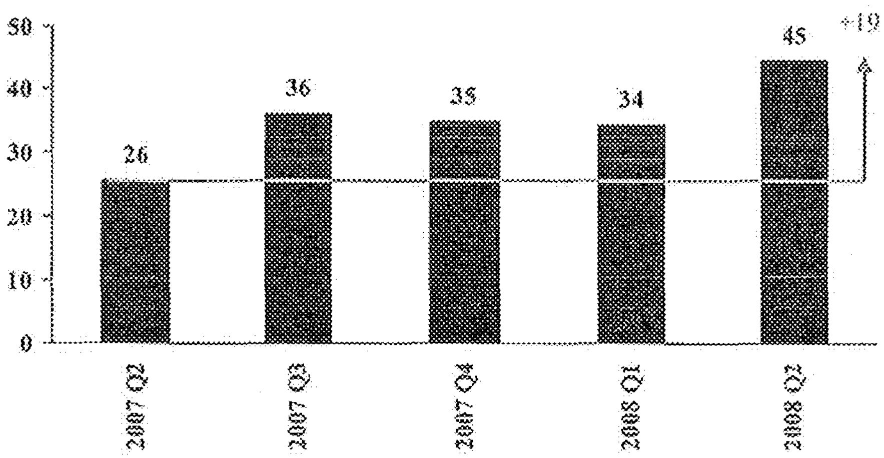
	Q2 Liquidity Metrics
Holdings	◆ Ended the second quarter with a record liquidity pool of $45 billion and cash capital surplus of $15 billion
Secured Funding	◆ $27 billion of overfunding in the repo book ◆ Average tenor of repo book funding non-Central Bank eligible collateral (i.e., lower quality collateral) of 38 days
Lehman Bank Entities	◆ Record $46 billion of assets funded in our banks at the end of May

Holdings' Liquidity

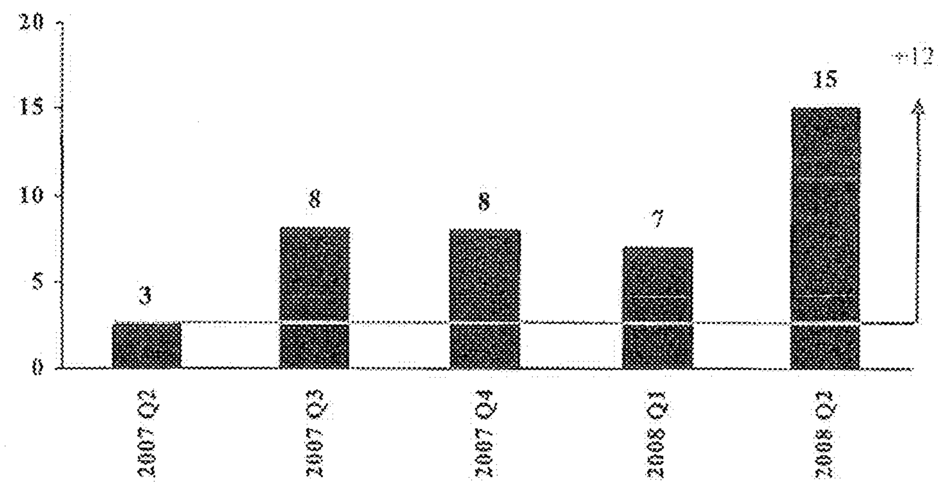
Record liquidity pool and cash capital surplus

- Since the third quarter of 2007 when the funding environment became more challenging, we have grown our liquidity pool by $19 billion and our cash capital surplus by $12 billion
  - We closed the second quarter of 2008 with a record liquidity pool of $45 billion
  - Cash capital surplus also at record level of $15 billion at the end of the second quarter

Liquidity Pool ($ billions)



Cash Capital Surplus ($ billions)



Secured Funding

- Despite the challenging market conditions prevailing in 2008 Q2, we increased our overfunding from around $10-20 billion to $15-30 billion – more than half in non-Central Bank eligible collateral
- We also increased the average tenor of the repo book from 22 days to 35 days (38 days for collateral that cannot be pledged to the Federal Reserve or the ECB)
- We grew term repo by 30% quarter-over-quarter to 58% of the non-traditional repo book

Non-Traditional [1] Repo Book Metrics

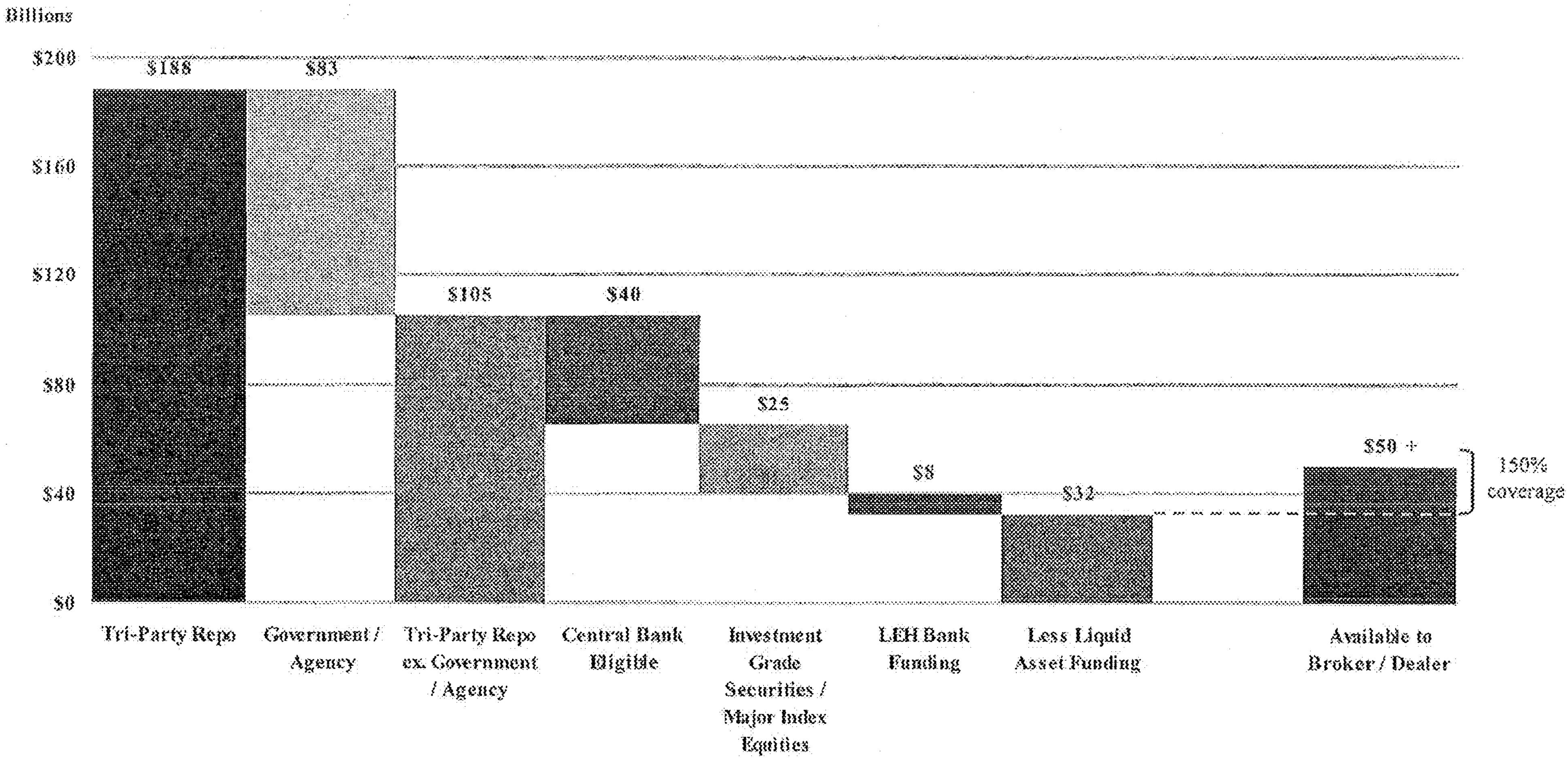
TriParty Repo Book	Q407	Q108	Q208	QoQ Change	Q2 /Q4 Change
Total Overfunding	18	15	27	76%	52%
Average tenor (days)	27	22	35	13	8
Central bank eligible	-	-	30	-	-
Non Central bank eligible	-	-	38	-	-
% Overnight	52%	56%	42%	-14%	-10%
% <= 1 week	13%	18%	12%	-6%	-1%
% > 1 week	35%	25%	46%	21%	11%
% > 1 month	24%	20%	29%	9%	5%

1. *Non-traditional repo book excludes Governments, Treasuries, Government/MBS Agencies*

Liquidity Risk Of Secured Funding

Liquidity risk of our secured funding is well contained

Tri-Party Repo Book Collateral at May 30, 2008



Lehman Brothers Bank Entities

Rapid asset growth at bank entities strengthens our liquidity position

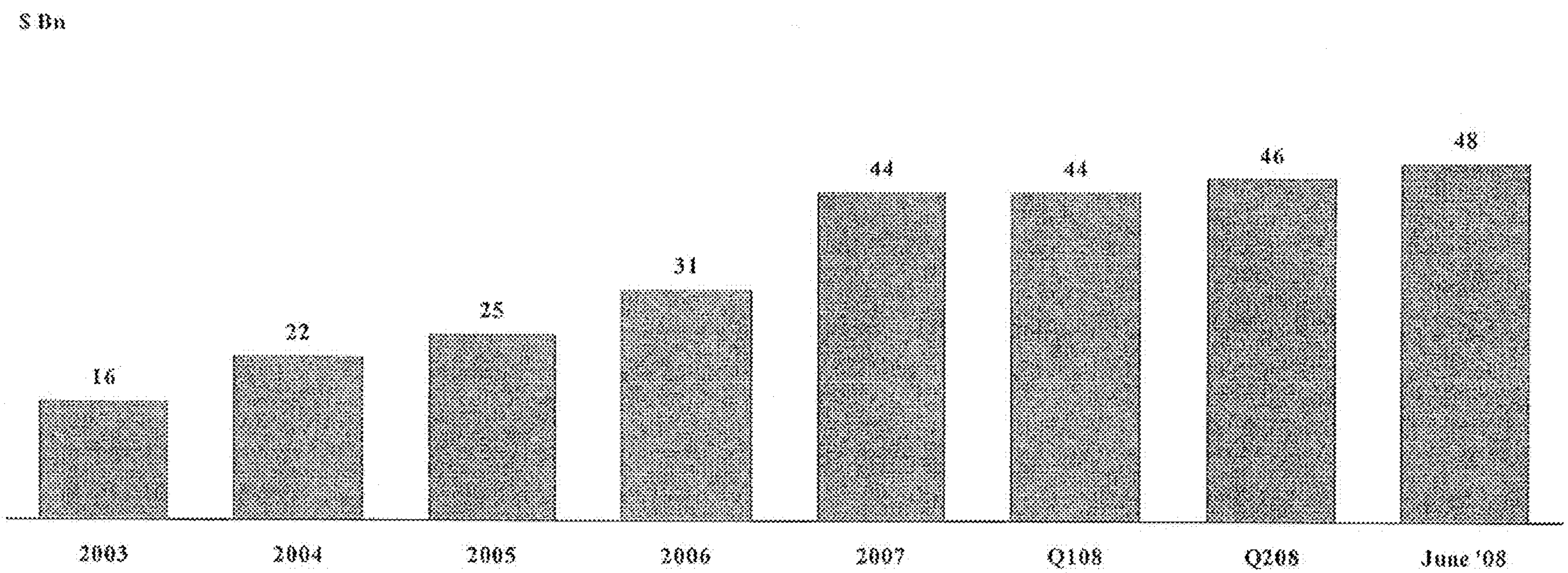
Lehman Brothers Bank/Lehman Brothers Commercial Bank

- Raises FDIC-insured deposits
- Can pledge mortgage whole loans to the Federal Home Loan Bank
- Can access the Fed discount window

Lehman Brothers Bankhaus

- Raises GDPF-insured deposits
- Can participate in ECB tender facilities

Bank Entities Total Assets

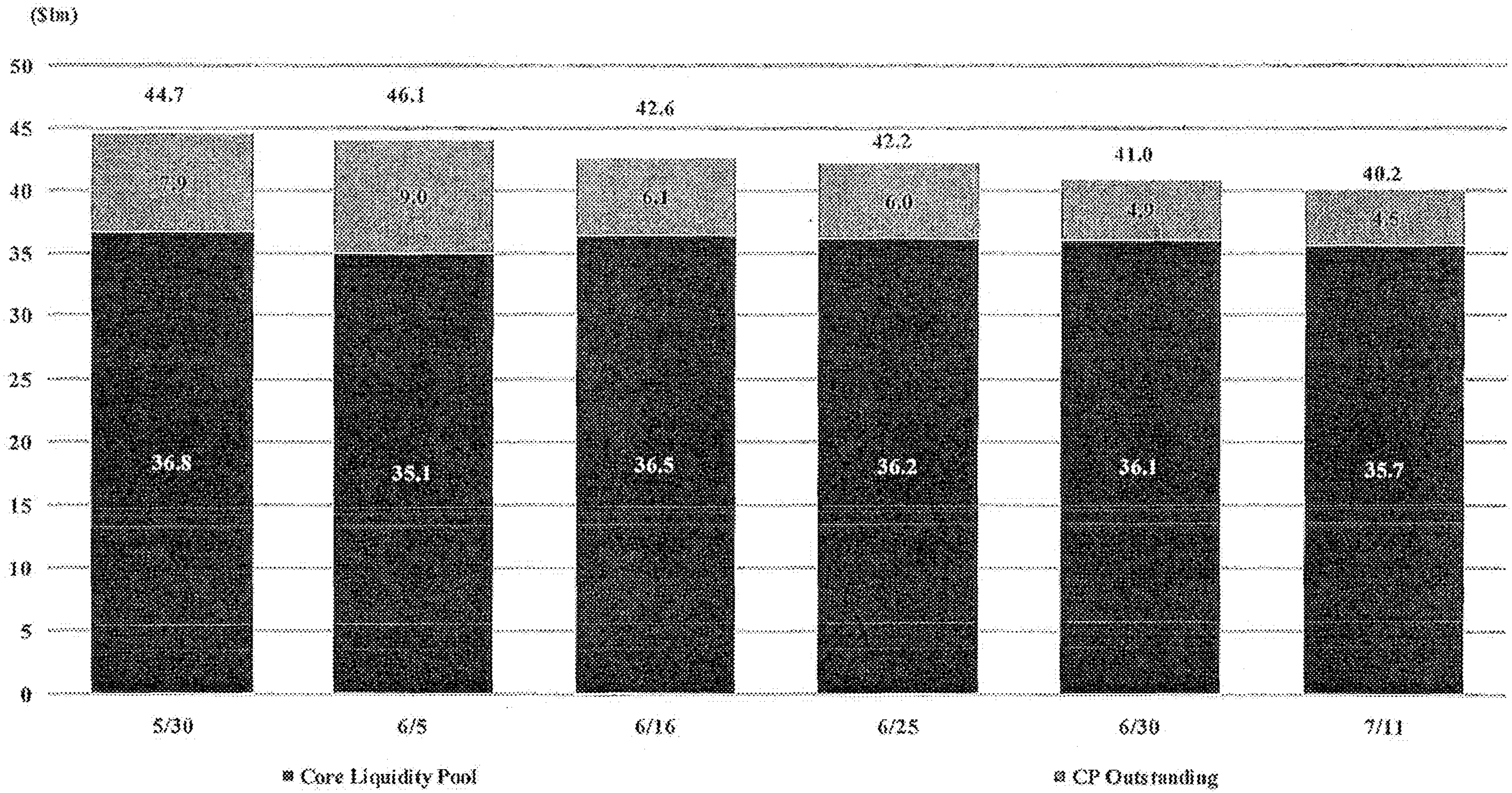


2008 Q3 Update

Core Liquidity Pool

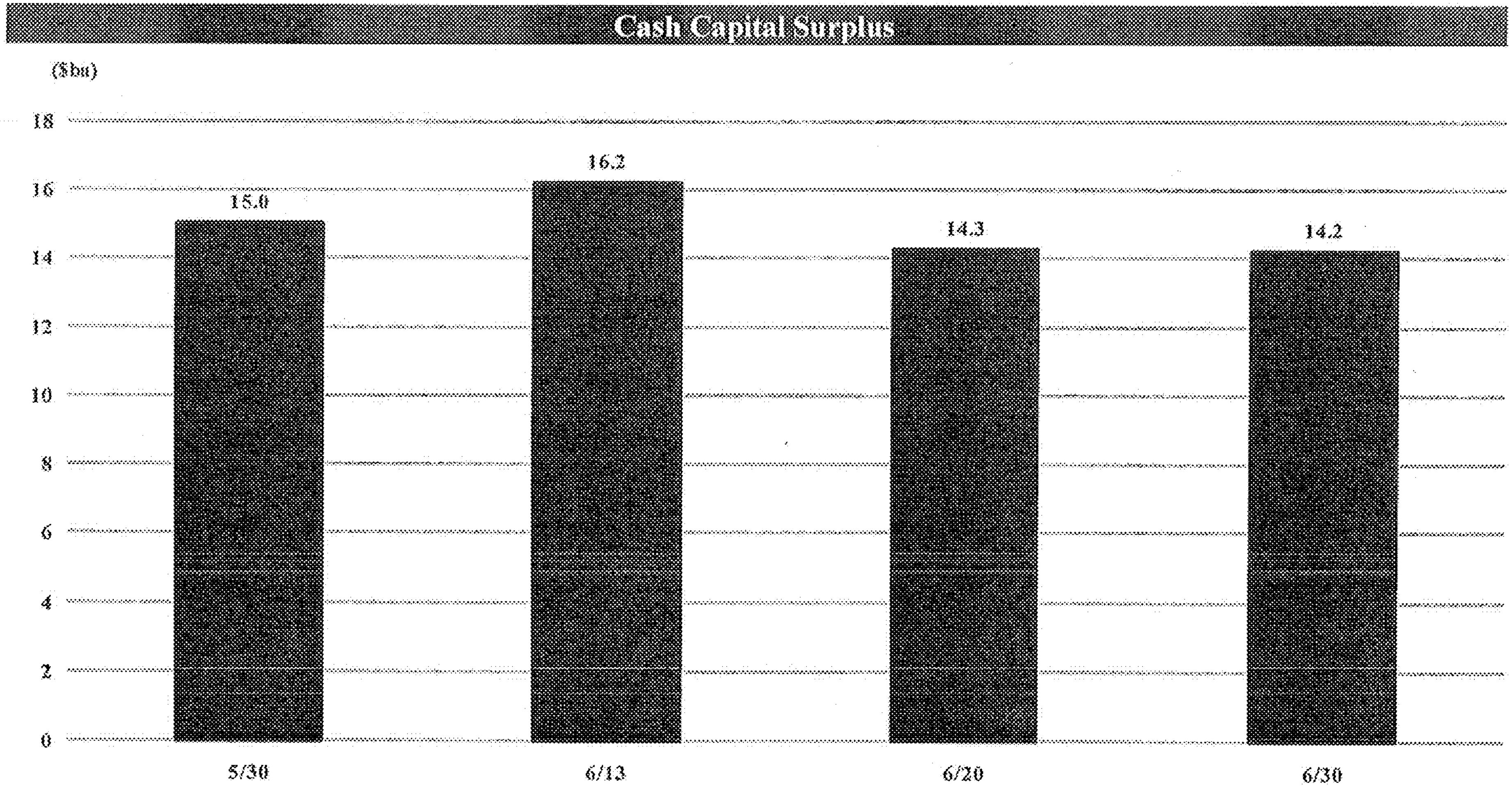
Core liquidity (i.e., liquidity minus outstanding CP) has remained stable over the period

Core Liquidity Pool



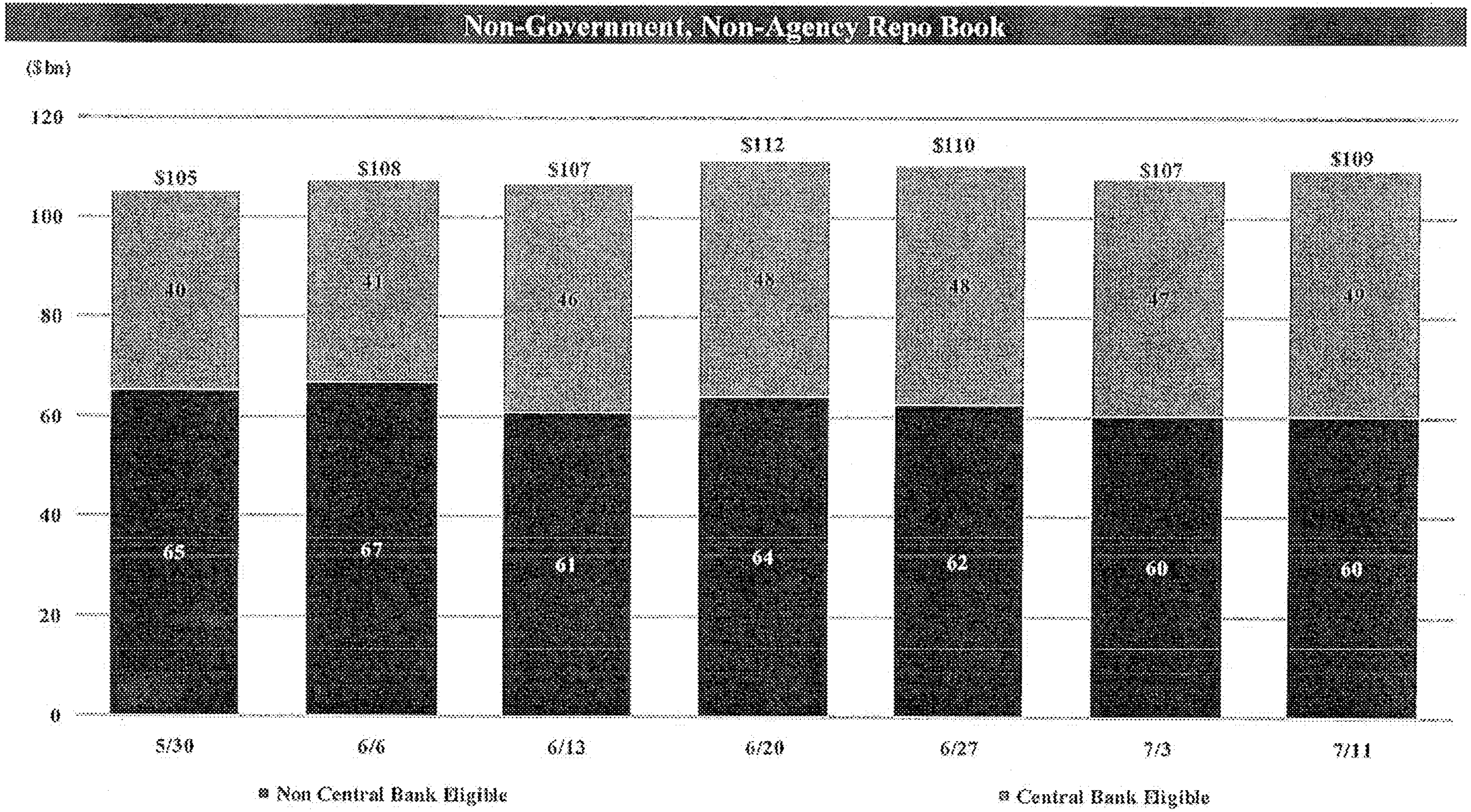
Cash Capital

Cash capital surplus has remained stable in the $14-16 billion range



Secured Funding

Secured funding has remained very resilient



Liquidity Stress Scenario

Liquidity Stress Scenario Assumptions

Loss of Secured Funding

- Repos

	% Rolled	% Lost
Governments & Agencies	100%	0%
Corporates		
High Grade	70%	30%
High Yield	0%	100%
Asset Backs / Private Labels		
High Grade	40%	60%
High Yield	0%	100%
Commercial Paper Repo	70%	30%
Muni	40%	60%
EMG securities	0%	100%
Equities / Convertibles		
E1	70%	30%
E2 / C1	0%	100%
E3 / C2	0%	100%

- Munis TOB – 7 day put exercised on day 1
  - Customer collateral returned /liquidated over 1 week
  - Firm collateral liquidated
- Prime broker
  - Free credit balances withdrawn on day 1
- Dealer-based matched book
  - Unwound to release haircut ($1.0 bn)
- Central banks
  - No PDCF
  - Able to use ECB tender facility through Bankhaus, consistent with normal practice

Loss of Unsecured Funding

- Unsecured debt
  - CP and LCs: 0% roll at maturity
  - Buybacks: $1 billion in week 1, $1.5bn in weeks 2-4
  - Deposits at US banking affiliates: 80% roll at maturity
    - In practice, no impact on liquidity (operate with significant excess liquidity)
  - Ability to draw on committed facilities
- Loan funding
  - Per funding schedule for leveraged loans
  - $3.0 billion per month for unfunded revolvers
  - Derivatives
  - Cash collateralization on derivative payables per CSA requested on day 1 (paid on day 2 per industry practice)
  - Margin disputes against us paid on day 3 and 4
  - 2 notch downgrade during second week
    - Note: The vast majority of the credit rating downgrade-related posting requirements come from derivative transactions with structured vehicles, which have a 30 day cure period, which gives us the right to assign or restructure the transactions, thereby avoiding the posting of additional collateral
- Other
  - $0.5 billion every other week to cover operational cash expenses (PE and NPE)
  - Sale of assets at pledge value with an additional 5% writedown

Stress Scenario Assumptions Vs. Week Of March 17

- The assumptions that we are using in our liquidity stress scenarios are far more severe than what we experienced during the week of March 17

	% Lost	
	Experienced During Week of 3/17	Stress Scenario Shown In Today's Presentation
Secured Funding		
Governments & Agencies	0%	0%
Corporates		
High Grade	0%	30%
High Yield	13%	100%
Asset Backs / Private Labels		
High Grade	7%	60%
High Yield	0%	100%
Commercial Paper Repo	10%	30%
Munis	0%	60%
Munis TOB Program	0%	100%
Equities / Converts		
Major Index (E1)	14%	30%
Other Index (E2 / C1)		100%
Non Major Index (E3 / C2)		100%
Collateral Upgrade (E1)	3%	30%
Prime Broker Free Credit Balances	30%	100%
Unsecured Funding		
LEH Commercial Paper	29%	100%
LTD Buybacks ($Billions)	11%	250%
Derivatives		
Cash Collateralization per CSA	~25%	100%

Liquidity Stress Funding Scenario (I) – Liquidity Outflows

- Purpose of this stress funding scenario is to model a severe liquidity event over the course of a month. Over the course of one month, gross liquidity outflows total $55 billion.
  - Significant loss of secured funding capacity in non-Government or Agency securities ($36 billion)
  - Inability to roll unsecured debt, coupled with debt buybacks ($8 billion)
  - Rating downgrades and draws on unfunded loan commitments ($7 billion)
  - Payments on derivative margin disputes and operational cash outflows ($2 billion)
  - Withdrawal of customer free credits ($2 billion in LBIE; LBI free credits covered by segregated cash (15c3 lockup))

Liquidity Stress Funding Scenario (II) – "Mitigants"

- Offsetting these cash outflows are $66 billion of "liquidity risk mitigants," leaving Lehman with a $11 billion liquidity pool after one month
  - First and foremost, liquidity pools at Holdings, broker dealers and Lehman Brothers Bankhaus ($52 billion)
    - $41 billion at Holdings; $7 billion in LBIE; $4 billion in Lehman Brothers Bankhaus
    - Because of the substantial loss of secured funding in this scenario, LBI and LBIE need to borrow from Holdings and good quality collateral previously funded with third parties becomes available for funding with Bankhaus. As a result, liquidity becomes fungible across these entities
  - Draw on our committed facilities ($4.5 billion)
    - We draw on our committed facilities 30-50% of the time in the normal course of business, thereby removing any signaling effect that could be associated with a draw
  - Term overfunding and excess collateral borrowed, which mitigates the loss of secured funding ($8 billion impact)
    - Term overfunding = Unused term repo capacity
    - Excess collateral borrowed = Repo funding that does not support Firm or client activities
  - Additional funding through the ECB tender auction facilities ($1 billion)
    - ECB through its tender auction facilities funds more than $700 billion of collateral for Euro-domiciled banks
    - Lehman Brothers funds $13 billion of collateral through the ECB. Even with the additional $1 billion funding envisaged in this scenario, we would still not be in the top 10 users of these facilities
  - Unwind of matched book positions supporting proprietary book ($1 billion impact)

$11 billion of secured funding "mitigants"

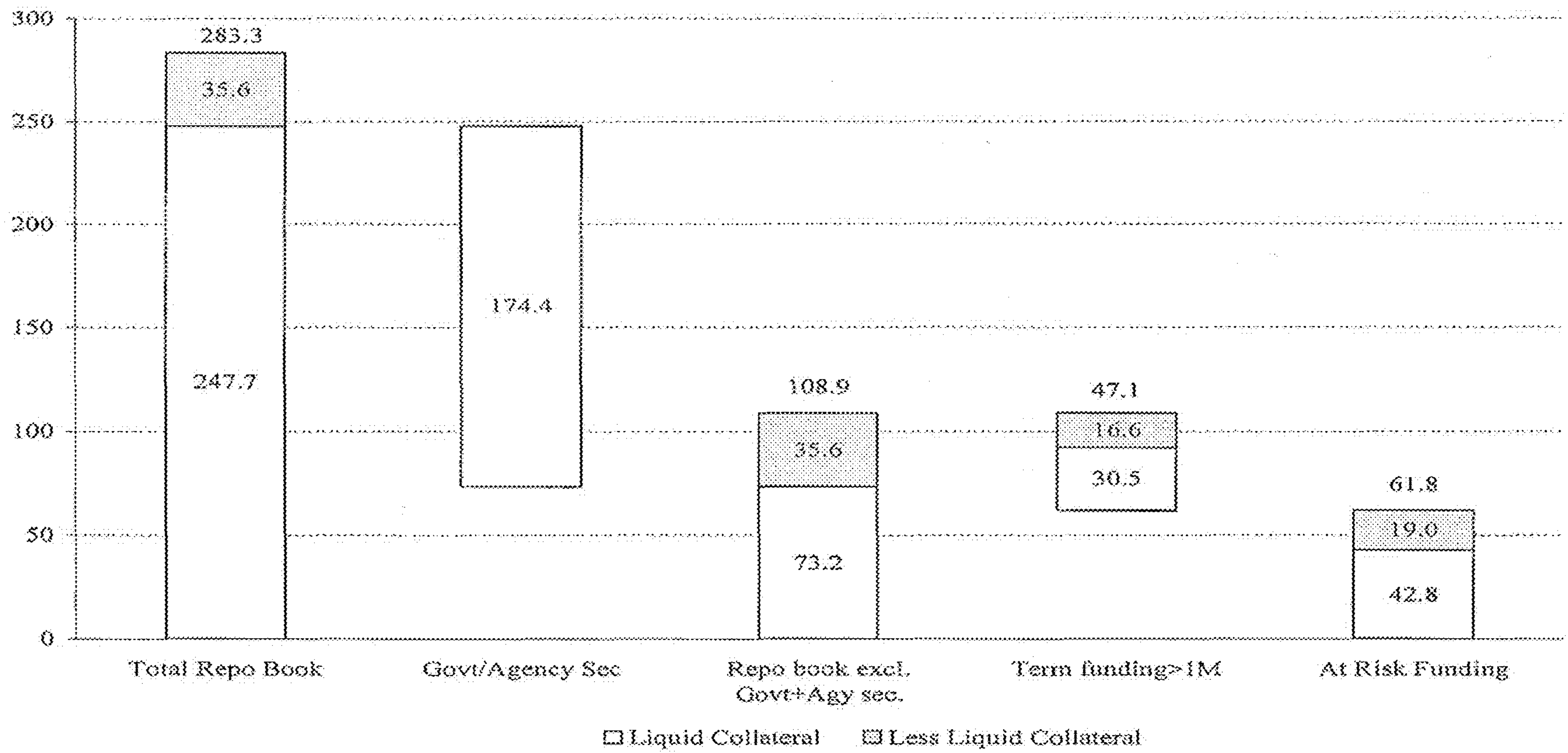
- The following have **not** been included as "liquidity risk mitigants" in this scenario
  - Use of the Federal Reserve's PDCF
  - Reduction of balance sheet impacting client-facing activities
  - Reduction of prime broker client funding

Repo Book Analysis

- As of July 10, our tri-party repo book amounted to $283 billion - $174 billion of Government and Agency securities; $73 billion of liquid collateral (investment-grade fixed income securities and major index equities); and $36 billion of less liquid collateral (high yield fixed income securities and non major index equities). The amount of repo funding "at risk" (i.e., maturing within a month) was $62 billion - $43 billion in liquid collateral and $19 billion in less liquid collateral.

Composition Of Lehman's Tri-Party Repo Book As of 7/10

$ Billions

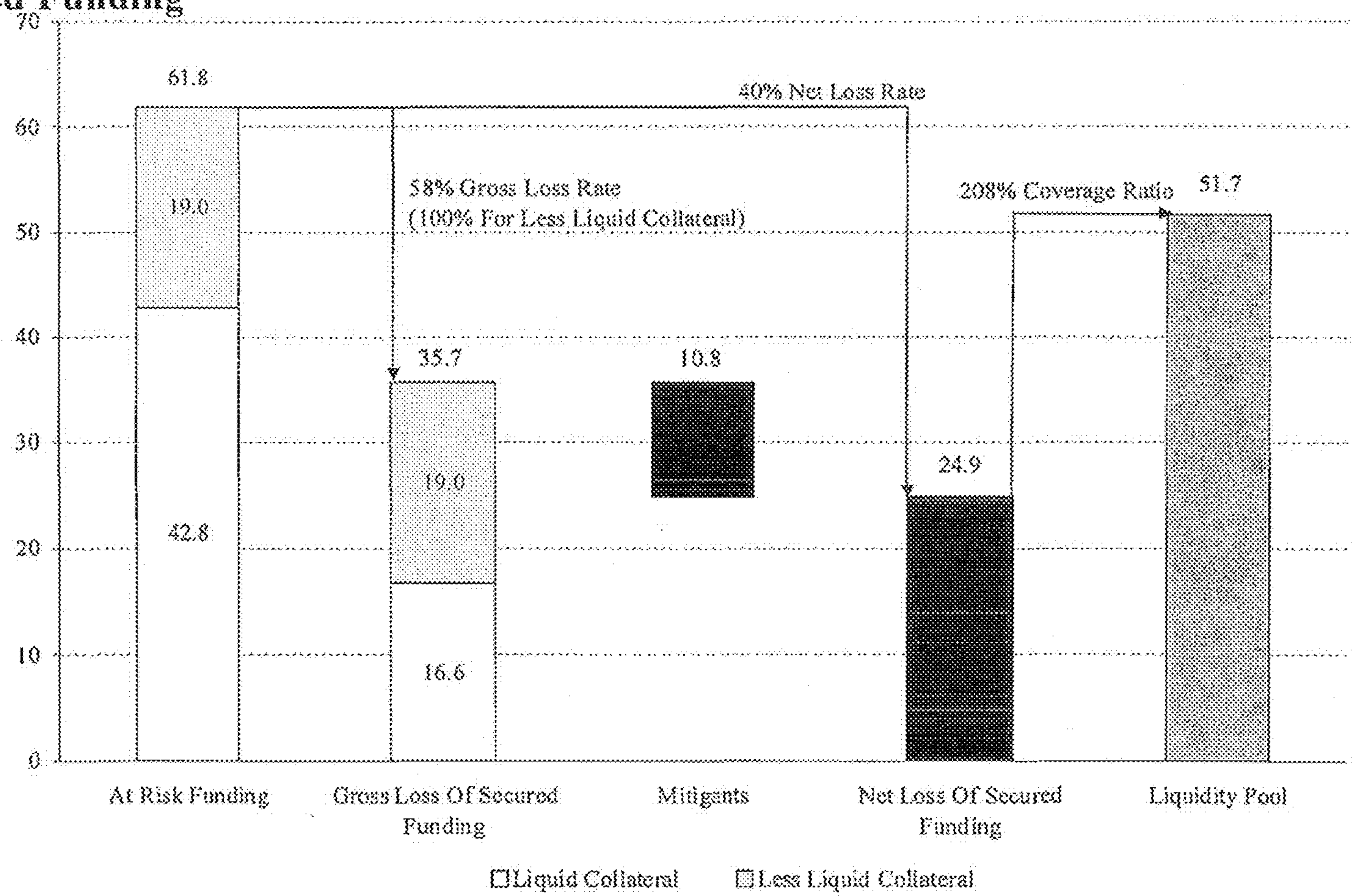


Loss Of Secured Funding

- Stress scenarios result in a $36 billion gross loss of secured funding over one month (i.e., 58% loss of secured funding, 100% for the less liquid collateral). Including "mitigants" (e.g., $11 billion due to overfunding, excess collateral borrowed, and $1 billion unwind of our proprietary matched book), the net loss of secured funding amounts to $25 billion. The liquidity pool available to the broker-dealers of $52bn exceeds the net secured funding loss by 208%.

Loss Of Secured Funding

$ Billions



Appendices

Stress Liquidity Scenario: Overall Impact

	11-Jul	14-Jul	15-Jul	16-Jul	17-Jul	18-Jul	21-Jul	22-Jul	23-Jul	24-Jul	Week 3	Week 4	Total
Beginning Cash Position (1)	51.7	25.6	25.5	20.8	19.4	19.2	16.1	15.6	13.5	11.6	11.2	12.2	12.2
Net Loss Secured Funding	(22.6)	2.8	0.6	(0.0)	(0.0)	(3.0)	(0.2)	(0.3)	(0.6)	(0.3)	2.1	(3.4)	(24.9)
Unsecured Funding													
Unsecured Debt													
CP	(2.3)	(0.4)	(0.0)	(0.0)	-	(0.0)	(0.0)	(0.1)	(0.0)	-	(0.3)	(0.1)	(3.3)
STD excluding CP	(0.0)	(0.0)	(1.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	-	(1.3)
LTD	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	0.0	(0.0)	(0.1)	(0.2)	-	(0.8)
Buybacks	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)	(0.5)	(2.5)
Deposits of Banking Affiliates	(0.2)	-	-	-	-	-	-	-	-	-	-	-	(0.2)
Committed Facility Drawdown	-	-	-	-	-	-	-	-	-	-	-	4.5	4.5
Net Loan Funding	-	-	(1.0)	-	-	-	-	-	(1.0)	-	(1.0)	-	(3.0)
Derivative Activity											-	-	-
Posting of Uncalled Collateral	-	(1.9)	(1.9)	-	-	-	-	-	-	-	-	-	(3.8)
Downgrade (2 Notches)	-	-	-	-	-	-	-	(0.5)	-	-	-	-	(0.5)
Disputed Margin Payments	-	-	(0.6)	(0.6)	-	-	-	-	-	-	-	-	(1.3)
Cash outflows to fund operations (PE, NPE, etc.)	-	-	-	(0.5)	-	-	-	-	-	-	(0.5)	-	(0.9)
Total Net Loss Unsecured Funding	(2.8)	(2.7)	(5.0)	(1.3)	(0.2)	(0.1)	(0.2)	(0.7)	(1.2)	(0.2)	(2.5)	3.9	(13.0)
Ending Cash Position	25.6	25.5	20.8	19.4	19.2	16.1	15.6	13.5	11.6	11.1	10.7	11.2	11.2

Details next slide

1. *$51.7 billion liquidity pool as of 7/11 SOD is comprised of $40.3 billion of Holdings liquidity, $7.3 billion of LBIE liquidity (trapped) and $4.0 billion of Bankhaus liquidity. In this stress scenario, which involves significant funding losses at the broker dealers, cash positions become practically fungible across legal entities because LBI and LBIE require additional funding from Holdings and Bankhaus*
2. *Net loss of secured funding also includes the positive impact of the reduction in the funding of prime broker clients and of balance sheet reduction*

Rating Downgrade-Related Margin Postings

- In June 2008, long-term debt ratings of Lehman Brothers were downgraded by S&P and Fitch to A and A+, respectively and in July by Moody's to A2. As a result of these downgrades, the margin posting requirements if Lehman Brothers were to be further downgraded by one or two notches would be as follows:

Additional Margin Posting Requirements (1)
$ Billions

	1 Notch Downgrade	2 Notch Downgrade
"Standard" trades	0.2	0.5
"Non standard" trades	3.7	0.6
Total	**3.9**	**1.1**

(1): Estimates

- Standard trades are derivatives transactions where the margin posting requirement is equal to the mark-to-market of the positions above the rating-dependent threshold. The lower the rating, the lower the threshold; hence the need for additional margin postings in the case of a downgrade. This posting requirement is immediate after the downgrade.
- Non standard trades are derivatives transactions with structured vehicles (securitization trusts, CDO) where the margin posting requirement is primarily driven by the rating agencies requiring Lehman Brothers to post an independent amount to act as a volatility buffer. This independent amount is typically calculated as a percentage of the notional of the trade. The requirement would typically kick in if Lehman Brothers were downgraded below A or A2 by S&P or Moody's, respectively.
  - This requirement would not become effective immediately. Instead, Lehman Brothers would typically have 30 days to assign the transaction or renegotiate the terms, thereby avoiding the posting requirement
    - After the downgrade by S&P on June 2, we started renegotiating a large number of these transactions as a precautionary measure. As a result to date, we have already avoided approximately $1.1 billion of posting requirements if S&P were to downgrade us to A-.

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LEHMAN BROTHERS

July 22, 2008

Discussion Materials for the Board of Directors

Confidential Presentation

Table of Contents

Situational Overview

Summary of Current Situation

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Ongoing Pressure on Stock	◆ Green's market value and stock price have declined from their peaks of $46 billion and $85.80, respectively, in February 2007 to $12.7 billion and $18.32, respectively, currently ◆ Current price to book multiple of 0.56x vs. 3-year average of 1.85x and current industry average of 1.45x[1]
Positive Actions to Date	◆ Significant decline in leverage ratios driven by both capital offerings and balance sheet deleveraging – Pro forma for capital offerings, gross leverage is 20.0x and net leverage is 10.1x (vs. 31.7x gross leverage and 15.4x net leverage in the first quarter) ◆ Actively reduced key risk positions (CRE, residential mortgages, leverage loans and level 3 assets) in second quarter, though meaningful exposure remains ◆ Increased liquidity pool to $45B from $34B
Feasibility of Business Model	◆ Green's business model is under significant pressure ◆ Lower leverage and decreased flow in certain business lines will pressure future profitability metrics
Liquidity Outlook / Counterparty Risk	◆ Green continues to actively communicate with key counterparties ◆ Liquidity position remains strong and secured funding has remained essentially unchanged through July ◆ Should Green's stock price erode from current levels, however, the risk of losing secured funding increases
Client / Employee Risk	◆ Clients across all divisions beginning to do less business (or on less favorable terms) with Green because of speculation regarding Green's future ◆ IBD clients are hedging themselves against Green risk (e.g., key man clauses, fewer long-term mandates) ◆ Employee base is extremely unsettled
Discussions with Regulators / Rating Agencies	◆ Constructive and ongoing dialogue with regulators ◆ Recently downgraded one notch by Moody's (from A1 to A2) and additional downgrades are possible ◆ Significant negative repercussions would be associated with losing A rating

Market data as of July 21, 2008.
1. *Average of GS (1.71x), MS (1.21x) and MER (1.43x).*

Strategic Alternatives Considered

Strategic Alternatives Considered

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	Rationale	Current Status
Status Quo	◆ Refrain from selling assets, exiting business lines or issuing capital at depressed valuations	◆ Not feasible in current environment due to pressure on stock price, liquidity concerns, size and business mix, and likely additional writedowns in the third and fourth quarters ◆ Strategic initiatives must be considered
Strategic Partnership	◆ Partner perceived as "smart money" would validate franchise and investment thesis ◆ Balance sheet and capital support of partner would alleviate viability concerns, mitigate valuation discount and allow for growth of business	◆ Minority stake in Green not attractive to large financial institutions ◆ Majority of likely partners have significant internal issues
Sale	◆ Combination with strategic partner could stabilize business and accelerate growth ◆ Potential to provide premium / value through synergies and through potential upside in buyer's currency	◆ Majority of likely partners have significant internal issues ◆ Major direct competitors (with the exception of Morgan Stanley) have not been considered to date
Private Buyout	◆ Allows for restructuring of business out of public equity domain ◆ Potential to provide premium for cash	◆ Financially less viable since stock price has rebounded off lows ◆ Significant equity capital required ◆ Loss of access to equity markets and possible rating agency downgrades would be harmful to a number of businesses
Financial Holding Company / Depository Funding Strategies	◆ Regulators are supportive of concept ◆ Permanent access to Fed window	◆ Lack of commercial banking activities would limit funding advantages in the near term ◆ Not pursuing due to lack of funding synergies and incremental capital and expenses required to implement
Restructuring	◆ Reducing residential and commercial mortgage exposure removes asset valuation uncertainty ◆ Pro forma capital need can be provided by sale of IMD ownership stake and common equivalent offering ◆ Sale of IMD stake unlocks value of business and would likely occur at a multiple meaningfully higher than Green's current and historical valuation	◆ In discussions with potential buyers of residential mortgage assets ◆ Analyzing transaction feasibility / financial impact of spinning off CRE assets; asset sales ongoing ◆ Analyzing execution strategy and financial impact of selling a majority ownership stake or all of IMD ◆ Analyzing possible structures for capital markets offering

Potential Strategic Partners / Buyers

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Parties Contacted

Company	Discussions to Date	Status
Bank of America	◆ Senior executive discussions	◆ Potential interest; timing uncertain
Bank of China	◆ Local discussion	◆ Not inclined to pursue
BBVA	◆ Met with BBVA	◆ Focused on retail banking
Berkshire Hathaway	◆ Preliminary discussions	◆ Unwilling to proceed in current environment
BNP Paribas	◆ Met with BNP	◆ Not inclined to pursue; focused on European bank consolidation
CITIC	◆ Met with CITIC Securities and CITIC Group	◆ Studying regulatory hurdles
GE	◆ Senior executive discussions	◆ Not inclined to pursue
HSBC	◆ Met with HSBC	◆ Not inclined to pursue; focused on retail banking
KDB / Korea	◆ Multiple meetings with senior management	◆ Significant execution issues
Mitsubishi	◆ Checked interest	◆ Not inclined to pursue
Morgan Stanley	◆ Preliminary senior executive-level discussions	◆ No current dialogue
Royal Bank of Canada	◆ Met with RBC	◆ Inconsistent with current strategy
Standard Chartered	◆ Preliminary senior level discussions	◆ Inconsistent with current strategy
Sumitomo Mitsui	◆ Multiple meetings with senior management	◆ Not inclined to pursue
UBS	◆ Checked interest	◆ Current issues preclude involvement

Parties Not Contacted

- Barclays
- Credit Suisse
- Deutsche Bank
- Goldman Sachs
- JPMorgan
- Lloyds TSB
- Santander

Overview of Go Private Alternative

Transaction Rationale

- Allows for restructuring of business out of public equity domain
- Ability to manage company with less quarter by quarter oversight
- Provides additional time to work out of difficult asset exposures
- Expect that buyer would not fund equity purchase by putting incremental leverage on Green

Interest From Investors

- Inbound calls have been received from private equity firms, sovereign wealth funds and institutional investors expressing interest in a partial or full buyout

Transaction Considerations

- Over $12 billion of equity required from outside investors
  - Assumes a 100% rollover of employee shares
  - $6 billion of convertible instruments will have to be repurchased
- Significant amount of equity for any single investor; a syndicate would be required
  - Equity required could be reduced with a sale of IMD (stake or whole)
- Financially less viable today since stock price has rebounded off lows
- Likely one notch downgrade from rating agencies
- Potential loss of some liquidity providers who don't feel comfortable with lending to a private company
- Traditional regulatory hurdles with ownership over 9.9%, but private equity firms are exploring structures to address this issue
- Compensation system would need to be significantly modified

Restructuring Plan

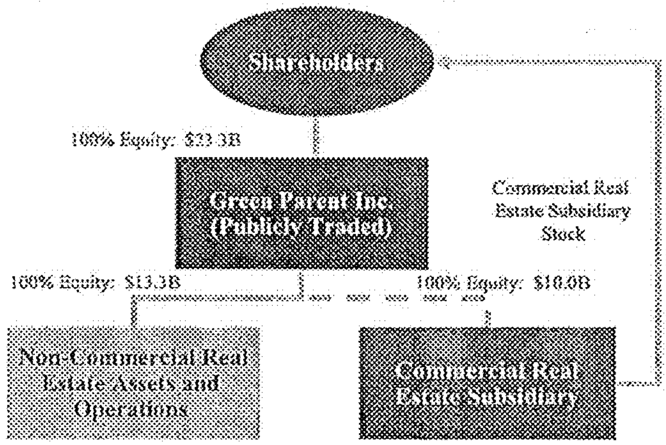
1. Explore CRE spin-off / monetization
   - Preliminary estimate is that SpinCo could require ~$[10]B of equity
2. Reduce residential mortgage exposure
   - Sell U.K. residential mortgages
   - Seek to reduce other residential mortgage exposures
3. New employee grants
4. Senior management buys $[ ]m of secondary shares post-announcement
5. Raise additional capital
   - Sell 51-100%[1] interest in Equity and Fixed Income Asset Management businesses at $[5.0]B valuation
     - Evaluate inclusion of Alternative Asset Management and Private Equity businesses, as well as minority stakes
   - Sale of new common equivalents ($[2-4] billion)[1]
     - Convertible preferred or purchase contract for common
     - Bring buyer(s) over the wall
     - Explain SpinCo, residential exposure and employee plan
6. Eliminate dividend
7. Reduce balance sheet, downsize corporate and some front office

1. Size of sales dependent on amount of equity hole created by residential mortgage, CRE and other losses.

CRE Spin-off Description and Considerations

Green spins off its Commercial Real Estate assets to Green shareholders

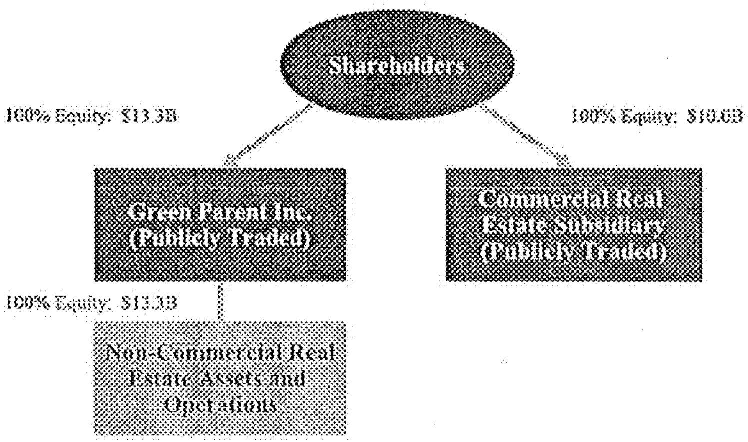
Transaction



Description

- Green separates the operations of its Commercial Real Estate business to be spun off into a new subsidiary
- Green distributes its entire interest in the subsidiary as a special dividend to its existing shareholders on a pro rata basis
  - One share of CRE SpinCo for each share of Green (for example)
- Following spin-off, the Commercial Real Estate subsidiary is an independent, publicly traded entity
- Spin-off, as currently contemplated, would be tax-free to Green and its shareholders

Post-Transaction



Considerations

- Identification of appropriate assets and management team
- Capital structure and leverage of spun entity appropriate to deconsolidate assets
  - Financial terms need to be "at market," with "substantive" third party participation
  - Achievability of financing in market today
- Timing (likely 3 to 6 months to distribution)
  - Could announce intention once comfortable with feasibility
- Rating agency review of pro forma Green and SpinCo
- Pro forma trading of Green and SpinCo

Investment Management Division Overview

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IMD Businesses - $277bn in AUM

- **Neuberger Berman (Equities Business) – $120bn in AUM**
  - High fee, high growth business with 30 investment teams, 107 portfolio managers, and 97 research analysts
  - ~80% of Equities AUM in top quintile separate accounts or 5 star mutual funds
- **Lehman Brothers Asset Management (Fixed Income) – $112bn in AUM**
  - Institutional oriented fixed income manager with strong client relationships
- **High Net Worth**
  - 370 investment representatives focused on HNW wealth management

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- **Alternative Asset Management – $14bn in AUM**
  - $5bn in Fund of Hedge Funds; $9bn in single manager strategies
- **Private Equity – $26bn in AUM**
  - Highly diversified business across 7 asset classes
  - Significant new capital raised across the platform in last 18 months
- **Minority Stakes**
  - Minority investments in 3 industry leading hedge funds (D.E. Shaw, Ospraie and Spinnaker Capital)

Preliminary Valuation

- Preliminary valuation for Equities and Fixed Income of $[5.0]bn
  - Excludes other IMD businesses, but evaluating whether inclusion would be value enhancing
  - Equates to ~[15]x 2009 earnings and ~[2.2]% of AUM

Preliminary Summary Timeline

Action

Commercial Real Estate
- Asset evaluation and selection
- Finalize indicative capital structure and discuss with E&Y and SEC accountants
- ***Make go / no-go decision regarding transaction feasibility***

If decide to pursue CRE spin-off:
- Green, S&C and E&Y formally review transaction with SEC
- Meeting with Rating Agencies to discuss proposed transaction
- Comfort with expected Form 10 financial reporting and indicative capital structure
- Begin to take steps necessary to execute spin-off

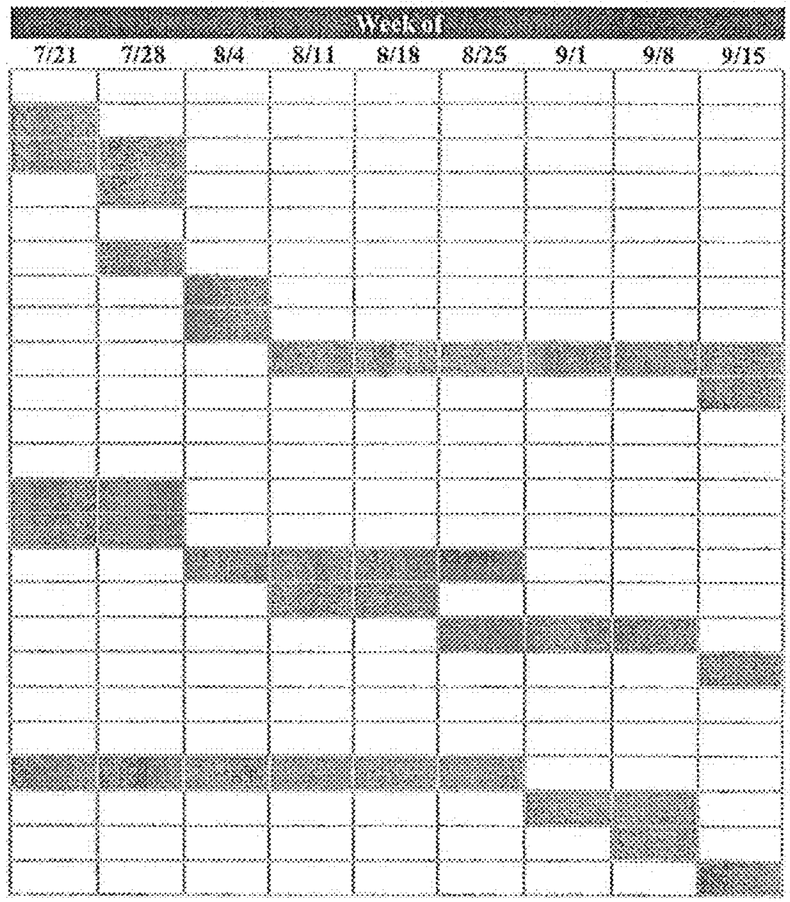
Announce Plans to Spin-off CRE (distribution likely in 3-6 months)

Investment Management Division [1]
- Prepare marketing materials
- Contact potential investors and sign NDA's
- Investor due diligence and management discussions / presentations
- Receive bid letters and select potential investors to continue in process
- Negotiate key terms and agreements

Announce Sale of IMD

Capital Raise
- Determine appropriate structure and draft term sheet
- Contact potential investors and sign NDA's
- Negotiate terms with investors

Announce / Execute Capital Raise



1. Timeline represents accelerated limited auction process. May conduct parallel process for one or two entities that have high likelihood of delivering comprehensive solve for Green.

Game Plan

Overall Approach

Approach

- Solve for appropriate bottom-of-the-cycle returns
- Size financial leverage to maintain A rating
- Headcount reductions to maintain compensation flexibility
- Targeted business reductions
- Corporate re-sizing consistent with new business mix and smaller Lehman

Headcount Evolution

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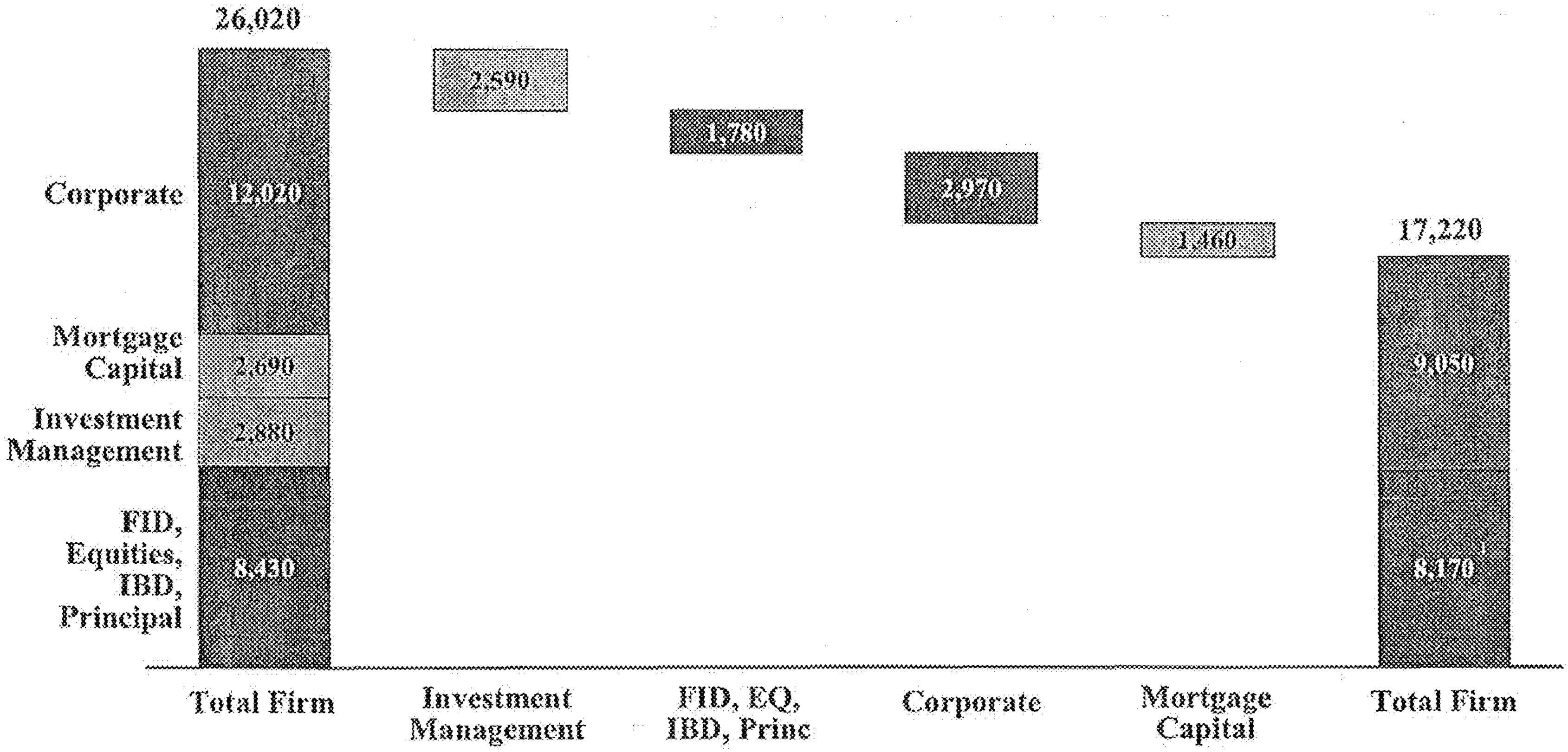
Game Plan

By Division



% Reduction	*90%*	*21%*	*25%*	*54%*	*34%*

1. *Includes 1,230 from mortgage servicing*

2009 Income Statement

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Game Plan

$Billions

	2007	2009		
	Actual Revenue	Pre Divestiture	Impact of Divestiture	Post Divestiture
Fixed Income	$6.0	$6.4	($0.2)	$6.2
Equities	$6.1	$5.3	($0.3)	$5.1
Investment Management	$2.6	$2.4	($2.4)	$0.0
Investment Banking	$2.4	$2.0		$2.0
Principal	$0.7	$0.5		$0.5
Treasury / Other	$1.5	$0.0		$0.0
Net Revenue	**$19.3**	**$16.6**	**($2.8)**	**$13.8**
Compensation	9.5			6.8
Non-Personnel Expenses	3.8			3.0
Pretax Income	6.0			4.0
Net Income	4.2			2.8
Preferred Dividends	0.1			0.7
Net Income to Common	**4.1**			**2.1**
Return on Equity	**20.8%**			**14.7%**

Net Asset Evolution

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Net Assets ($B)	Q2 2008	Year end 2009
Fixed Income		
Real Estate	58	6
Residential Mortgages	57	10
Interest Rate Products	38	75
Credit Products	31	35
Commod, FX, Muni, Other	26	46
Total Fixed Income	**211**	**172**
Equities		
Volatility	23	24
Prime Services	26	30
Liquid Markets, Other	12	13
Total Equities	**62**	**67**
Investment Management	**10**	**2**
Investment Banking	**10**	**10**
Principal	**10**	**10**
Treasury / Other	**27**	**18**
Total Firm	**328**	**279**
Net Leverage Ratio	**12.1x**	**12.0x**

Net Asset Funding

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$Billions

	Q2 2008	Year End 2009
Equity	$26	$25
Long Term Debt	112	94
Bank Deposits	44	62
Payables	62	53
Acct. Gross-up / Non-recourse Financing	20	0
Short Term Debt and Current Portion	24	17
Repos	40	28
Total	$328	$279

Risks

Key Issues

- Receptivity of market to Spinco and effect of Spinco loan on "clean" Lehman
- Ability to raise amount of new equity required to eliminate market concerns
- Ability to execute operating plan
  - Credibility of marks on remaining residential mortgages, and subsequent asset performance
  - Achieve productivity gains (fewer people and less balance sheet)
  - Reduce non-personnel expenses, especially brokerage and clearance
- Potential adverse stakeholder reaction
- Implementation of headcount reductions
  - Minimize client attrition
  - Maintain employee focus and morale
  - Retain talent

LEHMAN BROTHERS

MEMORANDUM

TO:	The Non-Management Directors of Lehman Brothers Holdings Inc.
FROM:	Tom Russo
DATE:	July 18, 2008
SUBJECT:	Communication with Non-Management Directors

The Firm recently received the message attached as Exhibit A through the area of the Firm's public internet site for the submission of concerns to the non-management Directors. The author provides recommendations to the Board of Directors regarding management of the Firm.

We are forwarding this communication to you in accordance with the Firm's Procedures for Communicating with Non-Management Directors. As you will remember, these Procedures provide that the non-management Directors may determine, in their discretion, the treatment of any submitted concern.

Given the nature of the message, I do not plan to take any further action regarding this communication, except to take it as advice from a concerned shareholder. However, please advise if the non-management Directors determine that management should take any additional action and call me at 212-526-0475 with any questions.

Exhibit A

Sent: Thursday, June 12, 2008 8:23 PM

To the Board;
I applaud the June12 management changes, but I would request/suggest early and frequent public disclosure of balance-sheet info.
I am long a small position in LEH, but also, in the mid-90's, I did some consulting work for Lehman. I respect what you have achieved, and I really hope your firm can survive. But you must really stress disclosure now. Erin played her cards too close. Time for that approach is now past. Full, open and complete disclosure, please.
You all probably know this, but perhaps there is some value in me suggesting this.
- Mark Langdon
Waterloo, Ontario, Canada.

MEMORANDUM

To:	Members of the Board of Directors of Lehman Brothers Holdings Inc.
From:	Tom Russo
Date:	July 18, 2008
Subject:	OTS Rating

Per the attached letter, the Office of Thrift Supervision ("OTS") has downgraded Lehman Brothers Holdings, Inc.'s ("LBHI") Composite rating from a "2" to a "3" and has reduced LBHI's rating from "2" to "3" in the following CORE component ratings: Organizational Structure, Risk Management, and Earnings. The OTS is the primary regulator for our thrift, Lehman Brothers Bank FSB, and also, regulates LBHI, examining each entity annually. OTS' ratings are not public.

OTS has a five-point numerical rating scale for savings and loan holding companies. Under the system, holding companies receive a rating between "1" (the highest) and "5" (the lowest) in the following CORE component areas: Capital, Organizational Structure, Risk Management, and Earnings. Companies also receive a composite rating between "1" and "5." The ratings assigned to LBHI are as follows:

- Capital "2" – indicates that the consolidated holding company enterprise maintains sufficient capital to support the volume and risk characteristics of its business lines and products.
- Organizational Structure "3" – indicates that there are organizational structure weaknesses that raise supervisory concern.
- Risk Management "3" – indicates moderate deficiencies in risk management and, therefore, there is a cause for additional supervisory attention.
- Earnings "3" – indicates that the consolidated holding company enterprise's financial performance exhibits modest weakness.
- Composite "3" – enterprise raises some degree of supervisory concern in one or more of the component areas, with weaknesses that range from moderate to severe.

Prior to receiving the OTS' letter, the Firm had not yet been informed that OTS had assigned LBHI any numerical ratings under the rating system. The Firm's expectation had been that numerical ratings would be assigned at the end of the year after a full year of OTS' new continuous supervision program and the conclusion of the 2008 OTS examination of LBHI. The Firm will work closely with OTS to determine specific areas of concern as well as what might be done to address them. There is no specific action required of the Board by this notification.

Office of Thrift Supervision
Department of the Treasury
Northeast Region
Harborside Financial Center Plaza Five, Suite 1600, Jersey City, NJ 07311
Telephone: (201) 413-1000 • Fax (201) 413-7543

June 17, 2008 OTS No.: H-3463

The Board of Directors
Attn: Mr. Richard S. Fuld, Jr.
Chairman and Chief Executive Officer
Lehman Brothers Holdings Inc.
745 Seventh Avenue
New York, New York 10019

Members of the Board:

This letter is to advise you that based on the findings of the OTS continuous supervision program, including quarterly monitoring of financial condition and risk management at Lehman Brothers Holdings, Inc. ("LBHI" or the "Company"), the Company's Composite rating has been downgraded from "2" to "3." The CORE ("Capital, Organizational Structure, Risk Management, and Earnings (with an assessment of liquidity included as part of Earnings)" component ratings have also been revised from "2-2-2-2" and are now "2-3-3-3" reflecting downgrades to the Organizational Structure, Risk Management and Earnings components. It should be noted that although the liquidity position of the Company remains sound, the poor earnings performance must be properly reflected in that component.

These rating changes reflect deterioration noted in the Company's financial condition and risk management function which have continued into the second quarter of 2008. OTS noted high levels of concentrations in residential, commercial and leveraged loans and real estate investments contained in less liquid and illiquid Level 2 and Level 3 assets, respectively. The level of non-performing loans is large, particularly in the United States and in Japan. Large real estate investments in the U.S., Europe and Asia are significant additions to illiquid assets whose values have shown significant deterioration over the past two quarters and with uncertainly as to future valuation adjustments. Although there has been better price discovery during the second quarter, the values of these assets continue to be characterized by an above average amount of credit and market risk. In connection with these concerns, OTS has noted the failure of the risk management function to properly assess the risks and concentrations in LBHI's structured credit products, whole loans and real estate positions.

Furthermore, the Company's financial performance over the past four quarters has deteriorated culminating with a $2.8 billion loss in the second fiscal quarter of 2008. Large write-downs and other losses were taken, particularly in the first half of fiscal 2008 and additional valuation adjustments and losses may be required in the future. In addition, there is a lack of more favorable earnings visibility over the foreseeable future due to the moribund structured credit market, an important source of earning performance in the past.

While we recognize that positive actions have been taken regarding recognition of the lower valuations of certain of your asset classes and the strength of many of the Company's products and services in Capital Markets, Investment Banking and Investment Management, the current earnings performance and uncertain forward earnings visibility have made the downgrades necessary at this time.

If you have any questions, please contact me at (201) 413-7329 or Field Manager Michael Russo at (201) 413-7530.

Very truly yours,

Joseph J. Donohue
Assistant Director