LEHMAN BROTHERS HOLDINGS INC.
Minutes of the Board of Directors
July 22, 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 12:15 p.m. on July 22, 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 *(via telephone)*
Mr. Richard S. Fuld, Jr.
Sir Christopher Gent *(via telephone)*
Mr. Jerry A. Grundhofer *(via telephone)*
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

APPROVAL OF MINUTES

The first order of business was the approval of the Minutes of the Board of Directors meetings held on June 11, 2008, June 19, 2008, July 13, 2008, and July 14, 2008. Upon motion duly made and seconded, it was unanimously

> **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.

REPORT OF THE AUDIT COMMITTEE

Mr. Cruikshank reported that the Audit Committee held a telephonic meeting on July 8, 2008. He stated that Mr. Martin Kelly, Global Financial Controller, reviewed the financial statements (including the notes thereto) and the Management's Discussion and Analysis of Financial Condition and Results of Operations to be contained in the Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2008. Mr. Cruikshank reported that Mr. Kelly also discussed the quarterly review meeting that Messrs. Fuld and Lowitt held with certain senior members of Firm management, certain officers who participated in the preparation of the 10-Q, and representatives of Ernst & Young and Simpson Thacher & Bartlett, to review the 10-Q, the Firm's internal control over financial reporting, disclosure controls and procedures, and the CEO and CFO certifications of the 10-Q.

Mr. Cruikshank stated that Mr. William Schlich of Ernst & Young discussed the Quarterly Review Report to the Audit Committee to be issued by Ernst & Young, including the review report letter to be included in the 10-Q. He stated that Mr. Schlich reported that Ernst & Young was not aware of any material modifications needed for the financial statements to be in conformity with GAAP, nor were they aware of any material weaknesses in internal controls. Mr. Cruikshank described that the Committee performed its annual review of compliance with its Committee charter, and that no issues or deficiencies were noted.

Mr. Cruikshank reported that the Committee also held a meeting earlier that day. He discussed that the Committee was presented with a review of the Firm's asset valuation process, including a review of the functions performed by the Valuation Control Group and a review of second quarter mark-to-market adjustments, market events and sales activity. Mr. Cruikshank reported that the Committee also received a presentation on the results of the investigation and control review related to the valuation discrepancy in the European Equities Volatility business identified during the first quarter. He indicated that improvements need to be completed to prevent a material weakness in internal controls. The Board directed questions to Mr. Cruikshank and management regarding the timing for implementation of these improvements. Mr. Cruikshank stated that the Committee reviewed the results of the investigation arising from the 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 reported that the questions raised by the employee have been thoroughly investigated and that no significant internal control improvements are needed.

REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE

Mr. Akers reported that the Compensation and Benefits Committee held a telephonic meeting on July 1, 2008. He reported that the Committee granted a mid-year restricted stock unit ("RSU") award as an "advance" on year-end 2008 awards for all employees, excluding the named Executive Officers and Executive Committee members.

He noted that the Firm awarded an off-cycle advance previously in times of adverse market conditions (in 1998 and 2001), and that in both cases there was a positive outcome for employees. Mr. Akers described that the Committee's reasons for awarding the equity advance were that it will send a strong signal that the Firm is optimistic about its future and believes in the upside potential of the stock price, and that it will help to retain employees by granting them additional equity. Mr. Akers described that this equity award advance vests annually in one-third increments starting on November 30, 2009, and that the amount of the equity award was based on 20% of the employee's 2007 equity award deferral, with the number of RSUs calculated using the closing price on July 1, the date that the Committee approved the awards. He reported that the total value of RSUs granted was approximately $340 million, representing approximately 16 million shares.

Mr. Akers next discussed special retention RSU awards granted to a select group of approximately 120 key employees. He described that these awards included grants to three new Executive Committee members, but that no retention awards were granted to named Executive Officers or existing Executive Committee members. He stated that the RSUs would vest and be delivered following three years after the grant date, or four years after the grant date in the case of the three new Executive Committee members. Mr. Akers reported that the total value of RSUs granted was approximately $200 million, representing approximately 10 million shares. He also reported that the Committee reinstated Mr. Michael Gelband, Global Head of Capital Markets, in the Firm's Supplemental Retirement Plan.

Mr. Akers reported that the Committee continued to discuss a potential personal loan to Mr. Joseph M. Gregory, and that the Committee had asked Mr. Russo to continue to work on this matter, with final documents to be reviewed by Mr. Akers. Mr. Akers reported that, as a related matter, the Committee authorized the liquidation of private equity interests held by Mr. Gregory and Mr. Fuld. Mr. Akers asked Mr. Russo to provide a report on these matters. Mr. Russo reported that the Firm had liquidated employee private equity interests for Mr. Gregory and Mr. Fuld for prices equal to their June 30, 2008 value. He stated that Mr. Gregory and Mr. Fuld had been paid $4.6 million and $3.9 million, respectively, and that since June 30, 2008 values were not yet available for some of the interests, there will be a true-up as soon as such values become available. He stated the proposed loan to Mr. Gregory will be collateralized by real estate holdings, and that final loan documents will be sent to Mr. Akers for review.

Mr. Akers reported that the Committee was briefed on a new class action lawsuit related to the Firm's 401(k) employee savings plan (the "Savings Plan"), which includes the Firm's Common Stock as an investment choice. He described that there are three separate cases filed, which will be consolidated into one case. Mr. Akers stated that the complaints are brought on behalf of a purported class of all participants of the Savings Plan between September 13, 2006 and the present whose accounts included investments in the Firm's Common Stock. He described that the Firm believes that it has a strong defense, since the Savings Plan requires that the Firm's Common Stock be an investment choice, and the Employee Benefits Plan Committee acted prudently in managing the

Savings Plan. Mr. Akers reported that Simpson Thacher & Bartlett is being retained in connection with this case, which will be coordinated with the existing 10b-5 non-disclosure class action litigation.

FINANCIAL UPDATE

Mr. Lowitt reviewed the Firm's financial results for the month of June 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 described the components of the June revenues in detail, including an analysis of net revenues by business unit and region showing the impact of principal portfolios and mark-to-market adjustments on the run-rate revenues of the business units and regions. He compared the June 2008 results to the May 2008 results and to the monthly average year-to-date, and he also compared 2008 and 2007 year-to-date results.

Mr. Lowitt presented an analysis of June run-rate revenues and income statement. He discussed revenue volatility and risk, including an analysis of distribution of June daily trading net revenues and VaR. Mr. Lowitt also discussed the Firm's liquidity pool and cash capital surplus, long term capital, balance sheet and leverage, and its long term capital roll-forward. He presented information regarding the Firm's client franchise, including analyses of the Firm's Capital Markets sales credits, prime broker balances by strategy, and assets under management. The Board directed questions to Mr. Lowitt and senior management regarding the Firm's hedging strategy, and regarding gross and net leverage ratios.

PRESENTATION ON LIQUIDITY

Mr. Lowitt presented an update to the Board of Directors regarding the Firm's liquidity. He stated that the Firm significantly increased its liquidity position during the fiscal second quarter, and that the Firm's liquidity position has remained stable in the third quarter-to-date, despite a challenging funding environment. Mr. Lowitt reported that the Firm has been working with the Federal Reserve and the Securities and Exchange Commission on developing a very severe short-term stress scenario. He described that the Firm ended the second quarter in its strongest liquidity position ever, with a record liquidity pool of $45 billion and record cash capital surplus of $15 billion. He reported that, in the second quarter, the Firm increased its repo overfunding from approximately $10 - $20 billion to $15 - $30 billion, it increased the average tenor of the repo book from 22 days to 35 days, and it grew term repo by 30% quarter-over-quarter to 58% of the non-traditional repo book. Mr. Lowitt described that the liquidity risk of the Firm's secured funding is well contained, and he presented an analysis of tri-party repo book collateral at the end of the second quarter. He also described that asset growth at the Firm's bank entities has strengthened the Firm's liquidity position.

Mr. Lowitt next discussed the third quarter-to-date. He described that the Firm's core liquidity (*i.e.*, liquidity less outstanding commercial paper) has remained stable over the period, and that cash capital surplus has remained stable in the $14 - $16 billion range. Mr. Lowitt stated that secured funding has remained very resilient, and he provided accompanying data regarding the Firm's non-government, non-agency repo book.

Mr. Lowitt presented information regarding the liquidity stress scenario developed by the Firm. He described the liquidity stress scenario assumptions used for the loss of secured and unsecured funding, and he noted that the assumptions used for the liquidity stress scenario are far more severe than what the Firm experienced during the week of March 17, 2008. He described that the purpose of the liquidity stress funding scenario is to model a severe liquidity event over the course of a month in which gross liquidity outflows total $55 billion due to a combination of certain circumstances. Mr. Lowitt discussed the assumptions used in the liquidity stress funding scenario regarding liquidity risk mitigants, which would leave the Firm with a $11 billion liquidity pool after one month following the severe liquidity event used in the scenario. Mr. Lowitt then presented an analysis of the overall impact of the liquidity stress funding scenario. The Board directed questions to Mr. Lowitt and senior management regarding the secured funding environment in the third quarter-to-date, the Firm's credit spreads and other matters.

<u>UPDATE ON STRATEGIC INITIATIVES AND INDEPENDENT ADVISOR PERSPECTIVES</u>

Mr. Fuld introduced the Update on Strategic Initiatives presentation and updated the Board of Directors on strategic discussions that had taken place since the last Board meeting with certain foreign and domestic potential partners. He summarized other possible strategic alternatives, including raising capital from private equity investors; going private; resizing the Firm through selling assets, spinning off to shareholders the commercial real estate business, and selling part or all of the Investment Management Division ("IMD"); and reducing or eliminating the Common Stock dividend. Mr. Fuld invited Mr. Hugh E. McGee III, Global Head of Investment Banking, Mr. Jeffrey L. Weiss, Global Head of the Financial Institutions Group, and Mr. Mark G. Shafir, Global Co-Head and Chairman of Mergers and Acquisitions, to join the meeting and give their presentation. He also invited Mr. Gary Parr, Deputy Chairman of Lazard Freres & Co., to join the meeting.

Mr. McGee commenced the presentation by summarizing the current situation. He discussed the ongoing pressure on the Firm's stock, the positive actions taken by the Firm to date, the feasibility of the Firm's business model, the Firm's liquidity outlook and counterparty risk, the Firm's client and employee risk, and the Firm's discussions to date with regulators and rating agencies. He described the rationale and current status of strategic alternatives considered by the Firm, which included maintaining the status quo, a strategic partnership, a sale to a strategic partner, a private buyout, financial holding

LBEX-AM 003870

company and depository funding strategies, and restructuring alternatives. Mr. McGee summarized the discussions that had taken place to date with potential strategic partners or buyers.

Mr. McGee discussed the alternative of the Firm going private in greater detail. He described the transactional rationale, the level of interest from investors, and the transaction considerations for this alternative. Mr. McGee next discussed restructuring alternatives. He described a proposed transaction in which the Firm would spin off the operations of its commercial real estate business to the Firm's stockholders. Mr. McGee stated that under the proposed structure, the Firm would distribute the commercial real estate business to stockholders as a special dividend and that, after the spin-off, the commercial real estate business would be an independent, publicly traded entity. He stated that the proposed spin-off, as currently contemplated, would be tax-free to the Firm and its stockholders. Mr. McGee described certain considerations and hurdles associated with the structuring of the proposed spin-off, including requirements to achieve deconsolidation. Mr. McGee also discussed the potential sale of part or all of IMD. He provided an overview of the IMD businesses. Mr. McGee next presented a summary timeline, which provided time frames through mid-September 2008 for the deliverables associated with pursuing a spin-off of the commercial real estate business, a sale of all or a part of IMD, and a capital raise.

The Board of Directors directed questions to management regarding the strategic alternatives described, including: maintaining the status quo; restructuring the Firm, strategic partnership, and sale; the timeline for any actions; other alternatives; the possible spin-off of the commercial real estate business, including the amount of equity required by Spinco, the business plan for Spinco, the obstacles and the timeline; the potential sale of all of part of IMD; and other matters.

Mr. Parr then commented. He described that the current market environment is one of great uncertainty and rapid change. Mr. Parr discussed that more losses are expected to flow through the financial system due to the fall in housing prices that has already occurred and is to come, the fact that the rating agencies are downgrading financial services companies without warning, and the fact that sudden and unexpected losses of funding have occurred to financial services companies. He described a spin-off of the commercial real estate business as a great idea which should be aggressively pursued. He noted that hurdles to the potential spin-off of the commercial real estate business will include accounting issues and third party funding, and he recommended that the Firm continue to pursue the other alternatives presented as well.

Messrs. McGee, Weiss, Shafir and Parr were excused from the meeting.

PRESENTATION ON RESIZING THE FIRM

Mr. McDade presented to the Board regarding resizing the Firm following a spin-off of the commercial real estate business, continued reduction of residential mortgages, and a sale of IMD. He discussed the Firm's overall approach in its consideration of the proposed restructuring, noting that it was important to size the Firm's financial leverage to maintain the Firm's "A" credit rating in order to maintain the value of the Firm's franchise. He described proposed headcount reductions associated with the restructuring and discussed the impact of the divestitures on the Firm's income statement, including revenues, expenses, net income and return on equity, and on net assets. He described proposed changes in the mix of sources of funding for net assets, including increased use of bank deposits and decreased use of repos. Mr. McDade concluded the presentation by summarizing the key issues associated with the proposed restructuring. The Board directed questions to management regarding the Firm's prospects following the potential restructuring, current market perceptions, and the precedents for spin-outs of distressed real estate assets. Following such discussion, the Board concluded that the Firm should pursue the proposed restructuring, but should pursue other alternatives as well. Ms. Evans left the meeting.

LEGAL UPDATE

Mr. Russo reported to the Board of Directors on the ERISA class action lawsuits discussed previously in the report of the Compensation and Benefits Committee.

PRIVATE SESSION

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

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

Respectfully submitted,

Jeffrey A. Welikson

Jeffrey A. Welikson
Secretary of the Meeting