

May 15, 2007

Lehman Brothers Holdings Inc.  
Attention: Mr. Christopher O'Meara

Dear Mr. O'Meara:

1. This will confirm the engagement of Ernst & Young LLP ("we", "us", or "E&Y") by the Audit Committee of Lehman Brothers Holdings Inc. (the "Company") to perform an audit of the Company's financial statements and its internal control over financial reporting (referred to hereinafter as the "integrated audit") as well as additional audits listed in Appendix I. As part of the integrated audit, we will audit and report on the consolidated financial statements of the Company for the year ended November 30, 2007 (the "audit of the financial statements"). In connection with our audit of the consolidated financial statements of the Company, we will review the Company's unaudited interim financial information before the Company files its quarterly reports on Form 10-Q and we will issue a report to the Audit Committee that provides negative assurance as to conformity with U.S. generally accepted accounting principles. We also will audit and report on management's assessment of the effectiveness of the Company's internal control over financial reporting and on the effectiveness of internal control over financial reporting as of November 30, 2007 (the "audit of internal control"). All of the services described in this paragraph may hereafter be referred to as either "Audit Service" or "Audit Services."

#### **Integrated Audit Responsibilities and Limitations**

2. The objective of our audit of the consolidated financial statements is to express an opinion on whether the consolidated financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The objectives of our audit of internal control are to express an opinion on (1) whether management's assessment of the effectiveness of internal control over financial reporting is fairly stated, in all material respects, based on suitable control criteria, and (2) the effectiveness of internal control over financial reporting. Should conditions not now anticipated preclude us from completing either our audit of the financial statements or our audit of internal control and issuing our reports thereon, we will advise the Audit Committee and management promptly and take such action as we deem appropriate.
3. We will conduct our integrated audit in accordance with the standards of the Public Company Accounting Oversight Board (the "PCAOB"). Those standards require that we obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatement, whether caused by error or fraud, and that the Company maintained, in all material respects, effective internal control over financial reporting as of the date specified in management's assessment. As the Company is aware, there are inherent limitations in the audit process, including, for example, selective testing and the

possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts. Accordingly, there is some risk that a material misstatement of the financial statements or a material weakness in internal control over financial reporting would remain undetected. Also, an audit of the financial statements is not designed to detect error or fraud that is immaterial to the consolidated financial statements. Similarly, an audit of internal control is not designed to detect deficiencies in internal control over financial reporting that, individually or in combination, are less severe than a material weakness.

4. We will consider the Company's internal control over financial reporting in determining the nature, timing, and extent of our audit procedures for the purpose of expressing our opinion on: (1) the consolidated financial statements; (2) management's assessment of the effectiveness of internal control over financial reporting; and (3) the effectiveness of internal control over financial reporting. Our report on item (2) above relates to whether management's assessment process, including documentation, provides a reasonable basis for its assessment. Our report on item (3) above relates to the effectiveness of the entity's internal control taken as a whole, and not to the effectiveness of each individual internal control component.
5. In accordance with the standards of the PCAOB, we will communicate certain matters related to the conduct and results of the audit to the Company's Audit Committee. Such matters include, when applicable, disagreements with management, whether or not resolved; serious difficulties encountered in performing the audit; our level of responsibility under PCAOB auditing standards for the financial statements, for internal control, and for other information in documents containing the audited financial statements; unadjusted audit differences that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole; changes in the Company's significant accounting policies and methods for accounting for significant unusual transactions or for controversial or emerging areas; our judgments about the quality of the Company's accounting principles; our basis for conclusions as to sensitive accounting estimates; and management's consultations, if any, with other accountants.
6. In accordance with the rules of the Securities and Exchange Commission (the "SEC") implementing the requirements of Section 204 of the Sarbanes-Oxley Act of 2002, we will communicate to the Audit Committee all critical accounting policies and practices used by the Company, and all alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments along with the treatment preferred by us. We also will advise the Audit Committee of other material written communications between management and us.
7. We will obtain pre-approval from the Company's Audit Committee for any services we are to provide to the Company pursuant to the Audit Committee's pre-approval process, policies, and procedures. We also will communicate annually with the Audit Committee on independence matters as required by the independence standards of the PCAOB. We will communicate annually with the Audit Committee and provide a report on certain matters as specified in the Final Corporate Governance Rules of the New York Stock Exchange. We

will inform the Chair of the Audit Committee and management if the Audit Services are selected for inspection by the PCAOB and also will communicate any information of which we become aware as a result of such inspection that has a material effect on the financial statements previously reported on by us or that could result in a significant modification to an audit report previously issued by us. Upon your request, we will provide the Audit Committee and the Company with a copy of any publicly available inspection reports on E&Y issued by the PCAOB, but we will not provide any confidential inspection reports issued by the PCAOB to E&Y, the confidentiality of which is provided for in the Sarbanes-Oxley Act of 2002 and the PCAOB's inspection rules.

8. We will conduct our audit in accordance with auditing standards generally accepted in the United States and when applicable the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "HUD Guide"). The scope of our audit and the contents of the various financial reports will meet the requirements of the HUD Guide. Those standards require that we obtain reasonable, rather than absolute, assurance that the consolidated financial statements are free of material misstatement, whether caused by error or fraud. As you are aware, there are inherent limitations in the audit process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material error, fraud, and illegal acts.
9. If we determine that there is evidence that fraud or possible illegal acts may have occurred, we will bring such matters to the attention of an appropriate level of management. If we become aware of fraud involving senior management or fraud (whether by senior management or other employees) that causes a material misstatement of the consolidated financial statements, we will report this matter directly to the Audit Committee. We will ensure that the Audit Committee is adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. In addition, we will inform the Audit Committee and appropriate members of management of significant audit adjustments noted during our audit procedures.
10. We will also ensure that all significant deficiencies and material weaknesses in internal control over financial reporting that we identify during the course of our integrated audit are communicated in writing to management and the Audit Committee. The identification of a material weakness that remains uncorrected as of the date of management's assessment will cause us to express an adverse opinion on the effectiveness of the Company's internal control over financial reporting. We also will communicate to management in writing all internal control deficiencies (that is, those deficiencies in internal control over financial reporting that are of a lesser magnitude than significant deficiencies) identified during the integrated audit and not previously communicated by us or by others. We also will communicate to the Board of Directors the existence of any significant deficiency or material weakness as a result of ineffective oversight by the Audit Committee of the Company's external financial reporting and internal control over financial reporting.

### **Reviews of Unaudited Interim Financial Information**

11. Our review of the Company's unaudited interim financial information will be performed in accordance with relevant PCAOB auditing standards.
12. A review of interim financial information consists principally of performing analytical procedures and making inquiries of management responsible for financial and accounting matters. It involves a review of the condensed financial information included in the filing on Form 10-Q and does not include any earlier earnings releases or other such communications. A review is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we will not express an opinion on the interim financial information.
13. A review includes obtaining sufficient knowledge of the entity's business and its internal control as it relates to the preparation of both annual and interim financial information to identify the types of potential material misstatements in the interim financial information and consider the likelihood of their occurrence; and select the inquiries and analytical procedures that will provide us with a basis for communicating whether we are aware of any material modifications that should be made to the interim financial information for it to conform with U.S. generally accepted accounting principles.
14. A review is not designed to provide assurance on internal control or to identify significant deficiencies. However, we will communicate to the Audit Committee any significant deficiencies noted during our review procedures.
15. If, during our review procedures, we determine that there is evidence that fraud or possible illegal acts may have occurred, we will bring such matters to the attention of the appropriate level of management. If we become aware of fraud involving senior management or fraud (whether caused by senior management or other employees) that causes a material misstatement of the interim financial information, we will report this matter directly to the Audit Committee. We will ensure that the Audit Committee is adequately informed of illegal acts that come to our attention unless they are clearly inconsequential. We also will inform the Audit Committee and appropriate members of management of significant unadjusted differences noted during our review procedures.

### **Management's Responsibilities and Representations**

16. The consolidated financial statements, unaudited interim financial information, and management's assessment of the effectiveness of internal control over financial reporting are the responsibility of the Company's management. Management is responsible for establishing and maintaining effective internal control over financial reporting, for properly recording transactions in the accounting records, for safeguarding assets, and for the overall fair presentation of the consolidated financial statements and unaudited interim financial information. Management of the Company is also responsible for the identification of, and for the Company's compliance with, laws and regulations applicable to its activities.

17. Management is responsible for adjusting the consolidated financial statements and unaudited interim financial information to correct material misstatements and for affirming to us in its representation letter that the effects of any unadjusted differences accumulated by us during the applicable Audit Service and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated financial statements and unaudited interim financial information taken as a whole.
18. Management is responsible for apprising us of all allegations involving financial improprieties received by management or the Audit Committee (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), and providing us full access to these allegations and any internal investigations of them, on a timely basis. Allegations of financial improprieties include allegations of manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading us, or other allegations of illegal acts or fraud that could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Company. If the Company limits the information otherwise available to us under this paragraph (based on the Company's claims of attorney/client privilege, work product doctrine, or otherwise), the Company will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of our Audit Services and may prevent us from opining on the Company's financial statements or internal control over financial reporting; alter the form of report we may issue on such financial statements or internal control over financial reporting; prevent us from consenting to the inclusion of previously issued auditor's reports in future Company filings or otherwise affect our ability to continue as the Company's independent registered public accounting firm. The Company and we will disclose any such withholding of information to the Audit Committee.
19. Management is responsible for evaluating the effectiveness of the Company's internal control over financial reporting using suitable control criteria and for supporting its assessment with sufficient evidence, including documentation. Management also is responsible for presenting a written assessment of the effectiveness of the Company's internal control over financial reporting as of the end of the Company's most recent fiscal year. In connection with its assessment of internal control over financial reporting, management will affirm to us in its representation letter that it has: (1) disclosed to us all significant deficiencies in the design or operation of internal control over financial reporting, and (2) identified those that it believes to be material weaknesses.
20. As required by PCAOB auditing standards, we will make specific inquiries of management about the representations contained in the consolidated financial statements and unaudited interim financial information and management's assessment of the effectiveness of internal control over financial reporting. Those standards also require that, at the conclusion of the applicable Audit Service, we obtain representation letters from certain members of management about these matters. The responses to those inquiries, the written

representations, and the results of our procedures comprise the evidential matter we will rely upon in completing the applicable Audit Service. Management is responsible for providing us with all financial records and related information and making available to us all internal control documentation and records necessary to complete our Audit Services on a timely basis. Management's failure to do so may cause us to delay our reports, as applicable, modify our procedures, or even terminate our engagement.

21. Management agrees to cause all of the Company's consolidated foreign subsidiaries and affiliates to provide any authorization, to the fullest extent permissible under applicable law, necessary to permit compliance by an Auditor with requests from the SEC or the PCAOB for production of Audit Documents. In addition, the Company hereby waives, to the fullest extent permissible under applicable law, the rights provided under any laws, regulations, professional standards, or other provisions that might restrict the ability of any Auditor to comply with requests by the SEC or the PCAOB for production of Audit Documents and consents, to the fullest extent permissible under applicable law, to action taken in furtherance of the foregoing by any Auditor. For purposes of this Section 21, "Auditor" means E&Y or a foreign public accounting firm or associated person participating in the Audit Services. For purposes of this Section 21, "Audit Documents" means documents or information in an Auditor's possession, custody or control that was obtained in the conduct of the Audit Services by the Auditor.
22. Management of the Company is responsible for the Company's process for surveying officers and directors, and for requesting that persons known by the Company to be the beneficial owners of more than 5% of the Company's common stock ("substantial stockholders"), officers, and directors disclose matters to the Company for communication to E&Y regarding the nature of any direct or material indirect business relationships (as such terms are defined in Regulation S-X) that the substantial stockholder, officer, or director, or any member of their immediate family (i.e., a person's spouse, spousal equivalent, and dependents), has with E&Y or any of its affiliates, or an ownership interest of five percent or more in, or situations where they serve as an officer or director of any Company (public or private) that has a direct or material indirect business relationship with E&Y or any of its affiliates. We will advise the Audit Committee and management if we become aware of any direct or material indirect business relationship that may relate to our performance of Audit Services for the Company.

#### **Fees and Billings**

23. Our fee estimate for fiscal 2007 services will be discussed at a later date. All additional services that management may engage Ernst & Young to perform must comply with the pre-approval policy for Independent Auditor Services. Our fees also will depend on the Company's documentation of internal control, the procedures the Company performs to support management's assertion of the effectiveness of internal control over financial reporting, and on the results of our examination procedures.
24. Our estimated fees and schedule of performance are based upon, among other things, our

preliminary review of the Company's records and the representations Company personnel have made to us, the Company's documentation of internal control over financial reporting, the procedures the Company performs to support management's assessment of the effectiveness of internal control over financial reporting, and the results of our audit procedures to date. They also are dependent upon the Company's personnel providing a reasonable level of assistance during our integrated audit. Should our assumptions with respect to these matters be incorrect or should the documentation of internal control, results of our procedures, condition of the records, degree of cooperation, extent of procedures performed by the Company to support management's assessment, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. In addition, fees for any special audit-related projects, such as the issuance of financial statements for certain subsidiaries, proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fees referred to above and may be the subject of written arrangements supplemental to those in this letter.

25. In the event we are requested or authorized by the Company or are required by government regulation, subpoena, or other legal process to produce our documents or our personnel as witnesses with respect to our engagements for the Company, the Company will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expenses, as well as the fees and expenses of our counsel, incurred in responding to such requests.

#### **Other Matters**

26. We also will perform Audit Services that have been pre-approved by the Audit Committee and opine on separate audit reports for the Company and its consolidated subsidiaries as described at Appendix I.
27. From time to time, and depending upon the circumstances, personnel from any affiliate of E&Y, any other member of the global Ernst & Young network or any of their respective affiliates other than E&Y, and from independent third-party service providers (including independent contractors), may participate in providing the Audit Services.
28. The Secretary of Housing and Urban Development, the HUD Inspector General, and the General Accounting Office or their representatives will be permitted access to the relevant audit working papers or other documents in the event that they elect to perform a review of our audit procedures. In connection with their review of the working papers, we will make photocopies of the working papers, if so requested.
29. The Company shall not, during the term of the Agreement and for 12 months following its termination for any reason, solicit for employment, or hire, any E&Y personnel involved in the performance of the Audit Services; provided that the Company shall not breach its obligation hereunder by generally advertising available positions or hiring E&Y personnel who either respond to such advertisements or come to the Company on their own initiative.

without direct or indirect encouragement from the Company.

30. In addition, the Company shall not, without the prior written consent of E&Y, solicit for employment or for a position on its Board of Directors, or hire, any current or former partner, principal, or professional employee of E&Y, any affiliate thereof, or any other member of the global Ernst & Young network or any of their respective affiliates, a) if such partner, principal, or professional employee has been involved in the performance of any audit, review, or attest service for or relating to the Company at any time since the date of filing of the Company's most recent periodic annual report with the SEC (or, if the Company has not previously filed such a report, since the beginning of the most recent fiscal year to be covered by the Company's first such report) or in the 12 months preceding that date and b) unless such partner, principal, or professional employee does not influence E&Y's operations or financial policies and has no capital balances or any other financial arrangement with E&Y.
31. By your signature below, you confirm that the Company, through its Board of Directors, has authorized the Audit Committee to enter into this agreement with us on the Company's behalf and that you have been authorized by the Audit Committee to execute this agreement.
32. Subject to the provisions of Section 21, in the event that a party (the "Requested Party") is required by law or governmental regulation (by oral questions, interrogatories, requests for information or documents subpoena, civil investigative demand or similar process) to disclose any confidential information the Requested Party shall provide the other party with prompt notice of such request(s), to the extent permitted by applicable law or regulation, so that such party may seek an appropriate protective order and/or waive the Requested Party's compliance with the provisions in this engagement letter and will cooperate with such party in protecting the confidential or proprietary nature of the information which must be so disclosed. It is further agreed that if, in the absence of a protective order or the receipt of a waiver hereunder, the Requested Party is nonetheless, in the opinion of its counsel (who may be its employee), compelled to disclose any confidential information, it may disclose such information without liability hereunder, provided that it shall exercise commercially reasonable efforts to obtain assurance from the recipient that confidential treatment will be accorded such information.
33. Except for claims seeking exclusively non-monetary or equitable relief, any controversy or claim arising out of or relating to services covered by this letter or hereafter provided by us for the Company or at its request (including any such matter involving any parent, subsidiary, affiliate, successor in interest, or agent of the Company or of E&Y, or involving any person or entity for whose benefit the services in question are or were provided), shall be submitted first to voluntary mediation, and if mediation is not successful, then to binding arbitration, in accordance with the dispute resolution procedures set forth in Schedule I to this letter. Judgment on any arbitration award may be entered in any court having jurisdiction.
34. If any portion of this letter is held to be void, invalid, or otherwise unenforceable, in whole

or part, the remaining portions of this letter shall remain in effect.

We will perform the Audit Services described herein for each of the Company's subsequent fiscal years based on the terms and conditions set forth in this agreement until either the Audit Committee or E&Y terminates the agreement. Changes in the scope of our Audit Services and estimated fees for such services in subsequent fiscal years will be communicated in supplemental letters.

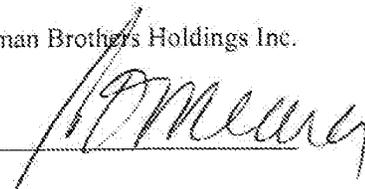
If these arrangements are acceptable, please sign one copy of this agreement and return it to us.

We very much appreciate the opportunity to serve as the Company's independent registered public accounting firm and would be pleased to furnish any additional information you may request concerning our responsibilities and functions. We trust that our association will be a long and mutually beneficial one.

Yours very truly,

*Ernst + Young LLP*

Lehman Brothers Holdings Inc.

By: 

Christopher O'Meara  
Chief Financial Officer

\_\_\_\_\_  
Date

## **Schedule I**

### **Dispute Resolution Procedures**

Except as otherwise expressly set forth therein, the following procedures shall be used to resolve any controversy or claim ("dispute") as provided in this engagement letter. If any of these provisions are determined to be invalid or unenforceable, the remaining provisions shall remain in effect and binding on the parties to the fullest extent permitted by law. Nothing in these procedures is intended to preclude either party from applying to any court of competent jurisdiction exclusively for non-monetary or equitable relief.

#### **Mediation**

A dispute shall be submitted to mediation by written notice to the other party or parties. The mediator shall be selected by agreement of the parties. If the parties cannot agree on a mediator, a mediator shall be designated by the CPR Institute for Dispute Resolution at the request of a party. Any mediator so designated must be acceptable to all parties.

The mediation shall be conducted as specified by the mediator and agreed upon by the parties. The parties agree to discuss their differences in good faith and to attempt, with facilitation by the mediator, to reach an amicable resolution of the dispute. The mediation shall be treated as a settlement discussion and therefore shall be confidential. The mediator may not testify for either party in any later proceeding relating to the dispute. No recording or transcript shall be made of the mediation proceedings.

Each party shall bear its own costs in the mediation. The fees and expenses of the mediator shall be shared equally by the parties.

#### **Arbitration**

If a dispute has not been resolved within 90 days after the written notice beginning the mediation process (or a longer period, if the parties agree to extend the mediation), the mediation shall terminate and the dispute shall be settled by arbitration. The arbitration will be conducted in accordance with the procedures in this document and the Rules for Non-Administered Arbitration of the CPR Institute for Dispute Resolution ("Rules") as in effect on the date of the engagement letter, or such other rules and procedures as the parties may designate by mutual agreement; provided, however, that any such rules and procedures shall (1) not serve to limit the liability of the parties, (2) apply equally to all parties, and (3) provide a fair process (e.g., neutral decision-makers and appropriate hearing procedures). In the event of a conflict, the provisions of this document will control.

The arbitration will be conducted before a panel of three arbitrators, two of whom are to be designated by the parties from the CPR Panels of Distinguished Neutrals using the screened selection process provided in the Rules. Any issue concerning the extent to which any dispute is

subject to arbitration, or concerning the applicability, interpretation, or enforceability of these procedures, including any contention that all or part of these procedures are invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. No potential arbitrator shall be appointed unless he or she has agreed in writing to abide and be bound by these procedures.

The arbitration panel shall have no power to award non-monetary or equitable relief of any sort or to make an award or impose a remedy that (1) is inconsistent with the agreement to which these procedures are attached or any other agreement relevant to the dispute, or (2) could not be made or imposed by a court deciding the matter in the same jurisdiction.

Discovery shall be permitted in connection with the arbitration only in accordance with the Rules. All aspects of the arbitration shall be treated as confidential. The parties and the arbitration panel may disclose the existence, content or results of the arbitration only as provided in the Rules, to the extent required by law, or as the other parties, in good faith, shall agree. Before making any such disclosure, a party shall give written notice to all other parties and shall afford such parties a reasonable opportunity to protect their interests, except to the extent such disclosure is necessary for the disclosing party to comply with applicable law or regulatory requirements.

The result of the arbitration will be binding on the parties, and judgment on the arbitration award may be entered in any court having jurisdiction.

## Appendix I

### Consolidated Subsidiaries

Lehman Brothers Holdings Inc.	November 30, 2007
Lehman Brothers Inc.	November 30, 2007
Lehman Brothers Derivative Products Inc.	November 30, 2007
Lehman Brothers Financial Products Inc.	November 30, 2007
Lehman Brothers Commercial Corporation	November 30, 2007
Lehman Brothers OTC	November 30, 2007
Brasstown Mansfield I	December 31, 2007
Brasstown Entrada I	December 31, 2007
Wharf Re	December 31, 2007
Lehman Re Ltd.	December 31, 2007
NL Funding, L.P.	December 31, 2007
Neuberger Berman Management Inc.	November 30, 2007
Neuberger Berman, LLC	November 30, 2007
Lehman Brothers Trust Co. of Delaware	December 31, 2007
Lehman Brothers AIM Holdings LLC	December 31, 2007
Lehman Brothers Futures Asset Management Corp.	November 30, 2007
Lehman Brothers Management LLC	December 31, 2007
Lehman Brothers Bank	December 31, 2007
SFJV 2003-1, LLC	December 31, 2007
Long Point Funding Pty Limited	November 30, 2007
Pindar Funding Pty Limited	November 30, 2007
Lehman Brothers Trust Company, N.A.	December 31, 2007
Lehman Brothers Inc. – Puerto Rico Branch	December 31, 2007
Lehman Brothers Commercial Bank	December 31, 2007
Ivanhoe Lane Pty Limited	November 30, 2007
Serafino Investments Pty Limited	November 30, 2007

### Other Audits

The Lehman Brothers Foundation	December 31, 2007
Lehman Brothers 401(K) Plan	December 31, 2007
Lehman Brothers Pension Plan	December 31, 2007
Lehman Brothers U.K. Pension Plans	December 31, 2007
Lehman Brothers Holdings E-Capital LLC I	December 31, 2007
Lehman Brothers Holdings E-Capital Trust I	December 31, 2007