

# **SECOND QUARTER 2008 COMPENSATION EXPENSE**

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

**June 11, 2008**

## FIRM PERFORMANCE THROUGH FIRST HALF OF 2008

- We are currently projecting 2008 to be the worst compensation year for the Firm since it went public in 1994, with revenues in the range of \$10.5 to \$12.5 billion for the year, down 35% to 45% from 2007.
- While it is appropriate for employees to be paid in line with the Firm's overall performance, it is important to understand that, excluding write-downs of certain assets on the Firm's balance sheet, revenues would likely be down a more modest 15% to 20%.

	<b>Q1 2008</b>	<b>Projected Q2 2008</b>	<b>Projected 1H 2008</b>	<b>1H 2007</b>	<b>% Change</b>
Net Revenues (before write-down)	\$ 5,307	\$ 3,400	\$ 8,707	\$ 10,559	-18%
Write-down	(1,800)	(3,800)	(5,600)	-	n/a
Net Revenues (after write-down)	3,507	(400)	3,107	10,559	-71%

- Despite the write-downs, certain businesses (Investment Management, Investment Banking) have nonetheless performed well, and we will need to be sure to pay in line with the market to protect our franchise.

	<b>Q1 2008</b>	<b>Projected Q2 2008</b>	<b>% Change</b>
Equities	\$ 1,410	\$ 640	-55%
Fixed Income	262	(2,735)	-1,144%
Investment Banking	867	865	0%
Investment Management	968	830	-14%
Net Revenues	3,507	(400)	-111%

## FIXED COMPENSATION AND BENEFITS EXPENSE

- Even before the Firm accrues for any discretionary bonus, fixed compensation expense is still expected to be approximately \$3.6 billion for the first half of 2008 and \$6.8 billion for the full year.
  - Estimated “run-rate” expense for the second half is projected to be about 12% lower than first half due to the impact of 2<sup>nd</sup> quarter headcount reductions.

	<u>Q1 2008</u>	<u>Projected Q2 2008</u>	<u>Projected 1H 2008</u>	<u>Projected 2H 2008</u>	<u>Projected FY 2008</u>
Salary	\$ 697	\$ 656	\$ 1,353	\$ 1,221	\$ 2,574
Production Compensation	123	110	232	252	484
Benefits	465	434	899	715	1,613
Prior Year Equity Amortization	374	411	785	728	1,513
<u>Fixed Bonus</u>					
Bonus Guarantees	37	69	106	106	212
Production-Based Bonus <sup>1</sup>	80	79	159	145	303
Mid-Year Analyst Bonus	-	101	101	17	118
<b>Total Fixed Comp. &amp; Benefits</b>	<b>1,775</b>	<b>1,859</b>	<b>3,634</b>	<b>3,183</b>	<b>6,816</b>

<sup>1</sup> Includes production-based bonus for asset management, proprietary trading, and principal investing employees.

## PRELIMINARY % CHANGE IN NGNNH COMPENSATION FOR 2008

- Current preliminary market indications from MG Management Consulting suggest that pay for the leading investment banks is likely to be down about 25% to 30% overall from 2007.<sup>1</sup>
- We recommend targeting a reduction in pay for NGNNH employees of 30% for 2008, in line with current market projections. Projected change by corporate title and business line is shown below:

	<u>Front Office</u>	<u>Corporate</u>	<u>Overall</u>
MD	-44%	-44%	-44%
SVP	-34%	-30%	-33%
VP	-22%	-15%	-19%
Non-Titled	-11%	-10%	-10%
Overall	-34%	-20%	-30%

- We feel it would be difficult to reduce pay below this level and still retain the franchise.
- This level of pay will require approximately \$1.5 billion in discretionary compensation for 2008 which, in addition to the fixed compensation and benefits expense of \$6.8 billion, would mean a projected total compensation and benefits expense for 2008 of approximately \$8.3 billion.

<sup>1</sup> Per telephonic meeting conducted on May 30.

## COMPENSATION EXPENSE FOR 2<sup>nd</sup> Quarter 2008

- We recommend total compensation and benefits expense for the 2<sup>nd</sup> quarter of \$2.3 billion (approx. \$4.2 billion for the first half), to provide for approximately half of the projected compensation and benefits expense of \$8.3 billion needed to ensure employees are paid down 30% for 2008.
- The following chart shows estimated C&B ratio for the first half of 2008, along with projections for the second half at projected net revenues of \$10.5 to \$12.5 billion for 2008.

<i>\$ Millions</i>	<b>\$10.5bb</b>				<b>\$11.5bb</b>				<b>\$12.5bb</b>			
	Projected Q2 2008	Projected 1H 2008	Projected 2H 2008	Projected FY 2008	Projected Q2 2008	Projected 1H 2008	Projected 2H 2008	Projected FY 2008	Projected Q2 2008	Projected 1H 2008	Projected 2H 2008	Projected FY 2008
2008 Revenue Scenario	\$ (400)	\$ 3,107	\$ 7,393	\$ 10,500	\$ (400)	\$ 3,107	\$ 8,393	\$ 11,500	\$ (400)	\$ 3,107	\$ 9,393	\$ 12,500
Total Fixed Comp. & Benefits	1,859	3,634	3,183	6,816	1,859	3,634	3,183	6,816	1,859	3,634	3,183	6,816
Discretionary Bonus	466	531	983	1,514	466	531	983	1,514	466	531	983	1,514
<b>Total Comp. &amp; Benefits</b>	<b>2,324</b>	<b>4,165</b>	<b>4,165</b>	<b>8,330</b>	<b>2,324</b>	<b>4,165</b>	<b>4,165</b>	<b>8,330</b>	<b>2,324</b>	<b>4,165</b>	<b>4,165</b>	<b>8,330</b>
<i>C&amp;B Ratio</i>	<i>n/a</i>	<i>134.1%</i>	<i>56.3%</i>	<i>79.3%</i>	<i>n/a</i>	<i>134.1%</i>	<i>49.6%</i>	<i>72.4%</i>	<i>n/a</i>	<i>134.1%</i>	<i>44.3%</i>	<i>66.6%</i>

- As in prior years, the actual compensation and benefits expense for the full year will be determined in consultation with the Committee during the fourth quarter of 2008.
- The chart on the following page details projected select financials for the second quarter and first half of 2008.

## PROJECTED FINANCIALS

- With an estimated compensation and benefits expense of \$2.3 billion for the 2<sup>nd</sup> quarter, projected financial results for the second quarter and first half of 2008 are shown below:

	<u>Q1 2008</u>	<u>Projected Q2 2008</u>	<u>Projected 1H 2008</u>
Net Revenues	\$ 3,507	\$ (400)	\$ 3,107
Compensation and Benefits	1,841	2,324	4,165
Non-Personnel Expense	1,003	1,138	2,141
Pre-Tax Income	663	(3,862)	(3,199)
Provision for Income Taxes	174	(1,043)	(869)
Net Income	489	(2,819)	(2,330)
Preferred Dividends	24	98	122
Net Income Applicable to Common Stock	465	(2,917)	(2,452)
Diluted EPS Shares	572.8	571.7	
Diluted EPS	\$0.81	(\$5.10)	