

# LEHMAN BROTHERS

KAREN DENNEHY  
VICE PRESIDENT

December 9, 2005  
*Revised December 12, 2005*

Peter Keavey  
3 Adams Place  
Glen Ridge, NJ 07028

Dear Peter:

We are pleased to extend to you our offer of employment to join Lehman Brothers Inc. (the "Firm") as a Head of Flat Price Natural Gas Trading in the Energy Department in the Fixed Income Division, reporting initially to Brian Manson. Your title of Senior Vice President will be submitted for official approval by the Executive Committee of our Board of Directors as part of the next quarterly process. We expect your employment to commence on or about December 19, 2005.

For the performance year 2006 (your date of hire through November 30, 2006), your compensation will be as follows:

- Bi-weekly base salary of \$6,730.77, which is equivalent to \$175,000 per year.
- A minimum bonus in the amount of \$425,000, less applicable deductions, payable on or about January 31, 2007.

In addition to the above compensation, Lehman Brothers will make you a special payment of \$500,000. This special payment will be made on or about February 28, 2006. In the event that you resign or are terminated for cause prior to the date 2006 bonuses are paid, you will be required promptly to repay the full amount of this special payment. For purposes of the Firm's stock award program, this payment will not be considered part of your total compensation.

The foregoing salary will be paid for all periods of your active employment with the Firm in performance year 2006. The bonus set forth above will be paid at the time and in the amount stated except that it will not be payable if you have failed to obtain and/or maintain in good standing all applicable licenses and registrations or if, before the date of scheduled payment, you have resigned, or have been terminated from the Firm with cause. The above stated bonus amount may be ratably reduced in the event of an approved leave of absence during the applicable performance year. If you should die or become disabled before bonuses are paid for performance year 2006, your base salary payments will end (subject to salary continuation in the event of disability) and you or

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your estate will be paid a pro-rata portion of the guaranteed minimum bonus. All payments described in this letter will be subject to applicable payroll and income tax withholding and other applicable deductions.

Your compensation with respect to all periods following performance year 2006 will be determined at the Firm's discretion.

At the Firm's discretion, a portion of your total 2006 and future years' total compensation (combined base salary, bonus, and other compensation) will be payable in conditional equity awards (restricted stock units and/or other equity awards) pursuant to the Firm's employee equity award program as then in effect for employees at your level.

You will also be eligible to participate in our employee benefits program, which will be discussed with you during your orientation session.

Please understand that the terms and conditions of your employment by our Firm are governed by standard Firm policies. Among other things, this means that you must have and maintain in good standing all applicable licenses and registrations. If you are not registered at this time, we expect you to be registered at the earliest practical time, but in no event later than six (6) months following your date of employment. This also means that this offer of employment is contingent on the successful completion of a background investigation, as well as on your satisfactorily meeting all pre-employment requirements including passing a pre-employment drug screen and producing documentation to verify your identity and eligibility to work in the United States. Shortly, you will receive a memo indicating how to schedule pre-employment and complete any necessary paperwork. If you have any questions, please contact Kimmy Gardner at 212-526-8522.

While the aforementioned salary and bonus commitments will be honored (absent the above listed exceptions), this letter is not a contract of continuing employment. Employment is for no fixed term, and either you or the Firm may decide to terminate the employment relationship at any time for any reason. You will keep in strictest confidence the existence and terms of this letter and will not disclose this letter or its terms to anyone other than your spouse, attorney or accountant, without the Firm's consent. This letter will be binding on the Firm and its successors and assigns.

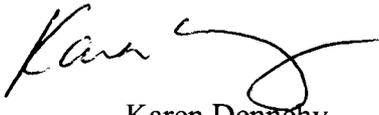
Peter, we are enthusiastic and pleased that you are going to be a part of our organization. If you agree with the terms outlined in this letter, please acknowledge same by signing this letter and returning it to Kimmy Gardner in the enclosed envelope. An additional copy of this letter is enclosed for your files.

**SIGNATURES APPEAR ON THE FOLLOWING PAGE.**

**LBEX-AM 017536**

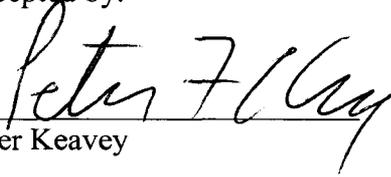
Peter Keavey  
December 9, 2005

Sincerely,



Karen Dennehy  
Vice President  
Fixed Income Human Resources

Accepted by:

  
Peter Keavey

12/14/05  
Date