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Business/Risk Factors/et al

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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LEHMAN BROTHERS HOLDINGS INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Lehman Brothers Holdings Inc. ("Holdings") and subsidiaries (collectively, the "Company," "the Firm," "Lehman Brothers," "we," "us" or "our") serves the financial needs of corporations, governments and municipalities, institutional clients and high net worth individuals worldwide with business activities organized in three segments, Capital Markets, Investment Banking and Investment Management. Founded in 1850, Lehman Brothers maintains market presence in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices in North America, Europe, the Middle East, Latin America and the Asia-Pacific region. We are a member of all principal securities and commodities exchanges in the U.S., and we hold memberships or associate memberships on several principal international securities and commodities exchanges, including the London, Tokyo, Hong Kong, Frankfurt, Paris, Milan and Australian stock exchanges.

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read together with the Consolidated Financial Statements and the Notes thereto contained in this Form 10-K. Unless specifically stated otherwise, all references to the years 2007, 2006 and 2005 in this MD&A refer to our fiscal years ended November 30, 2007, 2006 and 2005, or the last day of such fiscal years, as the context requires. All share and per share amounts have been retrospectively adjusted for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective April 28, 2006. For additional information, see "2-for-1 Stock Split" in this MD&A and Note 10, "Stockholders' Equity," to the Consolidated Financial Statements.

Forward-Looking Statements

Some of the statements contained in this MD&A, including those relating to our strategy and other statements that are predictive in nature, that depend on or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions, are forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended. These statements are not historical facts but instead represent only management's expectations, estimates and projections regarding future events. Similarly, these statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include, but are not limited to, market risk, investor sentiment, liquidity risk, credit ratings changes, credit exposure, operational, legal, regulatory and reputational risks. For further discussion of these risks, see "Certain Risk Factors Affecting Results of Operations" as well as "Risk Factors" in Part I, Item 1A of the Form 10-K.

As a global investment bank, the nature of our business makes predicting future performance difficult. Revenues and earnings may vary from quarter to quarter and from year to year. Caution should be used when extrapolating historical results to future periods. Our actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any such forward-looking statements and, accordingly, readers are cautioned not to place undue reliance on such statements, which speak only as of the date on which they are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview¹

Summary of Results

On the basis of a record first half and a reasonably successful navigation of difficult market conditions in the second half, we achieved our fourth consecutive year of record net revenues, net income and diluted earnings per common share in 2007. Net income totaled \$4.2 billion, \$4.0 billion and \$3.3 billion in 2007, 2006 and 2005, respectively, increasing 5% in 2007 and 23% in 2006 from the corresponding 2006 and 2005 periods, respectively. Diluted earnings per common share were \$7.26, \$6.81 and \$5.43 in 2007, 2006 and 2005, respectively, up 7% in 2007 and 25% in 2006 from the corresponding prior periods, respectively.²

2007 net revenues were \$19.3 billion, which exceeded the prior year record level by 10% and represents the fifth consecutive year of record net revenues in arguable the most challenging mortgage and credit markets experienced in almost a decade, particularly in the U.S. markets. Record net revenues were reported in each of our three business

¹ Market share, volume and ranking statistics in this MD&A were obtained from Thomson Financial.

² The 2006 results included an after-tax gain of \$47 million (\$0.08 per diluted common share) from the cumulative effect of an accounting change for equity-based compensation resulting from the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised), *Share-Based Payment* ("SFAS 123(R)"). For additional information, see Note 12, "Share-Based Employee Incentive Plans," to the Consolidated Financial Statements.

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segments and in two geographic segments, Europe and the Middle East and Asia-Pacific. Pre-tax margin for the 2007 fiscal year was 31.2%, compared to 33.6% and 33.0% reported in 2006 and 2005, respectively. Full year return on average common stockholders' equity¹ was 20.8%, 23.4% and 21.6% for 2007, 2006 and 2005, respectively. Return on average tangible common stockholders' equity was 25.7%, 29.1% and 27.8% in full years 2007, 2006 and 2005, respectively.

2007 vs. 2006. In 2007, Capital Markets segment net revenues increased 2% to a record \$12.3 billion from \$12.0 billion in 2006. Capital Markets—Equities, operating in a favorable environment of strong customer-driven activity and favorable global equities markets, reported net revenues of \$6.3 billion in 2007, a 76% increase from \$3.6 billion in 2006. These record results in the Equities component of our Capital Markets business segment were offset by a decrease in Capital Markets—Fixed Income's net revenues which declined 29% to \$6.0 billion in 2007 from \$8.4 billion in 2006. This decline corresponds to the deterioration throughout the fiscal year in the U.S. residential mortgage sector and the follow-on dislocation in the broader credit markets. Investment Banking segment net revenues increased 24% to \$3.9 billion in 2007 from \$3.2 billion in 2006, representing record Global Finance—Debt, Global Finance—Equity and Advisory Services revenues. These results reflect the significant progress made in building market share in the areas of mergers and acquisitions (“M&A”) and high yield offerings as well as the broader range of geographic and client bases. Investment Management segment net revenues increased 28% to \$3.1 billion in 2007 from \$2.4 billion in 2006, reflecting record net revenues in both Asset Management and Private Investment Management and our continued expansion of this business globally. For the fiscal year, assets under management (“AUM”) of \$282 billion increased 25% from 2006 largely from net inflows. Non-U.S. net revenues increased 49% to \$9.6 billion in 2007 from \$6.5 billion in 2006, representing 50% and 37% of total net revenues in the 2007 and 2006 periods, respectively.

2006 vs. 2005. Net revenues increased 20% in 2006 from 2005. Capital Markets segment net revenues increased 22% to \$12.0 billion in 2006 from \$9.8 billion in 2005. Capital Markets—Equities net revenues rose 44% to \$3.6 billion in 2006 from \$2.5 billion in 2005, driven by solid client-flow activity in the cash and prime broker businesses. Capital Markets—Fixed Income net revenues increased 15% to \$8.4 billion in 2006 from \$7.3 billion in 2005 due to broad-based strength across products and regions. Investment Banking segment net revenues increased 9% to \$3.2 billion in 2006 from \$2.9 billion in 2005, reflecting a business environment of strong corporate profitability and balance sheets as well as the availability of capital raising from financial sponsors. Investment Management segment net revenues increased 25% to \$2.4 billion in 2006 from \$1.9 billion in 2005, reflecting growth in alternative investment offerings and an increase in equity-related activity resulting from a change in asset allocations by investors. AUM increased 29% to \$225 billion from \$175 billion in 2006. Non-U.S. net revenues increased 21% to \$6.5 billion in 2006 from \$5.4 billion in 2005, representing 37% of total net revenues for both the 2006 and 2005 periods.

Though we generated record operating results in 2007, our business, by its nature, does not produce predictable earnings. Our results in any given period can be materially affected by conditions in global financial markets and economic conditions generally. For a further discussion of factors that may affect our future operating results, see “Certain Factors Affecting Results of Operations” below as well as “Risk Factors” in Part I, Item 1A on the Form 10-K. For a detailed discussion of results of operations by business segments and geographic regions, see “Business Segments” and “Geographic Revenues.”

¹ Return on average common stockholders' equity and return on average tangible common stockholders' equity are computed by dividing net income applicable to common stock for the period by average common stockholders' equity and average tangible common stockholders' equity, respectively. We believe average tangible common stockholders' equity is a meaningful measure because it reflects the common stockholders' equity deployed in our businesses. Average tangible common stockholders' equity equals average common stockholders' equity less average identifiable intangible assets and goodwill and is computed as follows:

In millions	Year Ended November 30,		
	2007	2006	2005
Net income applicable to common stock	\$ 4,125	\$ 3,941	\$ 3,191
Average stockholders' equity	\$20,910	\$17,971	\$15,936
Less: average preferred stock	(1,095)	(1,095)	(1,195)
Average common stockholders' equity	\$19,815	\$16,876	\$14,741
Less: average identifiable intangible assets and goodwill	(3,756)	(3,312)	(3,272)
Average tangible common stockholders' equity	\$16,059	\$13,564	\$11,469
Return on average common stockholders' equity	20.8%	23.4%	21.6%
Return on average tangible common stockholders' equity	25.7%	29.1%	27.8%

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Business Environment

As an investment banking, securities and investment management firm, our businesses are materially affected by conditions in the global financial markets and worldwide economic conditions. A favorable business environment is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent and theoretically efficient capital markets, low inflation, high business and investor confidence and strong business earnings. These factors provide a positive climate for our investment banking activities, for many of our trading businesses and for wealth creation, which contributes to growth in our asset management business. For a further discussion of how market conditions can affect our business, see "Certain Risk Factors Affecting Results of Operations" below as well as "Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K. A further discussion of the business environment in 2007 and economic outlook for 2008 is set forth below.

The global market environment was favorable for our businesses for the first half of the 2007 fiscal year. These favorable conditions resulted from a number of factors: strong equity markets, continued strong gross domestic product in most major economies, tightening credit spreads, minimal interest rate actions by major central banks, active trading volumes, and strong M&A and underwriting activities driven by favorable interest rate and credit spread environments. During the second half of the 2007 fiscal year, the global economy was impacted by two related factors: the U.S. housing recession became worse than most observers expected and the adversity within the subprime asset category caused credit market dislocations. Also and during the latter part of the 2007 fiscal year, risk aversion escalated as a result of rating agency downgrades of certain structured assets which caused large write-downs from asset re-pricings. A more serious downturn was mitigated by central bank interest rate and liquidity actions.

The global fixed income environment was characterized by spreads tightening in the first half of the year and, conversely, spreads widening in the second half of the year. Global high yield and high grade spread indices ended our fiscal year up 86 and 209 basis points compared to the end of our 2006 fiscal year. Global equity markets rose compared to the previous twelve months; however, many equity markets experienced high volatility in the second half of the year. Globally, corporate activity levels in completed and announced M&A were up compared to our last fiscal year. In addition, equity underwriting activity remained solid, particularly in convertibles; but debt underwriting activity declined, particularly in leveraged finance, during the second half of the 2007 fiscal year.

Global economic growth is expected to be comparatively lower than prior periods and is forecasted to be around 2.7% for calendar year 2008. This outlook is dependent on how extended and severe the credit dislocation may be; results from fiscal policy actions; accessibility of new sources of liquidity; and oil prices leveling or continuing to increase. The underpinnings of these growth assumptions also form our view on prospective Investment Banking activity. We expect M&A volumes to decline in 2008 by 20% as compared to 2007 and believe that strategic buyers will account for a larger proportion of overall deal volume, stock will become prominent in transactions and cross-border and international activity will continue to increase. If the anticipated higher volatility in global equity markets is realized in calendar 2008, we expect equity issuance will be down compared to 2007. We expect equity capital markets are anticipated to experience a 13% return in 2008 in local currency terms. Fixed income origination is expected to decline by approximately 8% in 2008 based upon lower components of securitizations and M&A financings. We expect fixed income capital markets are anticipated to continue to face uncertainties in the early part of the 2008 calendar year and are conservatively estimated to re-adjust in the second half of the year.

In the U.S., economic growth showed signs of strength at the beginning of our fiscal year, driven by higher net exports, but the pace of growth appeared to slow in the latter half. Over the twelve-month period, the U.S. housing market weakened, business confidence declined, and, in the last six months of the year, consumer confidence dropped. The labor market followed the same trajectory, showing signs of deterioration in the second half of the period as unemployment levels increased and payroll data showed some signs of weakness. Responding to concerns over liquidity in the financial markets and inflationary pressures, the U.S. Federal Reserve reduced its discount rate three times during the calendar year and most observers of the bank anticipate an additional reduction will occur in the early part of our 2008 fiscal year. Long-term bond yields declined, with the 10-year Treasury note yield ending our fiscal year down 52 basis points at 3.94%. Reflecting overall volatility in the equity markets, the S&P 500 Index, Dow Jones Industrial Average and NASDAQ composites were up 5.7%, 9.4%, and 9.4%, respectively, from November 2006 levels. The current, high levels of U.S. home inventories suggest that an extended period of construction declines housing price cuts will combine with tighter credit conditions to slowdown consumer spending. Those conditions as well as renewed stress in capital markets and increasing oil prices suggest there are impediments to increased regional economic growth, and we forecast U.S. growth to be 1.8% in 2008.

In Eurozone countries, economic growth continued although it was modest compared to the first half of our fiscal year. Business activity reflected a slight tapering at the end of the fiscal year. Unemployment levels declined and inflationary pressures appeared contained. The European Central Bank increased rates twice during our fiscal year and is forecasted to

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hold those levels through the early part of our 2008 fiscal year. The Bank of England increased rates three times during our fiscal year and a rate reduction is anticipated in the early part of our 2008 fiscal year. The Bund and Gilts 10-year bond yields were 4.13% and 4.64%, respectively, at the end of our 2007 fiscal year compared to 3.70% and 4.51%, respectively, at the end of our 2006 fiscal year. Equity indices for continental Europe and the U.K. were up compared to levels at the end of our 2006 fiscal year. Stresses in the banking system, particularly in the U.K., are causing bank credit conditions to tighten. We believe that those tighter financial conditions, lower anticipated world growth and a stronger Euro will combine to mitigate regional growth for our upcoming 2008 fiscal year.

In Japan and during our 2007 fiscal year, real gross domestic product growth decelerated, unemployment levels modestly decreased and deflation eased. The Bank of Japan increased its rates in our first quarter of 2007 and has held those rates for the remainder of our fiscal year and is anticipated to continue to do so into our 2008 fiscal year. The yield on the 10-year Japanese government bond fell to 1.48% at the end of our 2007 fiscal year. The Nikkei 225 equity index was 3.6% lower at the end of our fiscal year than its level at the end of our 2006 fiscal year. In response to stricter standards, building investment, both residential and non-residential, is decreasing and any recovery in the corporate sector during the period has yet to feed through to wages and consumption, increasing the risk of a recession. Elsewhere in Asia, equity markets broadly ended our fiscal year higher compared to the prior period. Effects from the region's dependency on exports and severe overcapacity may exacerbate in the global growth slowdown predicted for 2008.

Certain Factors Affecting Results of Operations

We are exposed to a variety of risks in the course of conducting our business operations. These risks, which are substantial and inherent in our businesses, include market, liquidity, credit, operational, legal and regulatory risks. A summary of some of the significant risks that could affect our financial condition and results of operations includes, but is not limited to the items below. For a discussion of how management seeks to manage these risks, see "Risk Management" in this MD&A. For a further discussion of these and other important factors that could affect our business, see "Risk Factors" in Part I, Item 1A in the Form 10-K.

Market Conditions and Market Risk

Global financial markets and economic conditions materially affect our businesses. Market conditions may change rapidly and without forewarning. We believe a favorable business environment for our businesses is generally characterized by, among other factors, high global gross domestic product growth, stable geopolitical conditions, transparent and theoretically efficient capital markets, low inflation, high business and investor confidence and strong business earnings. The converses of these factors, individually or in their aggregate, have resulted in or may result in unfavorable or uncertain market and economic conditions for our businesses. The effects on our businesses may include the following:

- We are exposed to potential changes in the value of financial instruments caused by fluctuations in interest rates, exchange rates, equity and commodity prices, credit spreads, asset valuations, overall market activity or other conditions. We may incur losses as a result of changes in market conditions, especially if the changes are rapid and without warning, as these fluctuations may adversely impact the valuation of our trading and inventory positions and principal investments.
- Market fluctuations and volatility may adversely impact the value of our large trading, specialist and investment positions, including our interest and credit products, currency, commodity and equity positions and our private equity investments and funds, or may reduce our or our customers' willingness to enter into new transactions. Conversely, certain of our trading businesses depend on market volatility to provide trading and arbitrage opportunities, and decreases in volatility may reduce these opportunities and adversely affect these businesses. Any change in volume of executed transactions impacts both our costs incurred and revenues received to execute those trades.
- Declines in the size and number of underwritings and M&A may have an adverse impact on our results of operations and, if we are unable to reduce expenses, our profit margins. An overall decrease in global markets' appetites for transactions may also impact our ability to syndicate, at original market value, various commitments we have made. Additionally, pricing and other competitive pressures, such as trends toward multiple book runners and co-managers handling transaction, may adversely effect revenues for our Investment Banking segment.
- Asset valuations of our clients' portfolios are impacted by changes in equity market conditions or interest rates. In turn, our fees for managing those portfolios are also affected. Changing market conditions may cause investors to change their allocations of investments in our funds or other products. Our asset management business operates in a highly competitive environment. Changes in our asset management business' performance could result in a

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decline in AUM and in incentive and management fees.

- Although we deploy various risk mitigation and risk monitoring techniques, they are subject to judgments as to the timing and duration of their application. Additionally, no risk management procedure can anticipate every market event and the existence of risk management in our businesses does not provide complete assurance against incurring losses. Increased market volatility directly impacts our measurement of risks. Increases to our measured risk may cause us to decrease our proprietary positions or certain business activities. In such circumstances, we may not be able to reduce our positions or our exposure in a timely, cost-effective way or in a manner sufficient to offset the increase in measured risk.

Liquidity Risk

Liquidity is essential to our businesses. Our liquidity could be impaired by an inability to access secured and/or unsecured debt markets, an inability to access funds from our subsidiaries, an inability to sell assets or unforeseen outflows of cash or collateral. This situation may arise due to circumstances that we are unable to control, such as a general market disruption or an operational problem that affects third parties or us. As we employ structured products to benefit our clients and ourselves, the financial instruments that we hold and the contracts to which we are a party are increasingly complex and these complex structured products often do not have readily available markets to access in times of liquidity stress. Growth of our proprietary investing activities could restrict liquidity for our positions. Further, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity and competitive position, increase our borrowing costs, limit our access to the capital markets or trigger provisions under certain bilateral provisions in some of our trading and collateralized financing contracts that could permit counterparties could be permitted to terminate contracts or require us to post additional collateral. Termination of our trading and collateralized financing contracts could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing or to make significant cash payments or securities movements.

Credit Risk

We are exposed to the potential for credit-related losses that can occur as a result of an individual, counterparty or issuer who owes us money, securities or other assets being unable or unwilling to honor its contractual obligations. We are also at risk that our rights against any individual, counterparty or issuer may not be enforceable in all circumstances. Additionally, deterioration in the credit quality of third parties whose securities or obligations we hold could result in losses or adversely affect our ability to otherwise use those securities or obligations for liquidity purposes. Due to competitive factors, the amount and duration of our credit exposures have been increasing over the past several years, as has the number of the entities to which we have credit exposures. Competition within our business has resulted in pressure to extend and price credit at levels that may not always fully compensate us for the risks we take. Although we regularly review credit exposures to specific clients and counterparties and to specific industries, countries and regions that we believe may present credit concerns, new business initiatives may cause us to transact with a broader array of clients, with new asset classes and in new markets.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal or outsourced processes, people, infrastructure and technology, or from external events. Our businesses are dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets. These transactions have become increasingly complex and often must adhere to requirements unique to each transaction, as well as legal and regulatory standards. Although contingency plans exist, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business.

Legal, Regulatory and Reputational Risk

The securities and financial services industries are subject to extensive regulation under both federal and state laws in the U.S. as well as under the laws of all of the other jurisdictions in which we do business. We are subject to regulation in the U.S. by governmental agencies including the SEC and Commodity Futures Trading Commission, and outside the U.S. by various international agencies including the Financial Services Authority in the United Kingdom and the Financial Services Agency in Japan. We also are regulated by a number of self-regulatory organizations such as the National Association of Securities Dealers ("NASD"), the Municipal Securities Rulemaking Board and the National Futures Association, and by national securities and commodities exchanges, including the New York Stock Exchange. In July 2007 and through the consolidation of NASD and the member regulation, enforcement and arbitration functions of the New York Stock Exchange, we became regulated by the Financial Industry Regulatory Authority. Violation of applicable regulations could

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result in legal and/or administrative proceedings, which may impose censures, fines, cease-and-desist orders or suspension of a firm, its officers or employees.

The scrutiny of the financial services industry has increased over the past several years, which has led to increased regulatory investigations and litigation against financial services firms. Legislation and rules adopted both in the U.S. and around the world have imposed substantial new or more stringent regulations, internal practices, capital requirements, procedures and controls and disclosure requirements in such areas as financial reporting, corporate governance, auditor independence, equity compensation plans, restrictions on the interaction between equity research analysts and investment banking employees and money laundering. The trend and scope of increased regulatory compliance requirements have increased costs.

Our reputation is critical in maintaining our relationships with clients, investors, regulators and the general public, and is a key focus in our risk management efforts. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by employees in the financial services industry, and we run the risk that misconduct by our employees could occur, resulting in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. In addition, in certain circumstances our reputation could be damaged by activities of our clients in which we participate, or of hedge funds or other entities in which we invest, over which we have little or no control.

Critical Accounting Policies and Estimates

The following is a summary of our critical accounting policies that may involve a higher degree of management judgment and in some instances complexity in application. For a further discussion of these and other accounting policies, see Note 1 "Summary of Significant Accounting Policies" to our Consolidated Financial Statements.

Use of Estimates

We make estimates in certain circumstances required by generally accepted accounting principles. Those estimates affect reported amounts and disclosures. In preparing our Consolidated Financial Statements and accompanying notes, management makes estimates in determining: fair value of financial instruments; valuation of identifiable intangible assets and goodwill; potential losses from litigation, regulatory proceedings and/or tax examinations; recognition of deferred taxes; and fair value of equity based compensation. Estimates incorporated into reported amounts may materially differ from actual results.

Consolidation Accounting Policies

We enter into various transactions with special purpose entities ("SPEs"). The assessment of whether accounting criteria for consolidation are met requires management to exercise judgment. We consolidate the entities in which the Company has a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first determining whether the entity is a voting interest entity (sometimes referred to as a non-VIE), a variable interest entity ("VIE") or a qualified special purpose entity ("QSPE").

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. In accordance with Accounting Research Bulletin No. 51, Consolidated Financial Statements and Statement of Financial Accounting Standards ("SFAS") No. 94, *Consolidation of All Majority-Owned Subsidiaries*, voting interest entities are consolidated when the Company has a controlling financial interest, typically more than 50 percent of an entity's voting interests.

Variable Interest Entity. VIEs are entities that lack one or more voting interest entity characteristics. The Company consolidates VIEs in which it is the primary beneficiary. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46-R, *Consolidation of Variable Interest Entities* ("FIN 46(R)"), we are the primary beneficiary if we have a variable interest, or a combination of variable interests, that will either (i) absorb a majority of the VIEs expected losses, (ii) receive a majority of the VIEs expected residual returns, or (iii) both. To determine if we are the primary beneficiary of a VIE, we review, among other factors, the VIE's design, capital structure, contractual terms, which interests create or absorb variability and related party relationships, if any. Additionally, we may calculate our share of the VIE's expected losses and expected residual returns based upon the VIE's contractual arrangements and/or our position in the VIE's capital structure. This type of analysis is typically performed using expected cash flows allocated to the expected losses and expected residual returns under various probability-weighted scenarios.

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Qualified Special Purpose Entity. QSPEs are passive entities with limited permitted activities. SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS 140") establishes the criteria an entity must satisfy to be a QSPE, including types of assets held, limits on asset sales, use of derivatives and financial guarantees, and discretion exercised in servicing activities. In accordance with SFAS 140 and FIN 46(R), we do not consolidate QSPEs.

For a further discussion of our involvement with VIEs, QSPEs and other entities see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

Equity-Method Investments. Entities in which we do not have a controlling financial interest (and therefore do not consolidate) but in which we exert significant influence (generally defined as owning a voting interest of 20 percent to 50 percent, or a partnership interest greater than 3 percent) are accounted for either under Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* or SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). For further discussion of our adoption of SFAS 159, see "Accounting and Regulatory Developments—SFAS 159" below.

Other. When we do not consolidate an entity or apply the equity method of accounting, we present our investment in the entity at fair value. We have formed various non-consolidated investment funds with third-party investors that are typically organized as limited partnerships. We typically act as general partner for these funds and when third-party investors have rights to liquidate the funds, to remove us as the general partner without cause or substantive participation rights, we do not consolidate these partnerships.

A determination of whether we have a controlling financial interest in an entity and therefore our assessment of consolidation of that entity is initially made at the time we become involved with the entity. Certain events may occur which cause us to re-assess our initial determination whether an entity is a VIE or non-VIE or whether we are the primary beneficiary if the entity is a VIE. Those events generally are:

- The entity's governance structure is changed such that either (i) the characteristics or adequacy of equity at risk are changed, or (ii) expected returns or losses are reallocated among the participating parties within the entity.
- The equity investment (or some part thereof) is returned to the equity investors and other interests become exposed to expected returns or losses.
- Additional activities are undertaken or asset acquired by the entity that were beyond those anticipated previously.
- Participants in the entity acquire or sell interests in the entity.
- The entity receives additional equity at risk or curtails its activities in a way that changes the expected returns or losses.

Valuation of Financial Instruments

We measure Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased at fair value. We account for Real estate held for sale at the lower of its carrying amount or fair value less cost to sell. Gains or losses from Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased are reflected in Principal transactions in the Consolidated Statement of Income as incurred.

We adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), in the first quarter of 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. Additionally and also in the first quarter of 2007, we early adopted SFAS 159, and applied this option to substantially all structured notes not previously accounted for at fair value under SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, as well as certain deposits at our U.S. banking subsidiaries.

SFAS 157 defines "fair value" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or an exit price. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation models that require more judgment. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction and overall market conditions generally.

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The overall valuation process for financial instruments may include adjustments to valuations derived from pricing models. These adjustments may be made when, in management's judgment, either the size of the position in the financial instrument or other features of the financial instrument, or the market in which the financial instrument is traded (such as counterparty, credit, concentration or liquidity) require that an adjustment be made to the value derived from the pricing models. An adjustment may be made if a trade of a financial instrument is subject to sales restrictions that would result in a price less than the computed fair value measurement from a quoted market price. Additionally, an adjustment from the price derived from a model typically reflects management's judgment that other participants in the market for the financial instrument being measured at fair value would also consider such an adjustment in pricing that same financial instrument.

We have categorized our financial instruments measured at fair value into a three-level classification in accordance with SFAS 157. Fair value measurements of financial instruments that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level I, and fair value measurements of financial instruments that have no direct observable levels are generally categorized as Level III. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management. Financial assets and liabilities presented at fair value in Holdings' Condensed Consolidated Statement of Financial Condition generally are categorized as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, structured notes and certain mortgage and asset backed securities, certain corporate debt, certain private equity investments and certain derivatives.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset backed securities, certain corporate debt, certain private equity investments and certain derivatives.

Financial assets and liabilities presented at fair value and categorized as Level III are generally those that are marked to model using relevant empirical data to extrapolate an estimated fair value. The models' inputs reflect assumptions that market participants would use in pricing the instrument in a current period transaction and outcomes from the models represent an exit price and expected future cash flows. Our valuation models are calibrated to the market on a frequent basis. The parameters and inputs are adjusted for assumptions about risk and current market conditions. Changes to inputs in valuation models are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions. Accordingly, results from valuation models in one period may not be indicative of future period measurements. Valuations are independently reviewed by employees outside the business unit and, where applicable, valuations are back tested comparing instruments sold to where they were marked.

At the end of the first quarter of 2007, Level III assets were 7% of total Financial instruments and other inventory positions owned and measured at fair value, compared to 13% in the fourth fiscal quarter. The increase in Level III assets resulted largely from the reclassification of approximately \$11 billion of mortgages and asset-backed securities previously categorized as Level II assets into the Level III category. This reclassification generally occurred in the second half of 2007. The transfer of these assets into Level III reflects the reduction of liquidity in the capital markets that resulted in a decrease in the observability of market prices. In particular, the decline trading activity impacted the ability to directly correlate assumptions in valuation models for cumulative loss and depreciation rates to current market activity. Additionally and during the fiscal year, the increase of assets characterized as Level III was attributable to the acquisition of assets by our private equity funds and funded lending commitments that had not been fully syndicated at the end of the fiscal year.

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For a further discussion regarding the measure of Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased at fair value, see Note 4, "Fair Value of Financial Instruments" to the Consolidated Financial Statements.

Identifiable Intangible Assets and Goodwill

Determining the carrying values and useful lives of certain assets acquired and liabilities assumed associated with business acquisitions—intangible assets in particular—requires significant judgment. At least annually, we are required to assess whether goodwill and other intangible assets have been impaired by comparing the estimated fair value, calculated based on price-earnings multiples, of each business segment with its estimated net book value, by estimating the amount of stockholders' equity required to support each business segment. Periodically estimating the fair value of a reporting unit and carrying values of intangible assets with indefinite lives involves significant judgment and often involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant effect on whether or not an impairment charge is recognized and the magnitude of such a charge. We completed our last impairment test on goodwill and other intangible assets as of August 31, 2007, and no impairment was identified.

Legal, Regulatory and Tax Proceedings

In the normal course of business we have been named as a defendant in a number of lawsuits and other legal and regulatory proceedings. Such proceedings include actions brought against us and others with respect to transactions in which we acted as an underwriter or financial advisor, actions arising out of our activities as a broker or dealer in securities and commodities and actions brought on behalf of various classes of claimants against many securities firms, including us. In addition, our business activities are reviewed by various taxing authorities around the world with regard to corporate income tax rules and regulations. We provide for potential losses that may arise out of legal, regulatory and tax proceedings to the extent such losses are probable and can be estimated. Those determinations require significant judgment. For a further discussion, see Note 9, "Commitments, Contingencies and Guarantees" to the Consolidated Financial Statements.

Consolidated Results of Operations

Overview

The following table sets forth an overview of our results of operations in 2007:

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
	Net revenues	\$19,257	\$17,583	\$14,630	10%
Income before taxes	\$ 6,013	\$ 5,905	\$ 4,829	2	22
Net income ⁽¹⁾	\$ 4,192	\$ 4,007	\$ 3,260	5	23
Earnings per diluted common share	\$ 7.26	\$ 6.81	\$ 5.43	7%	25%
Annualized return on average common stockholders' equity	20.8%	23.4%	21.6%		
Annualized return on average tangible common stockholders' equity	25.7%	29.1%	27.8%		

⁽¹⁾ Net income in 2006 included an after-tax gain of \$47 million, or \$0.08 per diluted common share, as a cumulative effect of an accounting change associated with our adoption of SFAS No. 123(R), *Share-Based Payment* ("SFAS 123(R)"), on December 1, 2005.

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Net Revenues

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Principal transactions	\$ 9,119	\$ 9,802	\$ 7,811	(7)%	25%
Investment banking	3,903	3,160	2,894	24	9
Commissions	2,471	2,050	1,728	21	19
Interest and dividends	41,693	30,284	19,043	38	59
Asset management and other	1,739	1,413	944	23	50
Total revenues	\$58,925	\$46,709	\$32,420	26	44
Interest expense	39,668	29,126	17,790	36	64
Net revenues	\$19,257	\$17,583	\$14,630	10%	20%
Net interest revenues	\$ 2,025	\$ 1,158	\$ 1,253	75%	(8)%
Principal transactions, commissions and net interest revenues	\$13,615	\$13,010	\$10,792	5%	21%

Principal Transactions, Commissions and Net Interest Revenue. In both the Capital Markets segment and the Private Investment Management business within the Investment Management segment, we evaluate net revenue performance based on the aggregate of Principal transactions, Commissions and Net interest revenue (Interest and dividends revenue net of Interest expense). These revenue categories include realized and unrealized gains and losses, commissions associated with client transactions and the interest and dividend revenue and interest expense associated with financing or hedging positions. Interest and dividends revenue and Interest expense are a function of the level and mix of total assets and liabilities (primarily financial instruments owned and sold but not yet purchased, and collateralized borrowing and lending activities), prevailing interest rates and the term structure of our financings. Caution should be used when analyzing these revenue categories individually because they may not be indicative of the overall performance of the Capital Markets and Investment Management business segments. Principal transactions, Commissions and Net interest revenue in the aggregate rose 5% in 2007 from 2006 and 21% in 2006 from 2005.

2007 vs. 2006. Principal transactions revenue decreased 7% in 2007 from 2006. Within Capital Markets, the notable decreases in 2007 were primarily from negative valuation adjustments made on certain components of our Fixed Income inventory. These negative adjustments occurred substantially during the second half of the fiscal year. Although our risk mitigation strategies were effective, correlations broke down, particularly in the latter parts of the fiscal year, resulting in a higher degree of basis risk. Record revenues within Capital Markets—Equities offset the results in Capital Markets—Fixed Income. The comparative increase in Equities' principal transactions revenue was a result of higher customer flow, increase in market volatility and higher revenues from proprietary trading strategies, especially in the international markets. Commission revenues rose 21% in 2007 from 2006. The increase in 2007 reflected growth in institutional commissions on higher global trading volumes. Net interest revenue increased 75% in 2007 from 2006 reflecting changes in both financing rates and yield curves between the periods. Interest and dividends revenue and Interest expense rose 38% and 36%, respectively, in 2007 from 2006. The comparative increase in Interest and dividend revenues and Interest expenses was attributable to the steepening of yield curve and the growth of our balance sheet.

2006 vs. 2005. Principal transactions revenue improved 25% in 2006 from 2005, driven by broad based strength across fixed income and equity products. Within Capital Markets, the notable increases in 2006 were in credit products, commercial mortgages and real estate. The 2006 increase in net revenues from Equities Capital Markets reflected higher client trading volumes, increases in financing and derivative activities and higher revenues from proprietary trading strategies. Principal transactions revenue in 2006 also benefited from increased revenues associated with certain structured products meeting the required market observability standard for revenue recognition. Commission revenues rose 19% in 2006 from 2005, reflecting growth in institutional commissions on higher global trading volumes, partially offset by lower commissions in our Investment Management business segment, as certain clients transitioned from transaction-based commissions to a traditional fee-based schedule. Net interest revenue declined 8% in 2006 from 2005 as a result of a change in the mix of asset composition, an increase in short-term U.S. financing rates, and a flattened yield curve. Interest and dividends revenue and Interest expense rose 59% and 64%, respectively, in 2006 from 2005. The increase in Interest and dividend revenues and Interest expense was attributable to higher short-term interest rates coupled with higher levels of interest- and dividend-earning assets and interest-bearing liabilities.

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Investment Banking. Investment banking revenues represent fees and commissions received for underwriting public and private offerings of fixed income and equity securities, fees and other revenues associated with advising clients on M&A activities, as well as other corporate financing activities.

2007 vs. 2006. Investment banking revenues rose to record levels in 2007, increasing 24% from 2006. Record Global Finance—Debt revenues increased 9% from 2006. Leveraged finance revenues were at all time highs, resulting from a strong first half of the year offsetting a significant decline in the second half of the year. Global Finance—Equity net revenues increased 25% compared to 2006 led by exceptional derivative activity as well as strong initial public offering (“IPO”) revenue in the first half of the fiscal year. Record Advisory Services revenues increased 45% from 2006, as our completed transaction volume increased 124% for the same period.

2006 vs. 2005. Investment banking revenues rose in 2006, increasing 9% from 2005. Global Finance—Debt 2006 net revenues increased 9% from 2005, reflecting significant growth in global origination market volumes. Global Finance—Equity net revenues decreased 1% compared to 2005, despite increased global origination market volumes. Advisory Services net revenues increased 20% from 2005, reflecting higher completed global M&A transaction volumes.

Asset Management and Other. Asset management and other revenues primarily result from asset management activities in the Investment Management business segment.

2007 vs. 2006. Asset management and other revenues rose 23% in 2007 from 2006. The growth in 2007 primarily reflected higher asset management fees attributable to the growth in AUM and management and incentive fees.

2006 vs. 2005. Asset management and other revenues rose 50% in 2006 from 2005. The growth in 2006 primarily reflected higher asset management fees attributable to the growth in AUM, a transition to fee-based rather than commission-based pricing for certain clients, as well as higher private equity management and incentive fees.

Non-Interest Expenses

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Compensation and benefits	\$ 9,494	\$ 8,669	\$7,213	10%	20%
Non-personnel expenses:					
Technology and communications	1,145	974	834	18	17
Brokerage, clearance and distribution fees	859	629	548	37	15
Occupancy	641	539	490	19	10
Professional fees	466	364	282	28	29
Business development	378	301	234	26	29
Other	261	202	200	29	1
Total non-personnel expenses	\$ 3,750	\$ 3,009	\$2,588	25%	16%
Total non-interest expenses	\$13,244	\$11,678	\$9,801	13%	19%
Compensation and benefits/Net revenues	49.3%	49.3%	49.3%		
Non-personnel expenses/Net revenues	19.5%	17.1%	17.7%		

Non-interest expenses were \$13.2 billion, \$11.7 billion and \$9.8 billion in 2007, 2006 and 2005, respectively. A substantial portion of our non-interest expenses is compensation-related, and a significant portion of our compensation expense represents discretionary bonuses which are impacted by levels of business activity and the structure of our share-based compensation programs, among, other variables. Remaining non-interest expense categories are variable, and are expected to change over time proportionate to revenue levels, business activity mix and employee headcount levels.

Compensation and benefits. Compensation and benefits totaled \$9.5 billion, \$8.7 billion and \$7.2 billion in 2007, 2006, and 2005, respectively. Compensation and benefits expense includes both fixed and variable components. Fixed compensation consists primarily of salaries, benefits and amortization of previous years' deferred equity awards. Variable compensation consists primarily of incentive compensation and commissions. Compensation and benefits expense as a percentage of net revenues was 49.3% for 2007, 2006 and 2005. Employees totaled approximately 28,600, 25,900 and 22,900 at November 30, 2007, 2006 and 2005, respectively.

2007 vs. 2006. Employee numbers in 2007 increased 10% from 2006, reflecting the increased levels of business activity across the Firm as well as our continued investments in the growth of the franchise, particularly in non-U.S. regions. Directly correlated to the increase in employees, fixed compensation in 2007 was 20% greater than 2006. Fixed compensation was approximately \$4.6 billion and approximately \$3.9 billion in 2007 and 2006, respectively. The 2007 fixed

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compensation amount of approximately \$4.6 billion includes approximately \$1.2 billion of amortization expense for stock awards granted in prior periods. Variable compensation was 1% greater in 2007 than 2006.

2006 vs. 2005. Employee numbers in 2006 increased 13% from 2005, reflecting the increased levels of business activity across the Firm as well as our continued investments to grow the franchise, particularly in non-U.S. regions. Directly correlated to the increase in employees, fixed compensation in 2006 was 21% greater than 2005. Fixed compensation was approximately \$3.9 billion and approximately \$3.2 billion in 2006 and 2005, respectively. The 2006 fixed compensation amount of approximately \$3.9 billion includes approximately \$941 million of amortization expense for stock awards granted in prior periods. The increased level of revenue from 2005 to 2006 resulted in comparatively higher incentive compensation expense. Variable compensation was 20% greater in 2006 than 2005.

Non-personnel expenses. Non-personnel expenses totaled \$3.8 billion, \$3.0 billion and \$2.6 billion in 2007, 2006 and 2005, respectively. Non-personnel expenses as a percentage of net revenues were 19.5%, 17.1%, and 17.7% in 2007, 2006, and 2005, respectively.

2007 vs. 2006. Technology and communications expenses rose 18% in 2007 from 2006, reflecting increased costs from the continued expansion and development of our Investment Management platforms and infrastructure. Brokerage, clearance and distribution fees rose 37% in 2007 from 2006, primarily due to higher transaction volumes in Equities Capital Markets and Investment Management products. Occupancy expenses increased 19% in 2007 from 2006, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 27% in 2007 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees. In 2007, Other non-personnel expenses includes approximately \$62 million associated with the restructuring of the Firm's global residential mortgage origination business.

2006 vs. 2005. Technology and communications expenses rose 17% in 2006 from 2005, reflecting increased costs from the continued expansion and development of our Capital Markets platforms and infrastructure. Brokerage, clearance and distribution fees rose 15% in 2006 from 2005, primarily due to higher transaction volumes in certain Capital Markets and Investment Management products. Occupancy expenses increased 10% in 2006 from 2005, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 29% in 2006 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees.

Income Taxes

The provision for income taxes totaled \$1.8 billion, \$1.9 billion and \$1.6 billion in 2007, 2006 and 2005, respectively. These provisions resulted in effective tax rates of 30.3%, 32.9% and 32.5% for 2007, 2006 and 2005, respectively. The decrease in the effective tax rate in 2007 from 2006 is due to an increase in tax benefits as well as the mix between domestic and foreign revenue source. The increase in the effective tax rate in 2006 from 2005 was primarily due to an increase in the level of pretax earnings which minimizes the impact of tax benefit items and in 2006, a net reduction in certain benefits from foreign operations, partially offset by a reduction in the state and local tax rate due to favorable audit settlements.

Business Acquisitions, Business Dispositions and Strategic Investments

Business Acquisitions. During the fiscal year, we completed the business acquisitions listed below. As a result of these acquisitions, our goodwill and intangible assets increased by approximately \$761 million.

- Capital Crossing, a state-chartered, FDIC-insured commercial bank.
- H.A. Schupf, an ultra-high net worth asset manager with approximately \$50 billion in AUM.
- The final contingent payment under a 2004 deferred transaction agreement was made for the remaining 50% of Lehman Brothers Alternative Investment Management ("LBAIM"), which manages fund of hedge fund portfolios and investment products for institutional and high-net-worth private clients. LBAIM was previously consolidated in Holdings' results of operations.
- Grange Securities Limited, a full service Australian broker dealer specializing in fixed income products.
- Congress Life, a life insurance company with licenses in 43 U.S. states.
- Eagle Energy Partners I, L.P., a Texas-based energy marketing and services company that manages and optimizes supply, transportation, transmission, load and storage portfolios on behalf of wholesale natural gas and power clients.

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- A 56.5% controlling interest in SkyPower Corp. a Toronto-based early stage wind and solar power generation development company.
- LightPoint Capital Management LLC, a leveraged loan investment manager based in Chicago, Illinois, with approximately \$3.2 billion in AUM.
- The institutional equities business, including the institutional research group, of Brics Securities Limited, part of JV Gokal Group, located in India.
- Dartmouth Capital, a U.K.-based investment advisory firm with approximately \$340 million in AUM.
- MNG Securities, an equity securities brokerage firm in Turkey.

A portion of consideration paid to shareholders of certain entities acquired consisted of shares of Holdings' common stock. For more information, see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," in this Form 10-K.

Business Dispositions.

- Within Capital Markets we disposed of Neuberger Berman's correspondent clearing business, which decreased our goodwill and intangible assets by approximately \$26 million. The gain on sale was not material.
- Lehman Brothers Bank disposed of a leasing subsidiary, Dolphin Capital Corp., acquired in the acquisition of Capital Crossing. The transaction was an asset sale and amounts were transferred at approximate book value. The gain on sale was not material.
- During the third quarter of 2007, we incurred non-personnel costs of approximately \$44 million and approximately \$11 million of severance expense (reported in Compensation and benefits), in connection with the announced restructuring of the Firm's global residential mortgage origination business, including the closure of BNC Mortgage LLC, our U.S. subprime origination platform. The non-personnel costs were approximately \$17 million (\$11 million after-tax) associated with terminated leases, and a goodwill write-down of approximately \$27 million.
- In addition to the above, on September 6, 2007, we announced the completion of the restructuring plan for our residential mortgage origination businesses which included: (i) the rescaling of operations in the U.S. and U.K. due to market conditions and product revisions; and (ii) the closure of our Korean mortgage business. The costs associated with these actions which were recorded in the fourth quarter of 2007 are \$18 million (\$11 million after-tax) and approximately \$19 million of severance.

Strategic Investments. During the fiscal year, we made the following strategic investments:

- Purchased a 20% upfront interest in Spinnaker Capital, an emerging markets investment management.
- Acquired a 20% interest in the D.E. Shaw group, a global investment management firm.
- Obtained a minority interest in Wilton Re, a U.S. re-insurer that focuses on the reinsurance of mortality risk on life insurance policies.

Subsequent to the fiscal year ended November 30, 2007, we acquired certain assets of Van Der Moolen Specialists, including its book of New York Stock Exchange listed securities, staff and certain technology. We and other broker-dealers have also signed an agreement to invest in Thomson Financial's TradeWeb, which is an electronic trading platform present in 78 countries in 16 major markets. In addition, we have signed an agreement to sell our 19.99% interest in Marble Bar Asset Management LLP, an investment management firm.

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Business Segments

Our operations are organized into three business segments:

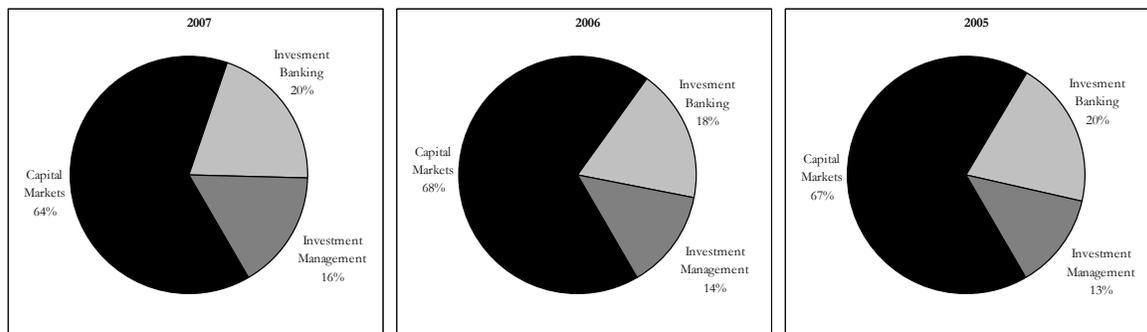
- Capital Markets,
- Investment Banking; and
- Investment Management.

These business segments generate revenues from institutional, corporate, government and high net worth individual clients across each of the revenue categories in the Consolidated Statement of Income. Net revenues and expenses contain certain internal allocations, such as funding costs that are centrally managed.

Segment Operating Results

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Capital Markets					
Net revenues	\$12,257	\$12,006	\$ 9,807	2%	22%
Non-interest expense	8,058	7,286	6,235	11	17
Income before taxes	\$ 4,199	\$ 4,720	\$ 3,572	(11)%	32%
Investment Banking					
Net revenues	\$ 3,903	\$ 3,160	\$ 2,894	24%	9%
Non-interest expense	2,880	2,500	2,039	15	23
Income before taxes	\$ 1,023	\$ 660	\$ 855	55%	(23)%
Investment Management					
Net revenues	\$ 3,097	\$ 2,417	\$ 1,929	28%	25%
Non-interest expense	2,306	1,892	1,527	22	25
Income before taxes	\$ 791	\$ 525	\$ 402	51%	31%
Total					
Net revenues	\$19,257	\$17,583	\$14,630	10%	20%
Non-interest expense	13,244	11,678	9,801	13	19
Income before taxes	\$ 6,013	\$ 5,905	\$ 4,829	2%	22%

The below charts illustrate the percentage contribution of each business segment to our total net revenues.



Capital Markets

Our Capital Markets segment is divided into two components:

Fixed Income – We make markets in and trade municipal and public sector instruments, interest rate and credit products, mortgage-related securities and loan products, currencies and commodities. We also originate mortgages and we structure and enter into a variety of derivative transactions. We also provide research covering economic, quantitative, strategic, credit, relative value, index and portfolio analyses. Additionally, we provide financing, advice and servicing activities to the

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hedge fund community, known as prime brokerage services. We engage in certain proprietary trading activities that are managed within this component.

Equities – We make markets in and trade equities and equity-related products and enter into a variety of derivative transactions. We also provide equity-related research coverage as well as execution and clearing activities for clients. Through our capital markets prime services, we provide pre- and post- trade financing, advice and servicing to the hedge fund community, known as prime brokerage services. We also engage in proprietary trading activities and principal investing in real estate, private equity and other related investments.

The following table sets forth the operating results of our Capital Markets business segment.

Capital Markets Results of Operations

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Principal transactions	\$ 8,251	\$ 9,285	\$ 7,393	(11)%	26%
Commissions	1,752	1,420	1,132	23	25
Interest and dividends	41,641	30,264	18,987	38	59
Other	97	105	33	(8)	218
Total revenues	51,741	41,074	27,545	26	49
Interest expense	39,484	29,068	17,738	36	64
Net revenues	12,257	12,006	9,807	2	22
Non-interest expenses	8,058	7,286	6,235	11	17
Income before taxes	\$ 4,199	\$ 4,720	\$ 3,572	(11)%	32%

The following table sets forth net revenues for the two components of our Capital Markets business segment.

Capital Markets Net Revenues

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Fixed Income	\$ 5,977	\$ 8,447	\$7,334	(29)%	15%
Equities	6,280	3,559	2,473	76	44
	\$12,257	\$12,006	\$9,807	2%	22%

2007 vs. 2006. Net revenues totaled \$12.3 billion and \$12.0 billion in 2007 and 2006, respectively. Overall growth in 2007 Capital Markets' net revenues were driven by net revenues for the Equities component of Capital Markets and a higher contribution from non-U.S. regions, partially offset by declines in net revenues for the Fixed Income component of Capital Markets.

Net revenues in Capital Markets—Fixed Income of \$6.0 billion for 2007, decreased 29% compared with \$8.4 billion in 2006. Capital Markets—Fixed Income sales credit volumes were \$4.8 billion, increasing 40% compared with \$3.4 billion in 2006.

The businesses within the Fixed Income component of Capital Markets were the most affected by the market dislocations, risk repricing and de-levering that took place during the second half of the fiscal year. The adverse conditions in the U.S. housing market, changes in the credit markets and continued correction in leveraged loan pricing and certain asset-backed security market segments were generally responsible for the negative variance in Capital Markets—Fixed Income revenues between the benchmark periods. The aggregate impact on the full-year results in the Fixed Income component of Capital Markets from employed economic risk management strategies as well as valuation changes on liabilities and realized positional gains mitigated, in part, the negative valuation adjustments realized due to the impact of adverse market conditions. The table below presents individual components that generally contributed to the decline of Capital Markets—Fixed Income revenues in 2007 from 2006. These components are presented on a gross basis, as well as a net basis. The net impact represents the remaining revenue impact from the components after deducting the impact of certain economic risk management strategies.

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In millions	Year Ended November 30, 2007	
	Gross Impact - Gain/(Loss)	Net Impact - Gain/(Loss)
Residential mortgage and asset-backed positions ⁽¹⁾	\$(4,655)	\$(1,304)
Commercial mortgage and asset-backed positions	(1,075)	(925)
Collateralized debt and lending obligations	(647)	(158)
Municipals	(243)	(29)
Contingent acquisition lending commitments ⁽²⁾	(966)	(441)
Debt liabilities ⁽³⁾	917	917
	\$(6,669)	\$(1,940)

⁽¹⁾ Includes losses from negative valuations on our residential mortgage whole loans and securitizations as well as on our secondary trading portfolio.

⁽²⁾ Includes approximately \$334 million of realized gains from the sale of certain leveraged lending positions that were recognized in our fiscal fourth quarter.

⁽³⁾ Represents the amount of gains on certain hybrid debt instruments that are risk managed within our Capital Markets segment and for which we elected fair value under SFAS No. 157, *Fair Value Measurements* ("SFAS 157") and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). These gains, which exclude any Interest income or Interest expense as well as any gain or loss from the embedded derivative components of these instruments, are allocated to the businesses within Capital Markets—Fixed Income in relation to the cash generated by, or funding requirements of, the underlying positions.

During 2007, we announced steps to restructure our residential mortgage origination business, which is a component of Capital Markets—Fixed Income. See "Business Acquisitions and Dispositions—Business Dispositions" above.

Capital Markets—Equities net revenues of \$6.3 billion for 2007, increased 76% compared with \$3.6 billion in 2006. These results reflected the higher revenue levels achieved in this business during the full year and reflected the broader customer franchise developed globally. Capital Markets—Equities sales credit volumes were \$3.7 billion, increasing 53% compared with \$2.4 billion in 2006. Global trading volumes rose 29% in 2007 compared to 2006.

The increase in Capital Markets—Equities net revenues reflected increased performance during the fiscal year across all products, with the exception of Convertibles, driven by record customer activity and profitable principal trading strategies. Global equity markets advanced year over year. In the latter half of our fiscal year, volatility was at higher levels relative to the comparable 2006 period. The volatility in the global equity markets led investors to employ risk mitigation strategies, driving global market demand for and strong customer activity in cash and derivative products. 2007 revenues in Convertibles declined compared to 2006, mainly due to unprofitable proprietary trading strategies in certain sectors. Capital Markets—Equities prime services' net revenues increased compared to those in the 2006 fiscal year. At the end of the 2007 fiscal year, the number of our prime brokerage clients was 630, a 20% increase from the number at the end of the 2006 fiscal year. Correspondingly, overall client balances were 30% higher at the end of the 2007 fiscal year compared to balances at the end of the 2006 fiscal year. Capital Markets—Equities revenues in the 2007 fiscal year include gains of approximately \$720 million from private equity and our investment in GLG Partners LP as well as approximately \$380 million in gains from valuation changes in certain liabilities carried at fair value.

Net interest revenues for 2007 increased 80% compared to 2006, primarily attributable to higher short-term U.S. financing rates and a change in the mix of asset composition. Interest and dividends revenue rose 38% in 2007 compared to 2006, and interest expense rose 36% in 2007 compared to the corresponding 2006 period. Non-interest expenses for 2007 increased 11%. Technology and communications expenses increased due to the continued expansion and development of our business platforms and infrastructure. Brokerage, clearance and distribution fees rose primarily due to higher transaction volumes across most Capital Markets products. Professional fees and business development expenses increased due to global growth of the business segment. For the Capital Markets segment, Income before taxes for 2007 decreased 11% compared with 2006 and, correspondingly, pre-tax margins in 2007 were 34% compared to 39% in 2006.

2006 vs. 2005. Capital Markets net revenues increased to \$12.0 billion in 2006 from \$9.8 billion in 2005, reflecting record performances in both Fixed Income and Equities. On strong performances across most products, Capital Markets—Fixed Income net revenues increased 15% in 2006 from 2005 and Capital Markets—Equities net revenues increased 44% over the same period. Income before taxes totaled \$4.7 billion and \$3.6 billion in 2006 and 2005, respectively, up 32%. Pre-tax margin was 39% and 36% in 2006 and 2005, respectively.

Our Capital Markets—Fixed Income net revenues grew to a record \$8.4 billion in 2006, an increase of 15% from 2005. This growth was attributable to strong client-flow activity and profitable trading strategies, leading to record revenues in most products. The products that contributed most to the increase in revenues year over year included credit, commercial mortgages and real estate and prime brokerage, partially offset by strong, but lower revenues in both interest rate products and residential mortgages.

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Capital Markets—Equities net revenues increased 44% to a record level in 2006 on strong client-flow and robust global trading volumes. Global equity indices were up 14% in local currency terms for 2006, helped by strong earnings reports, lower energy prices and the end to the interest rate tightening cycle by central banks. Substantially all equity products in 2006 surpassed their 2005 performance, including gains in cash products, prime brokerage, equity derivatives, convertibles and proprietary and principal activities.

Net interest revenues decreased 4% in 2006 from 2005 primarily due to higher short-term U.S. interest rates, a flattened yield curve and a change in mix of asset composition. Interest and dividends revenue and Interest expense increased 59% and 64%, respectively, in 2006 from 2005 as a result of higher short-term interest rates coupled with higher levels of interest- and dividend-earning assets and interest-bearing liabilities. Non-interest expenses increased to \$7.3 billion in 2006 from \$6.2 billion in 2005. The growth in non-interest expenses reflected higher compensation and benefits expense related to improved performance as well as increased technology, occupancy and communications expenses attributable to continued investments in trading platforms, integration of business acquisitions, and higher brokerage and clearance costs and professional fees from increased business activities.

Investment Banking

We take an integrated approach to client coverage, organizing bankers into industry, product and geographic groups within our Investment Banking segment. Business services provided to corporations and governments worldwide can be separated into:

Global Finance – We serve our clients' capital raising needs through underwriting, private placements, leveraged finance and other activities associated with debt and equity products.

Advisory Services – We provide business advisory services with respect to M&A, divestitures, restructurings and other corporate activities.

The following table sets forth the operating results of our Investment Banking segment.

Investment Banking Results of Operations¹

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Global Finance—Debt	\$1,551	\$1,424	\$1,304	9%	9%
Global Finance—Equity	1,015	815	824	25	(1)
Advisory Services	1,337	921	766	45	20
Total revenues	\$3,903	\$3,160	\$2,894	24%	9 %
Non-interest expenses	2,880	2,500	2,039	15	23
Income before taxes	\$1,023	\$ 660	\$ 855	55%	(23)%

Although not always directly correlated to Investment Banking revenues because they do not necessarily correspond to the amount of securities actually underwritten, include certain underwriting activity and because revenue rates vary among transactions, the following table sets forth our Investment Banking transaction volumes.²

¹ Investment banking revenues are net of related underwriting expenses.

² Debt and equity underwriting volumes are based on full credit for single-book managers and equal credit for joint-book managers. Debt underwriting volumes include both publicly registered and Rule 144A issues of high grade and high yield bonds, sovereign, agency and taxable municipal debt, non-convertible preferred stock and mortgage- and asset-backed securities. Equity underwriting volumes include both publicly registered and Rule 144A issues of common stock and convertibles. Because publicly reported debt and equity underwriting volumes do not necessarily correspond to the amount of securities actually underwritten and do not include certain private placements and other transactions, and because revenue rates vary among transactions, publicly reported debt and equity underwriting volumes may not be indicative of revenues in a given period. Additionally, because Advisory Services volumes are based on full credit to each of the advisors in a transaction, and because revenue rates vary among transactions, Advisory Services volumes may not be indicative of revenues in a given period.

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In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Global Finance—Debt	\$368,422	\$438,026	\$398,955	(16)%	10%
Global Finance—Equity	29,646	28,306	24,314	5	(1)
Advisory Services—Completed	849,265	378,448	313,667	124	21
Advisory Services—Announced	793,685	533,238	419,082	49	27

2007 vs. 2006. Investment Banking net revenues totaled \$3.9 billion and \$3.2 billion in 2007 and 2006, respectively. Investment Banking revenues increased 24% in 2007 from 2006, reflecting record revenues for Global Finance—Debt, Global Finance—Equity and Advisory Services, which was attributable to an increase in compensation and benefits expense related to an increased number of employees and higher revenues, as well as higher non-personnel expenses from increased business activity, non-interest expenses rose 15% in 2007 from 2006. As a result of a higher level of cross-border and international business activity, income before taxes increased 55% in 2007 to \$1.0 billion from \$660 million in 2006, and, correspondingly, pre-tax margins in 2007 were 26% compared to 21% in 2006.

Global Finance—Debt origination net revenues were \$1.6 billion in 2007, increasing 9% from 2006. These results were driven, in part, by revenues from leveraged finance which had a record first half of 2007 but fell significantly in the latter half of 2007 as a number of financial sponsor related transactions were cancelled or delayed, particularly in the leveraged loan market. Publicly reported global debt origination market volumes decreased 3% in 2007 over 2006, with our origination market volumes decreasing 16% over the same period. Our debt origination fee backlog of \$141 million at November 30, 2007 decreased 43% from November 30, 2006. Debt origination backlog may not be indicative of the level of future business due to the frequent use of the shelf registration process and changes in overall market conditions. For the calendar year 2007, our market ranking for publicly reported global debt origination was six with a 5.4% share, down from a rank of four with a 6.2% share in calendar year 2006.

Global Finance—Equity net revenues increased 25% in 2007 to a record \$1.0 billion from 2006 revenues of \$815 million, consistent with a 23% increase in industry-wide global equity origination market volumes. The increase in 2007 net revenues largely resulted from strong, customer-driven derivative activity, which more than doubled from 2006 levels. On a sequential year basis, net revenues associated with private placement transactions and accelerated stock repurchases increased 72%. IPO net revenues increased 38% compared to the benchmark fiscal year; and, IPO net revenues increased within all geographic segments. Our IPO market volume for 2007 increased 17% compared to fiscal year 2006, slightly lower than the 19% market increase. Our equity-related fee backlog (for both filed and unfiled transactions) at November 30, 2007 was approximately \$316 million, up 11% from November 30, 2006; however, that measure may not be indicative of the level of future business depending on changes in overall market conditions. For the calendar year 2007, our market ranking for publicly reported global equity origination was nine with a 3.0% share, consistent with our rank in calendar year 2006 during which we had a 3.5% market share.

Advisory Services revenues were a record \$1.3 billion in 2007, up 45% from then-record revenues in 2006. Industry-wide completed and announced transaction volumes increased 32% and 27%, respectively, in 2007 from 2006, while our completed and announced volumes increased 124% and 49%, respectively, in the same comparative period. Our global market share for publicly reported completed and announced transactions increased to 21% and 17%, respectively, for calendar 2007, up from 16% and 16%, respectively, in calendar year 2006. Our M&A fee backlog at November 30, 2007 was \$374 million, up 54% from November 30, 2006; however, that measure may not be indicative of the level of future business depending on changes in overall market conditions. For the calendar year 2007, our market ranking for completed transactions was six with a 20.9% share, up from a rank of seven with a 15.8% share in calendar year 2006.

2006 vs. 2005. Investment banking revenues totaled \$3.2 billion and \$2.9 billion in 2006 and 2005, respectively, representing a 9% increase from the prior fiscal year. Non-interest expenses rose 23% in 2006 from 2005, attributable to an increase in compensation and benefits expense related to an increased number of employees and higher revenues, as well as higher non-personnel expenses from increased business activity. As a result, income before taxes declined 23% in 2006 to \$660 million from \$855 million in 2005.

Global Finance—Debt revenues were a record \$1.4 billion in 2006, increasing 9% over 2005 as investors took advantage of continued low interest rates, tight credit spreads and a flattened yield curve. Revenues also increased significantly over 2005 on relatively flat volumes due to higher margins on several large transactions. Partially offsetting these factors was a lower level of client-driven derivative and other capital markets-related transactions with our investment banking clients which totaled \$222 million in 2006, compared with \$318 million in 2005. Publicly reported global debt origination market volumes increased 17% in 2006 over 2005, with our origination market volumes increasing 8% over the same period. Our debt

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origination fee backlog of \$245 million at November 30, 2006 increased 13% from November 30, 2005. Debt origination backlog may not be indicative of the level of future business due to the frequent use of the shelf registration process. For the calendar year 2006, our market ranking for publicly reported global debt originations was four with a 6.2% share, down from a rank of three with a 6.7% share in calendar year 2005.

Global Finance—Equity revenues declined 1% in 2006 to \$815 million from record 2005 revenues, despite a 35% increase in industry-wide global equity origination market volumes. Revenues in 2006 reflected strength in IPO activities, offset by lower revenues from the Asia region, which benefited from several large transactions in 2005. Our IPO market volume for 2006 increased 25% compared to fiscal year 2005, compared to the overall market's increase of 63%. Our equity-related fee backlog (for both filed and unfiled transactions) at November 30, 2006 was approximately \$286 million. Our market share for publicly reported global equity underwriting transactions decreased to 3.5% in calendar 2006 from 4.8% for calendar year 2005.

Advisory Services revenues were \$921 million in 2006, up 20% from 2005. Industry-wide completed and announced transaction volumes increased 31% and 34%, respectively, in 2006 from 2005, while our completed and announced volumes increased 21% and 27%, respectively, in the same comparative period. M&A volumes rose during the period due to increasing equity markets, strong corporate profitability and balance sheets, and available capital raised by financial sponsors. Our global market share for publicly reported completed transactions increased to 15.8% for calendar 2006, up from 13.4% in calendar year 2005. Our M&A fee backlog at November 30, 2006 was \$243 million down 1% from November 30, 2005.

Investment Management

The Investment Management business segment consists of:

Asset Management – We provide customized investment management services for high net worth clients, mutual funds and other small and middle market institutional investors. Asset Management also serves as general partner for private equity and other alternative investment partnerships.

Private Investment Management – We provide investment, wealth advisory and capital markets execution services to high net worth and middle market institutional clients.

The following table sets forth the operating results of our Investment Management segment.

Investment Management Results of Operations

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Principal transactions	\$ 868	\$ 517	\$ 418	68%	24%
Commissions	719	630	596	14	6
Interest and dividends	52	20	56	160	(64)
Asset management and other	1,642	1,308	911	26	44
Total revenues	3,281	2,475	1,981	33	25
Interest expense	184	58	52	217	12
Net revenues	3,097	2,417	1,929	28	25
Non-interest expenses	2,306	1,892	1,527	22	24
Income before taxes	\$ 791	\$ 525	\$ 402	51%	31%

The following table sets forth our Asset Management and Private Investment Management net revenues.

Investment Management Net Revenues

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Asset Management	\$1,877	\$1,432	\$1,026	31%	40%
Private Investment Management	1,220	985	903	24	9
	\$3,097	\$2,417	\$1,929	28%	25%

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The following table sets forth our AUM by asset class.

Composition of Assets Under Management

In billions	At November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Equity	\$107	\$ 95	\$ 75	13%	27%
Fixed income	75	61	55	23	11
Money markets	66	48	29	38	66
Alternative investments	34	21	16	62	31
	\$282	\$225	\$175	25%	29%

The following table sets forth a summary of the changes in our AUM.

Changes in Assets Under Management

In billions	At November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Opening balance	\$225	\$175	\$137	29%	28%
Net additions	41	35	26	17	35
Net market appreciation	16	15	12	7	25
Total increase	57	50	38	14	32
Assets Under Management, November 30	\$282	\$225	\$175	25%	29%

2007 vs. 2006. Investment Management net revenues ended the fiscal year up 28% compared to 2006, as Asset Management and Private Investment Management both achieved record results in 2007. Non-interest expense of \$2.3 billion for 2007 increased 22% compared with 2006, resulting from higher levels of discretionary compensation secondary to increased net revenues and numbers of employees. Non-compensation expenses also increased, primarily due to higher brokerage, clearing, exchange and distribution fees. The continued expansion of this business platform globally, achieved both through acquisitions and minority stake investments in alternative asset managers, also contributed to the comparative increases in non-interest and non-compensation expenses. Pre-tax earnings of \$791 million increased 51% compared with 2006. In part, this increase was reflective of lower costs associated with revenue generation from minority stake investments. Pre-tax margins in 2007 were 26% compared to 22% in 2006.

Asset Management net revenues of \$1.9 billion in 2007 increased by 31% from 2006, reflecting significantly higher management and other fees, principally due to strong growth in AUM, and higher incentive fees. During the fiscal year, AUM increased \$57 billion or 25% to approximately \$282 billion. 72% of the increase was a result of net inflows across all asset categories.

Private Investment Management net revenues of \$1.2 billion increased 24% in 2007 from 2006, driven both by higher equity-related activity, especially within the volatility and cash businesses, and higher fixed income-related activity, especially in CDOs, securitized products and global rates business. Fixed income-related activity in the second half of the fiscal year slowed as clients became less active in fixed income-related products as a result of higher volatility in the global markets and credit concerns in certain asset classes.

2006 vs. 2005. Net revenues totaled \$2.4 billion and \$1.9 billion in 2006 and 2005, respectively, representing a 25% increase, as both Asset Management and Private Investment Management achieved then-record results in 2006. Non-interest expenses totaled \$1.9 billion and \$1.5 billion in 2006 and 2005, respectively. The 24% increase in non-interest expense was driven by higher compensation and benefits associated with a higher level of earnings and headcount, as well as increased non-personnel expenses from continued expansion of the business, especially into non-U.S. regions. Income before taxes increased 31% in 2006 to \$525 million from \$402 million in 2005. Pre-tax margin was 22% and 21% in 2006 and 2005, respectively.

Asset Management net revenues of \$1.4 billion in 2006 increased by 40% from 2005, driven by a 29% increase in AUM and strong revenues from our growing alternative investment offerings, which contributed higher incentive fees in 2006 compared to 2005. AUM increased to a record \$225 billion at November 30, 2006, up from \$175 billion at November 30, 2005, with 70% of the increase resulting from net inflows.

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Private Investment Management net revenues of \$985 million increased 9% in 2006 from 2005, driven by higher equity-related activity, especially within the volatility and cash businesses. Fixed income-related activity was relatively flat in 2006 compared to 2005 as a result of clients' asset reallocations into equity products.

Geographic Revenues

We organize our operations into three geographic regions:

- Europe and the Middle East, inclusive of our operations in Russia and Turkey;
- Asia-Pacific, inclusive of our operations in Australia and India; and
- Americas, inclusive of our operations in North, South and Central America.

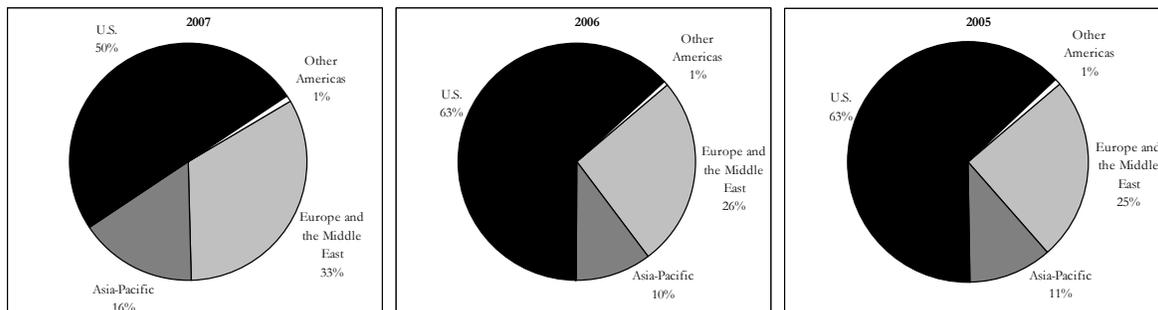
Net revenues presented by geographic region are based upon the location of the senior coverage banker or investment advisor in the case of Investment Banking or Asset Management, respectively, or where the position was risk managed within Capital Markets and Private Investment Management. Certain revenues associated with U.S. products and services that result from relationships with international clients have been classified as international revenues using an allocation consistent with our internal reporting. In addition, expenses contain certain internal allocations, such as regional transfer pricing, which are centrally managed.

The following presents, in management's judgment, a reasonable representation of each region's contribution to net revenues.

Net Revenues by Geographic Region

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Europe and the Middle East	\$ 6,296	\$ 4,536	\$ 3,601	39%	26%
Asia-Pacific	3,145	1,809	1,650	74	10
Total Non–Americas	\$ 9,441	\$ 6,345	\$ 5,251	49	21
U.S.	9,634	11,116	9,270	(13)	20
Other Americas	182	122	109	49	12
Total Americas	\$ 9,816	\$11,238	\$ 9,379	(13)	20
Net revenues	\$19,257	\$17,583	\$14,630	10%	20%

The below charts illustrate the contribution percentage of each geographic region to our total revenues.



2007 vs. 2006. Non–Americas net revenues rose 49% in 2007 from 2006 to a record \$9.4 billion, representing 49% of total net revenues in 2007 and 36% in 2006. The increase in 2007 net revenues was due to the continued growth in Capital Markets as well as the continued expansion of our Investment Management business in both the Europe and the Middle East and the Asia-Pacific regions. Non-U.S. net revenues represented 50% and 37% of total net revenues for the 2007 and 2006 fiscal years.

Net revenues in Europe and the Middle East rose 39% in 2007 from 2006, reflecting record performance in Capital Markets—Equities, Investment Banking and Investment Management. In Capital Markets—Equities, higher revenues were driven by improved risk and trading strategies, as well as record customer flow activity, increased volume and gains from certain principal investments. In Investment Banking, higher net revenues reflected record results in leveraged finance

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revenue and advisory revenue, as well as equity origination. In Investment Management, higher net revenues reflected a significant increase in AUM.

Net revenues in Asia-Pacific rose 74% in 2007 from 2006, reflecting strong performance in all business segments. Capital Markets results were driven by strong performances in execution services and volatility based upon strong customer-demand as Asian equity markets outperformed other regions in the fiscal year. Investment Banking results were driven by strong IPO activity and debt-related transactions. Investment Management results are reflective of our continued development of this business segment in this geographic sector.

2006 vs. 2005. Non-Americas net revenues rose 21% in 2006 from 2005 to \$6.3 billion, representing 36% of total net revenues both in 2006 and 2005. The increase in 2006 net revenues was due to the continued growth in Capital Markets as well as the continued expansion of our Investment Management business in both Europe and Asia. Net revenues in Europe and the Middle East rose 26% in 2006 from 2005, reflective of higher revenues in Capital Markets, growth in Investment Management and strong results in Investment Banking. In Fixed Income Capital Markets, higher revenues were driven by credit products, securitized products and our real estate business. In Equities Capital Markets, higher net revenues reflect strong results in equity derivatives and equity prime brokerage. Net revenues in Asia-Pacific rose 10% in 2006 from 2005, reflective of higher revenues in Capital Markets and the growth in Investment Management, partially offset by declining revenues in Investment Banking. Capital Markets net revenues increased in 2006 primarily from strong performances in commercial mortgages and real estate, equity derivatives and improved equity trading strategies, partially offset by lower revenues from interest rate products.

Liquidity, Funding and Capital Resources

We establish and monitor compliance with guidelines for the level and composition of our liquidity pool and asset funding; the makeup and size of our balance sheet; and the utilization of our equity.

During 2007, the global capital markets experienced a significant contraction in available liquidity. Despite infusions of liquidity by central banks into the financial system, broad asset classes, particularly subprime mortgages and structured credit products, remained highly illiquid throughout this period. Notwithstanding these global market conditions, we ended the period with a very strong liquidity position. At November 30, 2007, our liquidity pool was \$34.9 billion, up from \$33.6 billion at the end of the third quarter of the 2007 fiscal year. Long-term capital (long-term borrowings, excluding borrowings with remaining maturities within one year of the financial statement date, and total stockholders' equity) was at \$145.6 billion at the end of 2007 fiscal year, up from \$142.1 billion at the end of the third quarter of the 2007 fiscal year.

Liquidity

Liquidity pool. We maintain a liquidity pool available to Holdings that covers expected cash outflows for twelve months in a stressed liquidity environment. In assessing the required size of our liquidity pool, we assume that assets outside the liquidity pool cannot be sold to generate cash, unsecured debt cannot be issued, and any cash and unencumbered liquid collateral outside of the liquidity pool cannot be used to support the liquidity of Holdings. Our liquidity pool is sized to cover expected cash outflows associated with the following items:

- The repayment of all unsecured debt maturing in the next twelve months.
- The funding of commitments to extend credit made by Holdings and certain unregulated subsidiaries based on a probabilistic model. The funding of commitments to extend credit made by our regulated subsidiaries (including our banks) is covered by the liquidity pools maintained by these regulated subsidiaries. For additional information, see "Contractual Obligations and Lending-Related Commitments" below and Note 9, "Commitments, Contingencies and Guarantees" to the Consolidated Financial Statements.
- The anticipated impact of adverse changes on secured funding – either in the form of a greater difference between the market and pledge value of assets (also known as "haircuts") or in the form of reduced borrowing availability.
- The anticipated funding requirements of equity repurchases as we manage our equity base (including offsetting the dilutive effect of our employee incentive plans). See "–Equity Management" below.

In addition, the liquidity pool is sized to cover the impact of a one notch downgrade of Holdings' long-term debt ratings, including the additional collateral that would be required for our derivative contracts and other secured funding arrangements. See "–Credit Ratings" below.

The liquidity pool is invested in liquid instruments, including cash equivalents, G-7 government bonds and U.S. agency

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securities, investment grade asset-backed securities and other liquid securities that we believe have a highly reliable pledge value. We calculate our liquidity pool on a daily basis.

Our estimated values of the liquidity pool available are:

In billions	At November 30,	
	2007	2006
<hr/>		
Unregulated (pledge value)		
Holdings ⁽¹⁾	\$ 34.9	\$ 39.4
<hr/>		
Regulated (market value) ⁽²⁾		
Bank entities ⁽³⁾	17.3	22.3
Other subsidiaries	63.2	50.8
<hr/>		
Total	\$ 80.5	\$ 73.1
<hr/>		

⁽¹⁾ The amount for Holdings exceeds the expected cash outflows discussed above and excludes unencumbered collateral with a market value of \$63 billion and \$39 billion at November 30, 2007 and 2006, respectively.

⁽²⁾ Our regulated subsidiaries, such as our broker-dealers and bank institutions, maintain their own liquidity pools to cover their stand-alone expected annualized cash funding needs in a stressed liquidity environment.

⁽³⁾ Our deposit-taking bank entities consist of two in the U.S. and one in Germany.

Funding of assets. We fund assets based on their liquidity characteristics, and utilize cash capital¹ to provide financing for our long-term funding needs. Our funding strategy incorporates the following factors:

- Liquid assets (*i.e.*, assets for which a reliable secured funding market exists across all market environments including government bonds, U.S. agency securities, corporate bonds, asset-backed securities and high quality equity securities) are primarily funded on a secured basis.
- Secured funding “haircuts” are funded with cash capital.
- Illiquid assets (e.g., fixed assets, intangible assets, and margin postings) and less liquid inventory positions (e.g., derivatives, private equity investments, certain corporate loans, certain commercial mortgages and real estate positions) are funded with cash capital.
- Certain unencumbered assets that are not part of the liquidity pool irrespective of asset quality, are also funded with cash capital. These assets are typically unencumbered because of operational and asset-specific factors (e.g., securities moving between depots). We do not assume a change in these factors during a stressed liquidity event.

As part of our funding strategy, we also take steps to mitigate our main sources of contingent liquidity risk as follows:

- Commitments to extend credit - Cash capital is utilized to cover a probabilistic estimate of expected funding of commitments to extend credit. For a further discussion of our commitments, see “Contractual Obligations and Lending-Related Commitments” in this MD&A and Note 9, “Commitments, Contingencies and Guarantees,” to the Consolidated Financial Statements.
- Ratings downgrade - Cash capital is utilized to cover the liquidity impact of a one-notch downgrade on Holdings. A ratings downgrade would increase the amount of collateral to be posted against our derivative contracts and other secured funding arrangements. For a further discussion of credit ratings and the potential impacts of ratings downgrades, see “Credit Ratings” below.
- Client financing - We provide secured financing to our clients typically through repurchase and prime broker agreements. These financing activities can create liquidity risk if the availability and terms of our own secured borrowing agreements adversely change during a stressed liquidity event and we are unable to reflect these changes in our client financing agreements. We mitigate this risk by entering into term secured borrowing agreements, in which we can fund different types of collateral at pre-determined collateralization levels, and by maintaining liquidity pools at our regulated broker-dealers.

Our policy is to operate with an excess of long-term funding sources over our long-term funding requirements (“cash capital surplus”). We seek to maintain a cash capital surplus at Holdings of at least \$2.0 billion. As of November 30,

¹ Cash capital consists of stockholders' equity, portions of core deposit liabilities at our bank subsidiaries, and liabilities with remaining term lives of over one year.

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2007, our cash capital surplus at Holdings increased to \$8.0 billion, up from \$6.0 billion at November 30, 2006. Additionally, at November 30, 2007 and 2006, our cash capital surplus in our regulated entities was approximately \$12.6 billion and \$10.0 billion, respectively.

We hedge the majority of foreign exchange risk associated with investments in subsidiaries in non-U.S. dollar currencies using foreign currency-denominated long-term debt and forwards.

Diversification of funding sources. We seek to diversify our funding sources. We issue long-term debt in multiple currencies and across a wide range of maturities to tap many investor bases, thereby reducing our reliance on any one source.

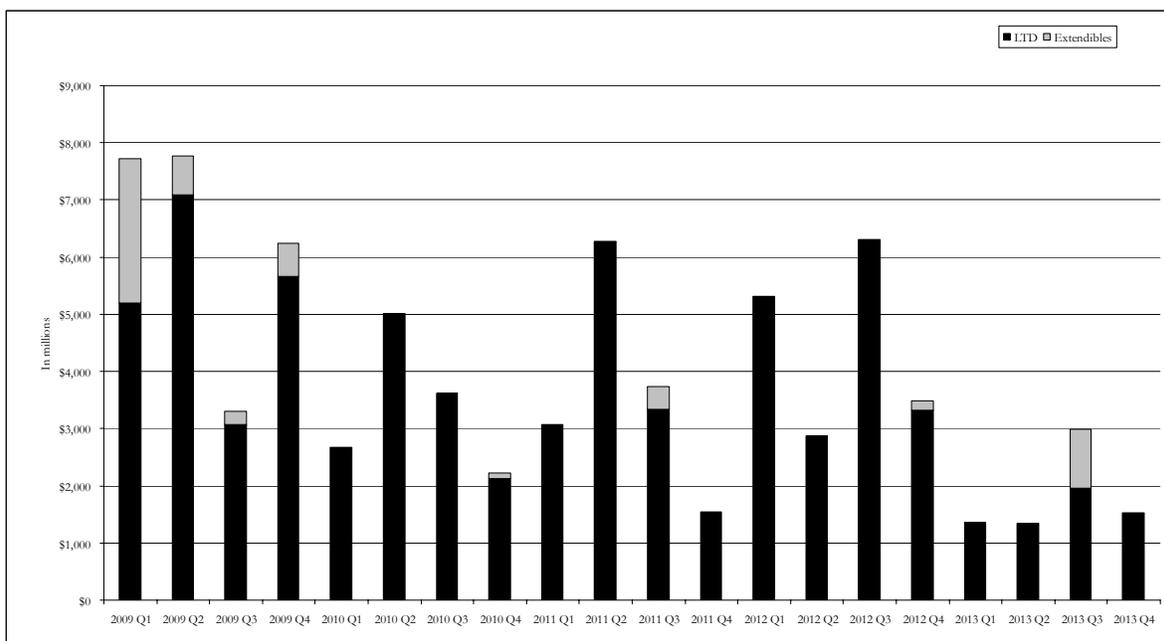
- During 2007, we issued \$86.3 billion of long-term borrowings. Long-term borrowings (less current portion) increased to \$123.2 billion at November 30, 2007, up from \$81.2 billion at November 30, 2006 principally to support the growth in our assets, as well as to pre-fund a portion of 2008 maturities. The weighted-average maturities of our long-term borrowings were 7.1 and 6.3 years at November 30, 2007 and 2006, respectively.
- We diversify our issuances geographically to minimize refinancing risk and broaden our debt-holder base. As of November 30, 2007, 54% of our long-term debt was issued outside the United States.
- In order to minimize refinancing risk, we establish limits (stated as percentages of outstanding long-term borrowings) on our long-term borrowings anticipated to mature within any quarter (12.5%), half-year (17.5%) and full-year (30.0%) intervals. At November 30, 2007, those limits were \$15.4 billion, \$21.6 billion and \$37.0 billion, respectively. If we were to operate with debt above these levels, we would not include the additional amount as a source of cash capital.
- We typically issue in sufficient size to create a liquid benchmark issuance (*i.e.*, sufficient size to be included in the Lehman Bond Index, a widely used index for fixed income asset managers).

Long-term debt is accounted for in our long-term-borrowings maturity profile at its contractual maturity date if the debt is redeemable at our option. Long-term debt that is repayable at par at the holder's option is included in these limits at its earliest redemption date. Extendible issuances (which mature on an initial specified maturity date unless debt holder elect to extend the term of the note for a period specified in the note) are included in these limits at their earliest maturity date.

The quarterly long-term borrowings maturity schedule over the next five years at November 30, 2007 is as follows:

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Long-Term Borrowings Maturity Profile Chart⁽¹⁾



⁽¹⁾ Included in long-term debt is \$5.1 billion of structured notes with contingent early redemption features linked to market prices or other triggering events (e.g., the downgrade of a reference obligation underlying a credit-linked note). In the above maturity table, these notes are shown at their contractual maturity. In determining the cash capital value of these notes, however, we excluded the portion reasonably expected to mature within twelve months (\$2.2 billion) from our cash capital sources at November 30, 2007.

- We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a \$2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks that expires in February 2009. In addition, we maintain a \$2.5 billion multi-currency unsecured, committed revolving credit facility (“European Facility”) with a syndicate of banks for Lehman Brothers Bankhaus AG (“Bankhaus”) and Lehman Brothers Treasury Co. B.V. that expires in April 2010. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. We draw on both of these facilities from time to time in the normal course of conducting our business. As of November 30, 2007, there were no outstanding borrowings against either Holdings’ credit facility or the European Facility.
- We have established a \$2.4 billion conduit that issues secured liquidity notes to pre-fund high grade loan commitments. This is fully backed by a triple-A rated, third-party, one-year revolving liquidity back stop. Additionally, we have established a \$1.6 billion conduit that issues secured liquidity notes to provide funding for our contingent acquisition commitments. This is a conduit within an A1P1-rated multi-seller. We are contingently committed to provide financing to the conduit if the conduit is unable to remarket the secured liquidity notes upon their maturity, generally in two years time.

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- We own three bank entities: Lehman Brothers Bank, a U.S.-based thrift institution, Lehman Brothers Commercial Bank, a U.S.-based industrial bank, and Bankhaus. These regulated bank entities operate in a deposit-protected environment and are able to source low-cost unsecured funds that are primarily term deposits. These are generally insulated from a company-specific or market liquidity event, thereby providing a reliable funding source for their mortgage products and selected loan assets and increasing our consolidated funding diversification. Overall, these bank institutions have raised \$29.4 billion and \$21.4 billion of customer deposit liabilities as of November 30, 2007 and 2006, respectively.
- Bank facilities provide us with further diversification and flexibility. For example, we draw on our committed syndicated credit facilities described above on a regular basis (typically 25% to 50% of the time on a weighted-average basis) to provide us with additional sources of long-term funding on an as-needed basis. We have the ability to prepay and redraw any number of times and to retain the proceeds for any term up to the maturity date of the facility. As a result, we see these facilities as having the same liquidity value as long-term borrowings with the same maturity dates, and we include these borrowings in our reported long-term borrowings at the facility's stated final maturity date to the extent that they are outstanding as of a reporting date.

Funding action plan. We have developed and regularly update a Funding Action Plan, which represents a detailed action plan to manage a stress liquidity event, including a communication plan for regulators, creditors, investors and clients. The Funding Action Plan considers two types of liquidity stress events—a Company-specific event, where there are no issues with overall market liquidity and a broader market-wide event, which affects not just our Company but the entire market.

In a Company-specific event, we assume we would lose access to the unsecured funding market for a full year and have to rely on the liquidity pool available to Holdings to cover expected cash outflows over the next twelve months.

In a market liquidity event, in addition to the pressure of a Company-specific event, we also assume that, because the event is market wide, additional counterparties to whom we have extended liquidity facilities draw on these facilities. To mitigate the effect of a market liquidity event, we have developed access to additional liquidity sources beyond the liquidity pool at Holdings, including unutilized funding capacity in our bank entities and unutilized capacity in our bank facilities. See "Funding of assets" above.

We perform regular assessments of our funding requirements in stress liquidity scenarios to best ensure we can meet all our funding obligations in all market environments.

Legal entity structure. Our legal entity structure can constrain liquidity available to Holdings. Some of our legal entities, particularly our regulated broker-dealers and bank institutions, are restricted in the amount of funds that they can distribute or lend to Holdings. For a further discussion, see "Note 16, "Regulatory Requirements," to the Consolidated Financial Statements.

Certain regulated subsidiaries are funded with subordinated debt issuances and/or subordinated loans from Holdings, which are counted as regulatory capital for those subsidiaries. Our policy is to fund subordinated debt advances by Holdings to subsidiaries for use as regulatory capital with long-term debt issued by Holdings having a maturity at least one year greater than the maturity of the subordinated debt advance.

Credit Ratings

Like other companies in the securities industry, we rely on external sources to finance a significant portion of our day-to-day operations. The cost and availability of unsecured financing are affected by our short-term and long-term credit ratings. Factors that may be significant to the determination of our credit ratings or otherwise affect our ability to raise short-term and long-term financing include our profit margin, our earnings trend and volatility, our cash liquidity and liquidity management, our capital structure, our risk level and risk management, our geographic and business diversification, and our relative positions in the markets in which we operate. Deterioration in any of these factors or combination of these factors may lead rating agencies to downgrade our credit ratings. This may increase the cost of, or possibly limit our access to, certain types of unsecured financings and trigger additional collateral requirements in derivative contracts and other secured funding arrangements. In addition, our debt ratings can affect certain capital markets revenues, particularly in those businesses where longer-term counterparty performance is critical, such as over-the-counter ("OTC") derivative transactions, including credit derivatives and interest rate swaps.

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The current ratings of Holdings and LBI short- and long-term senior borrowings were as follows:

	Credit Ratings			
	Holdings		LBI	
	Short-term	Long-term	Short-term	Long-term
Standard & Poor's Ratings Services	A-1	A+	A-1+	AA-
Moody's Investors Service	P-1	A1	P-1	Aa3
Fitch Ratings	F-1+	AA-	F-1+	AA-
Dominion Bond Rating Service Limited ⁽¹⁾	R-1 (middle)	AA (low)	R-1 (middle)	AA (low)

⁽¹⁾ Dominion Bond Rating Service Limited upgraded Holdings' long-term senior borrowings rating to AA (low) from A (high) on December 21, 2007.

At November 30, 2007, counterparties had the right to require us to post additional collateral pursuant to derivative contracts and other secured funding arrangements of approximately \$2.4 billion. Additionally, at that date we would have been required to post additional collateral pursuant to such arrangements of approximately \$0.1 billion in the event we were to experience a downgrade of our senior debt rating of one notch and a further \$4.6 billion in the event we were to experience a downgrade of our senior debt rating of two notches.

Cash Flows

Cash and cash equivalents of \$7.3 billion at November 30, 2007 increased by \$1.3 billion from \$6.0 billion at November 30, 2006, as net cash provided by financing activities of \$48.6 billion was offset by net cash used in operating activities of \$45.6 billion and net cash used in investing activities of \$1.7 billion.

Balance Sheet

Assets. The assets on our balance sheet consist primarily of Cash and cash equivalents, Financial instruments and other inventory positions owned, and collateralized agreements. At November 30, 2007, our total assets increased by 37% to \$691.1 billion from \$503.5 billion at November 30, 2006, due to an increase in secured financing transactions and net assets. Net assets at November 30, 2007 increased \$104.1 billion due to increases across most inventory categories, as well as an increase in client secured receivables, as we continue to grow the Firm. Our calculation of Net assets excludes from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized agreements which include securities received as collateral, securities purchased under agreements to resell and securities borrowed; and (iii) identifiable intangible assets and goodwill. We believe net assets to be a more useful measure of our assets than total assets because it excludes certain low-risk, non-inventory assets. Our calculation of Net assets may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

At November 30, 2007 and 2006 our total and net assets were comprised of the following items:

Net Assets

In millions	At November 30,	
	2007	2006
Total assets	\$ 691,100	\$ 503,545
Cash and securities segregated and on deposit for regulatory and other purposes	(12,743)	(6,091)
Collateralized agreements	(301,234)	(225,156)
Identifiable intangible assets and goodwill	(4,127)	(3,362)
Net assets	\$ 372,996	\$ 268,936

Net assets include certain inventory assets that could be viewed as transacting in less liquid markets. Although market conditions may cause an asset class to trade, temporarily, in a market less liquid than historically is the practice, we view inventory assets characterized as Real estate held for sale, certain High yield instruments and Private equity and other principal investments to typically trade in less liquid markets.

Real estate held for sale. We invest in real estate through direct investments in equity and debt. We record real estate held for sale at the lower of its carrying amount or fair value less cost to sell. The assessment of fair value less cost to sell generally requires the use of management estimates and generally is based on property appraisals provided by third parties and also incorporates an analysis of the related property cash flow projections. We had real estate investments of

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approximately \$21.9 billion and \$9.4 billion at November 30, 2007 and 2006, respectively. Because portions of these assets have been financed on a non-recourse basis, our net investment position was limited to \$12.6 billion and \$5.9 billion at November 30, 2007 and 2006, respectively.

High yield instruments. We underwrite, syndicate, invest in and make markets in high yield corporate debt securities and loans. For purposes of this discussion, high yield instruments are defined as securities of or loans to companies rated BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade. High yield debt instruments generally involve greater risks than investment grade instruments and loans due to the issuer's creditworthiness and the lower liquidity of the market for such instruments generally. In addition, these issuers generally have relatively higher levels of indebtedness resulting in an increased sensitivity to adverse economic conditions. We seek to reduce these risks through active hedging strategies and through the diversification of our products and counterparties.

High yield instruments are carried at fair value, with unrealized gains and losses reflected in Principal transactions in the Consolidated Statement of Income. Our high yield instruments at November 30, 2007 and 2006 were as follows:

In millions	At November 30,	
	2007	2006
Bonds and loans in liquid trading markets	\$31,458	\$11,481
Bonds and loans held awaiting securitization and/or syndication	157	4,132
Bonds and loans with little or no pricing transparency	1,117	316
High yield instruments	32,732	15,929
Credit risk hedges ⁽¹⁾	(2,337)	(3,111)
High yield position, net	\$30,395	\$12,818

⁽¹⁾ Credit risk hedges represent financial instruments with offsetting risk to the same underlying counterparty, but exclude other credit and market risk mitigants which are highly correlated, such as index, basket and/or sector hedges.

At November 30, 2007 and 2006, the largest industry concentrations were 26% and 20%, respectively. Both periods' concentrations were within the finance and insurance industry classifications. The largest geographic concentrations at November 30, 2007 and 2006 were 66% and 53%, respectively, in the Americas. We mitigate our aggregate and single-issuer net exposure through the use of derivatives, non-recourse financing and other financial instruments.

Private equity and other principal investments. Our Private Equity business operates in six major asset classes: Merchant Banking, Real Estate, Venture Capital, Credit-Related Investments, Private Funds Investments and Infrastructure. We have raised privately-placed funds in these asset classes, for which we act as a general partner and in which we have general and in many cases limited partner interests. In addition, we generally co-invest in the investments made by the funds or may make other non-fund-related direct investments. At November 30, 2007 and 2006, our private equity related investments totaled \$4.2 billion and \$2.1 billion, respectively. The real estate industry represented the highest concentrations at 41% and 30% at November 30, 2007 and 2006, respectively, and the largest single investment was approximately \$521 million and \$80 million, at those respective dates.

Our private equity investments are measured at fair value based on our assessment of each underlying investment, incorporating valuations that consider expected cash flows, earnings multiples and/or comparisons to similar market transactions among other factors. Valuation adjustments, which usually involve the use of significant management estimates, are an integral part of pricing these instruments, reflecting consideration of credit quality, concentration risk, sale restrictions and other liquidity factors. For additional information about our private equity and other principal investment activities, including related commitments, see Note 9, "Commitments, Contingencies and Guarantees" to the Consolidated Financial Statements.

Equity Management

The management of equity is a critical aspect of our capital management. Determining the appropriate amount of equity capital base is dependent on a number of variables, including the amount of equity needed given our estimation of risk in our business activities, the capital required by laws or regulations, leverage thresholds required by the consolidated supervised entity ("CSE") rules and credit rating agencies' perspectives of capital sufficiency.

We continuously evaluate deployment alternatives for our equity with the objective of maximizing shareholder value. In periods where we determine our levels of equity to be beyond those necessary to support our business activities, we may return capital to shareholders through dividend payments or stock repurchases.

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We maintain a stock repurchase program to manage our equity capital. In January 2007, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings common stock for the management of our equity capital, including offsetting dilution due to employee stock awards. This authorization superseded the stock repurchase program authorized in 2006. Our stock repurchase program is effected through regular open-market purchases, as well as through employee transactions where employees tender shares of common stock to pay for the exercise price of stock options, and the required tax withholding obligations upon option exercises and conversion of restricted stock units ("RSUs") to freely-tradable common stock.

Over the course of our 2007 fiscal year, we repurchased through open-market purchases or withheld from employees for the purposes described above approximately 43.0 million shares of our common stock at an aggregate cost of approximately \$3.2 billion, or \$73.85 per share. During 2007, we issued 15.4 million shares resulting from employee stock option exercises and another 24.5 million shares were issued out of treasury stock to an irrevocable grantor trust which holds shares for issuance to employees in satisfaction of restricted stock units granted under the Firm's equity compensation plans (the "RSU Trust").

Capital Ratios

Leverage Ratios. The relationship of assets to equity is one measure of a company's capital adequacy. Generally, this ratio is computed by dividing assets by stockholders' equity. We believe that a more meaningful, comparative ratio for companies in the securities industry is net leverage, which is the result of net assets divided by tangible equity capital.

Our net leverage ratio is calculated as net assets divided by tangible equity capital. We calculate net assets by excluding from total assets: (i) cash and securities segregated and on deposit for regulatory and other purposes; (ii) collateralized agreements which include securities received as collateral, securities purchased under agreements to resell and securities borrowed; and (iii) identifiable intangible assets and goodwill. We believe net leverage based on net assets to be a more useful measure of leverage, because it excludes certain low-risk, non-inventory assets and utilizes tangible equity capital as a measure of our equity base. We calculate tangible equity capital by including stockholders' equity and junior subordinated notes and excluding identifiable intangible assets and goodwill. We believe tangible equity capital to be a more meaningful measure of our equity base for purposes of calculating net leverage because it includes instruments we consider to be equity-like due to their subordinated nature, long-term maturity and interest deferral features and we do not view the amount of equity used to support identifiable intangible assets and goodwill as available to support our remaining net assets. These measures may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

Tangible Equity Capital and Leverage and Net Leverage Ratios

In millions	At November 30,	
	2007	2006
Total stockholders' equity	\$ 22,498	\$ 19,191
Junior subordinated notes ^{(1), (2)}	4,740	2,738
Identifiable intangible assets and goodwill	(4,127)	(3,362)
Tangible equity capital	\$ 23,111	\$ 18,567
Total assets	\$ 691,100	\$ 503,545
Leverage ratio	30.7x	26.2x
Net assets	\$ 372,996	\$ 268,936
Net leverage ratio	16.1x	14.5x

⁽¹⁾ See Note 8, "Borrowings and Deposit Liabilities," to the Consolidated Financial Statements.

⁽²⁾ Our definition for tangible equity capital limits the amount of junior subordinated notes and preferred stock included in the calculation to 25% of tangible equity capital. The amount excluded was approximately \$237 million in 2007 and no amount was excluded in 2006.

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Included below are the changes in our tangible equity capital at November 30, 2007 and 2006:

Tangible Equity Capital

In millions	At November 30,	
	2007	2006
Beginning tangible equity capital	\$18,567	\$15,564
Net income	4,192	4,007
Dividends on common stock	(351)	(276)
Dividends on preferred stock	(67)	(66)
Common stock open-market repurchases	(2,605)	(2,678)
Common stock withheld from employees ⁽¹⁾	(573)	(1,003)
Equity-based award plans ⁽²⁾	2,829	2,396
Net change in junior subordinated notes included in tangible equity ⁽³⁾	2,002	712
Change in identifiable intangible assets and goodwill	(765)	(106)
Other, net ⁽⁴⁾	(118)	17
Ending tangible equity capital	\$23,111	\$18,567

⁽¹⁾ Represents shares of common stock withheld in satisfaction of the exercise price of stock options and tax withholding obligations upon option exercises and conversion of RSUs.

⁽²⁾ This represents the sum of (i) proceeds received from employees upon the exercise of stock options, (ii) the incremental tax benefits from the issuance of stock-based awards and (iii) the value of employee services received – as represented by the amortization of deferred stock compensation.

⁽³⁾ Junior subordinated notes are deeply subordinated and have a long-term maturity and interest deferral features and are utilized in calculating equity capital by leading rating agencies.

⁽⁴⁾ Other, net for 2007 includes a \$67 million net increase to Retained earnings from adoption of SFAS 157 and SFAS 159 and a \$206 million decrease to Accumulated other comprehensive income from the adoption of SFAS 158. See "Accounting and Regulatory Developments" below for additional information. Other, net for 2006 includes a \$6 million net decrease to Retained earnings from the initial adoption of under SFAS 155 and SFAS No. 156, *Accounting for Servicing of Financial Assets*.

Primary Equity Double Leverage. Primary equity double leverage ratio is the comparison of equity investments in subsidiaries to total equity capital (the sum of total stockholders' equity and junior subordinated notes). As of November 30, 2007, our equity investment in subsidiaries was \$25.1 billion and our total equity capital calculated to \$27.5 billion. We aim to maintain a primary equity double leverage ratio (the ratio of equity investments in Holdings' subsidiaries to its total equity capital) of 1.0x or below. Our primary equity double leverage ratio was 0.91x and 0.88x as of November 30, 2007 and 2006, respectively. We believe total equity capital to be a more meaningful measure of our equity than stockholders' equity because, as stated above, we consider junior subordinated notes to be equity-like due to their subordinated nature, long-term maturity and interest deferral features. We believe primary equity double leverage based on total equity capital to be a useful measure of our equity investments in subsidiaries. Our calculation of primary equity double leverage may not be comparable to other, similarly titled calculations by other companies as a result of different calculation methodologies.

Contractual Obligations and Lending-Related Commitments

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments. The following table summarizes our contractual obligations at November 30, 2007 in total and by remaining maturity, and at November 30, 2006. Excluded from the table are a number of obligations recorded in the Consolidated Statement of Financial Condition that generally are short-term in nature, including secured financing transactions, trading liabilities, deposit liabilities at our banking subsidiaries, commercial paper and other short-term borrowings and other payables and accrued liabilities.

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In millions	Expiration per period at November 30,				Total Contractual Amount	
	2008	2009	2010- 2011	2012- Later	November 30,	
					2007	2006
Long-term borrowings	\$ —	\$25,138	\$28,248	\$71,049	\$124,435	\$81,178
Operating lease obligations	280	269	492	1,573	2,614	1,714
Capital lease obligations	74	99	206	2,597	2,975	3,043
Purchase and other obligations	316	10	9	13	348	783

For additional information about long-term borrowings, see Note 8, "Borrowings and Deposit Liabilities," to the Consolidated Financial Statements. For additional information about operating and capital lease obligations, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms including: fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Purchase obligations with variable pricing provisions are included in the table based on the minimum contractual amounts. Certain purchase obligations contain termination or renewal provisions. The table reflects the minimum contractual amounts likely to be paid under these agreements assuming the contracts are not terminated.

Lending-Related Commitments

In the normal course of business, we enter into various lending-related commitments. In all instances, we mark to market these commitments with changes in fair value recognized in Principal transactions in the Consolidated Statement of Income. We use various hedging and funding strategies to actively manage our market, credit and liquidity exposures on these commitments. We do not believe total commitments are necessarily indicative of actual risk or funding requirements because the commitments may not be drawn or fully used and such amounts are reported before consideration of hedges. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower.

Through our high grade (investment grade) and high yield (non-investment grade) sales, trading and underwriting activities, we make commitments to extend credit in loan syndication transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. We define high yield exposures as securities of or loans to companies rated BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade.

We had commitments to high grade borrowers at November 30, 2007 and 2006 of \$24.0 billion (net credit exposure of \$12.2 billion, after consideration of hedges) and \$17.9 billion (net credit exposure of \$4.9 billion, after consideration of hedges), respectively. We had commitments to high yield borrowers of \$14.1 billion (net credit exposure of \$12.8 billion, after consideration of hedges) and \$7.6 billion (net credit exposure of \$5.9 billion, after consideration of hedges) at November 30, 2007 and 2006, respectively.

Contingent acquisition facilities. We provide contingent commitments to investment and non-investment grade counterparties related to acquisition financing. We do not believe contingent acquisition commitments are necessarily indicative of actual risk or funding requirements as funding is dependent both upon a proposed transaction being completed and the acquiror fully utilizing our commitment. Typically, these commitments are made to a potential acquiror in a proposed acquisition, which may or may not be completed depending on whether the potential acquiror to whom we have provided our commitment is successful. A borrower's ability to draw on the contingent commitment is typically subject to there being no material adverse change in the borrower's financial condition, among other factors, and the commitments also generally contain certain features that allow a certain degree of flexibility in pricing to adjust for changing market conditions prior to closing. In addition, acquirors generally utilize multiple financing sources, including other investment and commercial banks, as well as accessing the general capital markets for completing transactions. Further, our past practice, consistent with our credit facilitation framework, has been to syndicate acquisition financings to investors. Therefore, our contingent acquisition commitments are generally greater than the amounts we will ultimately fund. The ultimate timing, amount and pricing of a syndication, however, is influenced by market conditions that may not necessarily be consistent with those at the time the commitment was entered.

We provided contingent commitments to investment grade counterparties related to acquisition financing of approximately \$10.2 billion and \$1.9 billion at November 30, 2007 and 2006, respectively. In addition, we provided contingent

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commitments to non-investment grade counterparties related to acquisition financing of approximately \$9.8 billion and \$12.8 billion at November 30, 2007 and 2006, respectively.

In addition, through our mortgage origination platforms we make commitments to extend mortgage loans. At November 30, 2007 and 2006, we had outstanding mortgage commitments of approximately \$7.5 billion and \$12.2 billion, respectively. The commitments included \$3.1 billion and \$7.0 billion of residential mortgages and \$4.4 billion and \$5.2 billion of commercial mortgages at both comparative periods. The residential mortgage loan commitments require us to originate mortgage loans at the option of a borrower generally within 90 days at fixed interest rates. Our intention is to sell residential mortgage loans, once originated, primarily through securitizations.

In connection with our financing activities, we had outstanding commitments under certain collateralized lending arrangements of approximately \$9.7 billion and \$7.4 billion at November 30, 2007 and 2006, respectively. These commitments require borrowers to provide acceptable collateral, as defined in the agreements, when amounts are drawn under the lending facilities. Advances made under these lending arrangements typically are at variable interest rates and generally provide for over-collateralization. In addition, at November 30, 2007, we had commitments to enter into forward starting secured resale and repurchase agreements, primarily secured by government and government agency collateral, of \$70.8 billion and \$45.3 billion, respectively, compared to \$44.4 billion and \$31.2 billion, respectively, at November 30, 2006.

Lending-related commitments at November 30, 2007 and 2006 were as follows:

In millions	Expiration Per Period at November 30,					Total Contractual Amount	
	2008	2009	2010- 2011	2012- 2013	Later	November 30, 2007	2006
Lending commitments							
High grade ⁽¹⁾	\$ 5,579	\$ 1,039	\$ 6,554	\$ 10,411	\$ 403	\$23,986	\$17,945
High yield ⁽²⁾	4,051	411	2,103	4,850	2,658	14,073	7,558
Contingent acquisition facilities							
High grade	10,230	—	—	—	—	10,230	1,918
High-yield	9,749	—	—	—	—	9,749	12,766
Mortgage commitments	5,082	670	1,378	271	50	7,451	12,162
Secured lending transactions	122,661	455	429	468	1,846	125,859	83,071

⁽¹⁾ We view our net credit exposure for high grade commitments, after consideration of hedges, to be \$12.2 billion and \$4.9 billion at November 30, 2007 and 2006, respectively.

⁽²⁾ We view our net credit exposure for high yield commitments, after consideration of hedges, to be \$12.8 billion and \$5.9 billion at November 30, 2007 and 2006, respectively.

For additional information about lending-related commitments, see Note 9, "Commitments, Contingencies and Guarantees" to the Consolidated Financial Statements.

Off-Balance-Sheet Arrangements

In the normal course of business we engage in a variety of off-balance-sheet arrangements, including certain derivative contracts meeting the FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"), definition of a guarantee that may require future payments. Other than lending-related commitments already discussed above in "Lending-Related Commitments," the following table summarizes our off-balance-sheet arrangements at November 30, 2007 and November 30, 2006 as follows:

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In millions	Expiration Per Period at November 30,					Total Contractual Amount	
						November 30, 2007	
	2008	2009	2010- 2011	2012- 2013	Later	2007	2006
Derivative contracts ⁽¹⁾	\$89,407	\$62,688	\$154,771	\$210,236	\$239,714	\$756,816	\$534,585
Municipal-securities-related commitments	2,362	733	86	69	3,652	6,902	1,599
Other commitments with variable interest entities	106	3,100	170	963	4,772	9,111	4,902
Standby letters of credit	1,685	5	—	—	—	1,690	2,380
Private equity and other principal investment commitments	826	675	541	412	136	2,590	1,088

⁽¹⁾ We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. At November 30, 2007 and 2006, the fair value of these derivative contracts approximated \$14.8 billion and \$9.3 billion, respectively.

In accordance with FIN 45, the table above includes only certain derivative contracts meeting the FIN 45 definition of a guarantee. For additional information on these guarantees and other off-balance sheet arrangements, see Note 9 "Commitments, Contingencies and Guarantees" to the Consolidated Financial Statements.

Derivatives

Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statement of Financial Condition. Rather, the market, or fair values, related to derivative transactions are reported in the Consolidated Statement of Financial Condition as assets or liabilities in Derivatives and other contractual agreements, as applicable. Derivatives are presented on a net-by-counterparty basis when a legal right of offset exists; on a net-by-cross product basis when applicable provisions are stated in a master netting agreement; and/or on a net of cash collateral received or paid on a counterparty basis, provided a legal right of offset exists.

We enter into derivative transactions both in a trading capacity and as an end-user. Acting in a trading capacity, we enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities (collectively, "Trading-Related Derivatives").

As an end-user, we primarily use derivatives to hedge our exposure to market risk (including foreign currency exchange and interest rate risks) and credit risks (collectively, "End-User Derivatives"). When End-User Derivatives are interest rate swaps they are measured at fair value through earnings and the carrying value of the related hedged item is adjusted through earnings for the effect of changes in the fair value of the risk being hedged. The hedge ineffectiveness in these relationships is recorded in Interest expense in the Consolidated Statement of Income. When End-User Derivatives are used in hedges of net investments in non-U.S. dollar functional currency subsidiaries, the gains or losses are reported within Accumulated other comprehensive income/(loss), net of tax in Stockholders' equity.

We conduct our derivative activities through a number of wholly-owned subsidiaries. Our fixed income derivative products business is principally conducted through our subsidiary Lehman Brothers Special Financing Inc., and separately capitalized "AAA" rated subsidiaries, Lehman Brothers Financial Products Inc. and Lehman Brothers Derivative Products Inc. Our equity derivative products business is conducted through Lehman Brothers Finance S.A. and Lehman Brothers OTC Derivatives Inc. Our commodity and energy derivatives product business is conducted through Lehman Brothers Commodity Services Inc. In addition, as a global investment bank, we also are a market maker in a number of foreign currencies. Counterparties to our derivative product transactions primarily are U.S. and foreign banks, securities firms, corporations, governments and their agencies, finance companies, insurance companies, investment companies and pension funds. We manage the risks associated with derivatives on an aggregate basis, along with the risks associated with our non-derivative trading and market-making activities in cash instruments, as part of our firm wide risk management policies. We use industry standard derivative contracts whenever appropriate.

For additional information about our accounting policies and our Trading-Related Derivative activities, see Note 1, "Summary of Significant Accounting Policies" and Note 3, "Financial Instruments and Other Inventory Positions" to the Consolidated Financial Statements.

Special Purpose Entities

SPEs are corporations, trusts or partnerships that are established for a limited purpose. There are two types of SPEs—QSPEs and VIEs.

A QSPE generally can be described as an entity whose permitted activities are limited to passively holding financial assets and distributing cash flows to investors based on pre-set terms. Our primary involvement with QSPEs relates to securitization transactions in which transferred assets, including mortgages, loans, receivables and other financial assets, are sold to an SPE that qualifies as a QSPE under SFAS 140. In accordance with SFAS 140, we do not consolidate QSPEs. We recognize at fair value the interests we hold in the QSPEs. We derecognize financial assets transferred to QSPEs, provided we have surrendered control over the assets.

Certain SPEs do not meet the QSPE criteria because their permitted activities are not limited sufficiently or the assets are non-qualifying financial instruments (e.g., real estate). These SPEs are referred to as VIEs, and we typically use them to create securities with a unique risk profile desired by investors to intermediate financial risk or to invest in real estate. Examples of our involvement with VIEs include collateralized debt obligations, synthetic credit transactions, real estate investments through VIEs, and other structured financing transactions. Under FIN 46(R), we consolidate a VIE if we are the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIEs expected losses; (ii) receives a majority of the VIEs expected residual returns; or (iii) both.

For a further discussion of our consolidation policies, see "Critical Accounting Policies and Estimates—Consolidation Accounting Policies" in this MD&A. For a further discussion of our securitization activities and our involvement with VIEs, see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

Other Off-Balance Sheet Exposure

SIVs. A structured investment vehicle ("SIV") is a fund that borrows money in the form of commercial paper, mortgage-traded notes or subordinated capital notes, and uses the proceeds to purchase assets, including asset-backed or mortgage-backed securities. During the third and fourth fiscal quarters of 2007, global capital markets experienced a significant contraction in available liquidity, and among other realized impacts, SIVs that relied upon short-term, commercial paper to fund longer dated assets experienced a lack of liquidity.

We do not own, manage or sponsor any SIVs. Our SIV-related exposure is limited to that acquired through proprietary investments or trading activity, specifically:

- At November 30, 2007, we had approximately \$75 million of balance sheet exposure representing the aggregate of a fully drawn liquidity loan to a SIV, as well as mortgage-related traded notes and commercial paper issued by SIVs bought in the primary or secondary markets.
- We have entered into derivative transactions to which SIVs are counterparties. The total notional amount of these derivative transactions was approximately \$4.1 billion at November 30, 2007. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- Under resell or repurchase agreements, we have balance sheet exposure to commercial paper issued by SIVs. This exposure was approximately \$14 million at November 30, 2007. For a further discussion of resell and repurchase agreements, see Note 5, "Securities Received and Pledged as Collateral," to the Consolidated Financial Statements.

Conduits. We are a sponsor, guarantor, and/or liquidity and credit facility provider to certain conduits. Specifically:

- We make certain liquidity commitments and guarantees to commercial paper conduits in support of certain clients' secured financing transactions. These commitments and guarantees obligate us to provide liquidity to these conduits in the event the conduits cannot obtain funding in the market; however, our obligation is limited to the total amount required to fund our clients' assets in the conduit. At November 30, 2007, the amount of these commitments was approximately \$1.4 billion. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- We provide guarantees to investors in certain VIEs. These guarantees may include a guaranteed return of the investors' initial investment or of the investors' initial investment plus an agreed upon return depending on the terms. At November 30, 2007, these commitments were approximately \$6.2 billion. For a further discussion, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.

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- At November 30, 2007, Holdings is also committed to provide \$1.6 billion of back-up liquidity to a conduit designed to provide funding for our contingent acquisition commitments, if necessary. We are obligated to provide financing to the conduit if the conduit is not able to remarket certain secured liquidity notes at the notes' maturity. For a further discussion of derivative transactions, see Note 9, "Commitments, Contingencies and Guarantees—Other Commitments and Guarantees," to the Consolidated Financial Statements.
- As a dealer and agent in the commercial paper market, we hold a minimal amount in inventory from various conduit programs. At November 30, 2007, the amount of commercial paper in our inventory from liquidity conduit programs in which we participate was approximately \$850 million.

Risk Management

Our goal is to realize returns from our business commensurate with the risks assumed. Our business activities have inherent risks that we monitor, evaluate and manage through a comprehensive risk management structure. These risks include market, credit, liquidity, operational and reputational exposures, among others.

The bases of our risk control processes are:

- We establish policies to document our risk principles, our risk capacity and tolerance levels.
- We monitor and enforce adherence to our risk policies.
- We measure quantifiable risks using methodologies and models based on tested assumptions.
- We identify emerging risks through monitoring our portfolios, new business development, unusual or complex transactions and external events and market influences.
- We report risks to stakeholders.

Risk Management Structure

While risk cannot be completely eliminated, we have designed our internal control environment to put appropriate risk mitigants in place. Our control processes separate the duties of risk management from revenue generation and effect management oversight of the risk management function.

Our overall risk limits and risk management policies, including establishment of risk tolerance levels, are determined by management's Executive Committee. Our Risk Committee, consisting of the Executive Committee, the Chief Risk Officer and the Chief Financial Officer, reviews our risk exposures, position concentrations and risk-taking activities at least on a weekly basis. Our Risk Committee allocates the usage of capital to each of our businesses and establishes trading and credit limits for counterparties with a goal to maintain diversification of our businesses, counterparties and geographic presence.

The Global Risk Management Division (the "Division") is independent of revenue-generation but maintains a presence in our regional trading centers as well as in key sales offices. The Division's goal is to mitigate our risks such that losses are realized within acceptable limits based upon predictable events. The organization of the Division reflects our integrated approach to risk management, bringing together the skill sets of credit, market, quantitative, sovereign and operational risk management groups.

Market Risk

Market risk is the potential change to the market value of our trading and investing positions. We assume market risk in our market-making, specialist, proprietary trading and investing and underwriting activities.

Market risk can result from changes in market variables, including:

- Changes in the level, slope or shape of yield curves (interest rates), widening or tightening of general spread levels (credit or credit-related spreads) and volatility of interest rates.
- Directional movements in prices and volatilities of individual equities, equity baskets and equity indices.
- Movement of domestic and foreign currency rates.
- Price movements of commodities such as electricity, natural gas, and oil.
- Changes in asset valuations.

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Responsibility for defining and monitoring market risk tolerance levels is that of our Market Risk Management Department (the "MRM Department"). Based upon the MRM Department's established thresholds, management applies business judgment to mitigate these risks, managing our risk exposures by diversifying portfolios and market presence, limiting position sizes and establishing economic hedges. Both the MRM Department and management also rely upon the Quantitative Risk Management Department (the "QRM Department") to ensure that both quantifiable and unquantifiable risk is identified, assessed and managed.

Management and the MRM and QRM Departments use qualitative and quantitative risk measures and analyses such as sensitivity to changes in interest rates, prices, and implied volatilities. Stress testing, which measures the impact on the value of existing portfolios of specific changes in market factors for certain products, is performed with regularity. Scenario analyses, which estimate sensitivity to a set of predefined market and/or external events, are also periodically conducted. A statistical measure of the potential loss in the fair value of a portfolio due to adverse movements in underlying risk factors known as value-at-risk ("VaR") is also relied upon to monitor and manage market risk.

VaR. We estimate VaR using a model that simulates the impact market risk factors would have on our portfolio. Our calculation of VaR is an approximation of earning and loss distributions our portfolio would realize if current market risks were observed in historical markets. Our method uses four years of historical data, weighted to give greater impact to more recent time periods in simulating potential changes in market risk factors, and estimates the amount that our current portfolio could lose with a specified degree of confidence, over a given time interval.

For the table below, a one-day time interval and a 95% confidence level were used. This means that there is a 1-in-20 chance that daily trading net revenues on a particular day would fall below the expected daily trading net revenue by an amount greater than or equal to the reported VaR.

In a historical simulation VaR, portfolio positions have offsetting risk characteristics, referred to as diversification benefit. We measure the diversification benefit within our portfolio by historically simulating how the positions in our current portfolio would have behaved in relation to each other as opposed to using a static estimate of a diversification benefit, which remains relatively constant from period to period. From time to time there will be changes in our historical simulation VaR due to changes in the diversification benefit across our portfolio of financial instruments.

VaR measures have inherent limitations including: historical market conditions and historical changes in market risk factors may not be accurate predictors of future market conditions or future market risk factors; VaR measurements are based on current positions, while future risk depends on future positions; and VaR based on a one-day measurement period does not fully capture the market risk of positions that cannot be liquidated or hedged within one day. VaR is not intended to capture worst case scenario losses and we could incur losses greater than the VaR amounts reported.

Because there is no uniform industry methodology for estimating VaR, different assumptions concerning the number of risk factors, the duration of the time series and daily changes in these risk factors, as well as different methodologies could produce materially different results and therefore caution should be used when comparing such risk measures among comparable institutions.

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VaR – Historical Simulation

In millions	At				
	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007	Nov 30, 2006
Interest rate risk	\$ 96	\$ 79	\$ 51	\$ 58	\$ 48
Equity price risk	50	46	54	26	20
Foreign exchange risk	11	7	6	7	5
Commodity risk	13	8	7	5	6
Diversification benefit	(46)	(40)	(31)	(21)	(25)
	\$ 124	\$ 100	\$ 87	\$ 75	\$ 54

In millions	Average VaR Three Months Ended					Year Ended November 30,			
	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007	Nov 30, 2006	2007		2006	
						High	Low	High	Low
Interest rate risk	\$ 89	\$ 68	\$ 54	\$ 41	\$ 41	\$ 123	\$ 33	\$ 64	\$ 23
Equity price risk	51	45	43	34	20	79	21	31	11
Foreign exchange risk	10	8	7	11	5	16	5	7	2
Commodity risk	11	8	6	5	5	16	4	11	1
Diversification benefit	(37)	(33)	(32)	(28)	(23)				
	\$ 124	\$ 96	\$ 78	\$ 63	\$ 48	\$ 155	\$ 48	\$ 74	\$ 29

The increase in both the period end and quarterly average historical simulation VaR was due, in large part, to increased activity in interest rate trading and increased market volatilities, which increased the overall risk across multiple business segments.

As part of our risk management control processes, we monitor daily trading net revenues compared to reported historical simulation VaR as of the end of the prior business day. In the 2007 fiscal year, there were four days, all occurring the second half of the twelve month period, when our daily net trading loss exceeded our historical simulation VaR as measured at the close of the previous business day.

Real estate investments are not financial instruments and therefore not contemplated within the VaR calculation. We use stress testing to evaluate risks associated with our real estate portfolios. As of November 30, 2007, we had approximately \$21.9 billion of real estate investments; however our net investment at risk was limited to \$12.6 billion as a portion of these assets have been financed on a non-recourse basis. As of November 30, 2007, we estimate that a hypothetical 10% decline in the underlying property values associated with the non-syndicated investments would have resulted in a net revenue loss of approximately \$842 million.

Credit Risk

Credit risk represents the loss incurred as a result of failure by a client, counterparty or issuer to meet its contractual obligations. Credit risk is inherent in traditional banking products – loans, commitments to lend and contingent liabilities – and in “traded” products – derivative contracts such as forwards, swaps and options, repurchase agreements (repos and reverse repos), debt securities and securities borrowing and lending transactions.

Management and in particular our Credit Risk Management Department (the “CRM Department”) define and monitor credit risk and exposure. The CRM Department approves counterparties, assigns internal risk ratings, and establishes credit limits, among other risk mitigation procedures. The CRM Department monitors and periodically reviews counterparty risk ratings, current credit exposures and potential credit exposures across products and recommends valuation adjustments, when appropriate. Given market events or counterparties’ changes in financial conditions, additional review and adjustment procedures may be undertaken. We also seek to reduce our current and potential credit exposures by entering into agreements that: offset receivables from and payables to a counterparty; obtain upfront or contingent collateral from counterparties; provide a third-party guarantee for a counterparty’s obligations; and transfer our credit risk to third parties using structures or techniques such as credit derivatives. Working with the MRM Department, the CRM Department also participates in transaction approval, where the risks of the transaction on a stand-alone basis as well as our aggregate risk exposure to the obligor are contemplated.

Credit Risk on Derivatives. Derivatives are exchange traded or privately negotiated contracts that derive their value from an underlying asset. Derivatives are useful for risk management because the fair values or cash flows of derivatives can be used to offset the changes in fair values or cash flows of other financial instruments. In addition to risk

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management, we enter into derivative transactions for purposes of client transactions or trading positions. The presentation of derivatives in our consolidated statement of financial position is net of payments and receipts and, in instances where management determines a legal right of offset exists as a result of a netting agreement, net-by-counterparty. Risk for an OTC derivative is directly correlated to the counterparty(ies) in the negotiated contract and the risk continues for the duration of that contract.

With respect to OTC derivative contracts, we view our net credit exposure to have been \$34.6 billion and \$15.6 billion at November 30, 2007 and at November 30, 2006, respectively, representing the fair value of OTC derivative contracts in a net receivable position after consideration of collateral.

The following tables set forth the fair value of OTC derivatives by contract type and related net credit exposure, as of November 30, 2007 and November 30, 2006, respectively.

Fair Value of OTC Derivative Contracts by Maturity

In millions	November 30, 2007						
	Less than 1 Year	1 to 5 Years	5 to 10 Years	Greater than 10 Years	Cross Maturity, Cross Product and Cash Collateral Netting ⁽¹⁾	OTC Derivatives	Net Credit Exposure
Assets							
Interest rate, currency and credit default swaps and options	\$ 4,814	\$22,407	\$13,915	\$15,901	\$(35,009)	\$ 22,028	\$ 21,718
Foreign exchange forward contracts and options	2,940	432	390	166	(1,449)	2,479	1,954
Other fixed income securities contracts ⁽²⁾	8,015	866	89	14	(535)	8,450	6,890
Equity contracts	4,615	2,469	629	2,470	(1,826)	8,357	4,043
	\$20,384	\$26,174	\$15,023	\$18,552	\$(38,819)	\$41,314	\$34,605
Liabilities							
Interest rate, currency and credit default swaps and options	\$ 4,499	\$ 12,355	\$ 11,483	\$ 11,873	\$(29,295)	\$ 10,915	
Foreign exchange forward contracts and options	3,578	540	530	126	(1,886)	2,888	
Other fixed income securities contracts ⁽³⁾	5,474	608	322	2	(382)	6,024	
Equity contracts	5,007	5,584	795	2,928	(5,035)	9,279	
	\$18,558	\$19,087	\$13,130	\$14,929	\$(36,598)	\$29,106	

⁽¹⁾ Cross-maturity netting represents the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category when appropriate. Cash collateral received or paid is netted on a counterparty basis, provided legal right of offset exists. Assets and liabilities at November 30, 2007 were netted down for cash collateral of approximately \$19.7 billion and \$17.5 billion, respectively.

⁽²⁾ Includes commodity derivatives assets of \$1.5 billion.

⁽³⁾ Includes commodity derivatives liabilities of \$1.5 billion.

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November 30, 2006

In millions	Less than 1 Year	1 to 5 Years	5 to 10 Years	Greater than 10 Years	Cross Maturity, Cross Product and Cash Collateral Netting ⁽¹⁾	OTC Derivatives	Net Credit Exposure
Assets							
Interest rate, currency and credit							
default swaps and options	\$ 1,514	\$ 7,332	\$10,121	\$8,792	\$(19,125)	\$ 8,634	\$ 8,848
Foreign exchange forward							
contracts and options	2,560	472	62	43	(1,345)	1,792	1,049
Other fixed income securities							
contracts ⁽²⁾	4,305	3	—	—	—	4,308	3,856
Equity contracts	3,142	2,741	870	362	(2,377)	4,738	1,854
	\$11,521	\$10,548	\$11,053	\$9,197	\$(22,847)	\$19,472	\$15,607
Liabilities							
Interest rate, currency and credit							
default swaps and options	\$ 2,262	\$ 5,481	\$5,012	\$6,656	\$(13,720)	\$ 5,691	
Foreign exchange forward							
contracts and options	3,204	883	240	33	(2,215)	2,145	
Other fixed income securities							
contracts ⁽³⁾	2,596	8	—	—	—	2,604	
Equity contracts	3,375	3,736	1,377	260	(4,003)	4,745	
	\$11,437	\$10,108	\$6,629	\$6,949	\$(19,938)	\$15,185	

⁽¹⁾ Cross-maturity netting represents the netting of receivable balances with payable balances for the same counterparty across maturity and product categories. Receivable and payable balances with the same counterparty in the same maturity category are netted within the maturity category when appropriate. Cash collateral received or paid is netted on a counterparty basis, provided legal right of offset exists. Assets and liabilities at November 30, 2006 were netted down for cash collateral of approximately \$11.1 billion and \$8.2 billion, respectively.

⁽²⁾ Includes commodity derivatives assets of \$268 million

⁽³⁾ Includes commodity derivatives liabilities of \$277 million.

Presented below is an analysis of net credit exposure at November 30, 2007 and at November 30, 2006 for OTC contracts based on actual ratings made by external rating agencies or by equivalent ratings established and used by our CRM Department.

Net Credit Exposure

Counterparty Risk Rating	S&P/Moody's Equivalent	Less than 1 Year	1 to 5 Years	5 to 10 Years	Greater than 10 Years	Total	
						November 30, 2007	November 30, 2006
iAAA	AAA/Aaa	5%	5%	6%	8%	24%	14%
iAA	AA/Aa	14	5	3	4	26	39
iA	A/A	10	5	6	16	37	31
iBBB	BBB/Baa	3	1	1	2	7	11
iBB	BB/Ba	2	1	-	-	3	4
iB or lower	B/B1 or lower	1	1	1	-	3	1
		35%	18%	17%	30%	100%	100%

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Liquidity Risk

Liquidity risk is the potential that we are unable to:

- Meet our payment obligations when due;
- Borrow funds in the market on an on-going at an acceptable price to fund actual or proposed commitments; or
- Liquidate assets in a timely manner at a reasonable price.

Management's Finance Committee is responsible for developing, implementing and enforcing our liquidity, funding and capital policies. These policies include recommendations for capital and balance sheet size as well as the allocation of capital to the business units. Management's Finance Committee oversees compliance with policies and limits with the goal of ensuring we are not exposed to undue liquidity, funding or capital risk.

Our liquidity strategy seeks to ensure that we maintain sufficient liquidity to meet all of our funding obligations in all market environments. That strategy is centered on five principles:

- Maintaining a liquidity pool that is of sufficient size to cover expected cash outflows for one year in a stressed liquidity environment.
- Relying on secured funding only to the extent that we believe it would be available in all market environments.
- Diversifying our funding sources to minimize reliance on any given provider.
- Assessing our liquidity at the legal entity level. For example, because our legal entity structure can constrain liquidity available to Holdings, our liquidity pool excludes liquidity that is restricted from availability to Holdings.
- Maintaining a comprehensive funding action plan to manage a stress liquidity event, including a communication plan for regulators, creditors, investors and clients.

For further discussion of our liquidity positions, see "Liquidity, Funding and Capital Resources" in this MD&A.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risk may arise from mistakes, intentional or otherwise, in the execution, confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. Our businesses are highly dependent on our ability to daily process a large number of transactions across numerous and diverse markets in many currencies, and these transactions have become increasingly complex. Consequently, we rely heavily on our financial, accounting and other data processing systems. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we will need to continue to upgrade and expand in the future to avoid disruption of, or constraints on, our operations.

The Operational Risk Management Department (the "ORM Department") is responsible for implementing and maintaining our overall global operational risk management framework, which seeks to minimize these risks through assessing, reporting, monitoring and mitigating operational risks.

We have a company-wide business continuity plan (the "BCP"). The BCP objective is to ensure that we can continue critical operations with limited processing interruption in the event of a business disruption. The business continuity group manages our internal incident response process and develops and maintains continuity plans for critical business functions and infrastructure. This includes determining how vital business activities will be performed until normal processing capabilities can be restored. The business continuity group is also responsible for facilitating disaster recovery and business continuity training and preparedness for our employees.

Reputational and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is important. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards.

Potential clients are screened through a multi-step process that begins with the individual business units and product

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groups. In screening clients, these groups undertake a comprehensive review of the client and its background and the potential transaction to determine, among other things, whether they pose any risks to our reputation. Potential transactions are screened by independent committees in the Firm, which are composed of senior members from various corporate divisions of the Company including members of the Global Risk Management Division. These committees review the nature of the client and its business, the due diligence conducted by the business units and product groups and the proposed terms of the transaction to determine overall acceptability of the proposed transaction. In so doing, the committees evaluate the appropriateness of the transaction, including a consideration of ethical and social responsibility issues and the potential effect of the transaction on our reputation.

We are exposed to other risks having an ability to adversely impact our business. Such risks include legal, geopolitical, tax and regulatory risks that may come to bear due to changes in local laws, regulations, accounting standards or tax statutes. To assist in the mitigation of such risks, we monitor and review regulatory, statutory or legal proposals that could impact our businesses. See "Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K.

Overall Effectiveness

The overall effectiveness of our risk management practices can be evaluated on a broader perspective when analyzing the distribution of daily net trading revenues over time. We consider net trading revenue volatility over time to be a comprehensive evaluator of our overall risk management practices because it incorporates the results of virtually all of our trading activities and types of risk.

The following table shows a measure of daily trading net revenue volatility, utilizing actual daily trading net revenues over the previous rolling 250 trading days at a 95% confidence level. This measure represents the loss relative to the median actual daily trading net revenues over the previous rolling 250 trading days, measured at a 95% confidence level. This means there is a 1-in-20 chance that actual daily trading net revenues would be expected to decline by an amount in excess of the reported revenue volatility measure.

Revenue Volatility

Average trading net revenue volatility measured in this manner was \$48 million for the year ended November 30, 2007, a 37% increase from the comparable measure for the year ended November 30, 2006. The increase of this measurement in fiscal year 2007 was primarily driven by increased volatilities in overall markets.

In millions	At				
	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007	Nov 30, 2006
Interest rate risk	\$ 75	\$ 54	\$ 31	\$ 29	\$ 27
Equity price risk	44	34	25	25	24
Foreign exchange risk	6	6	5	5	5
Commodity risk	4	4	3	2	2
Diversification benefit	(34)	(35)	(28)	(26)	(21)
	\$ 95	\$ 63	\$ 36	\$ 35	\$ 37

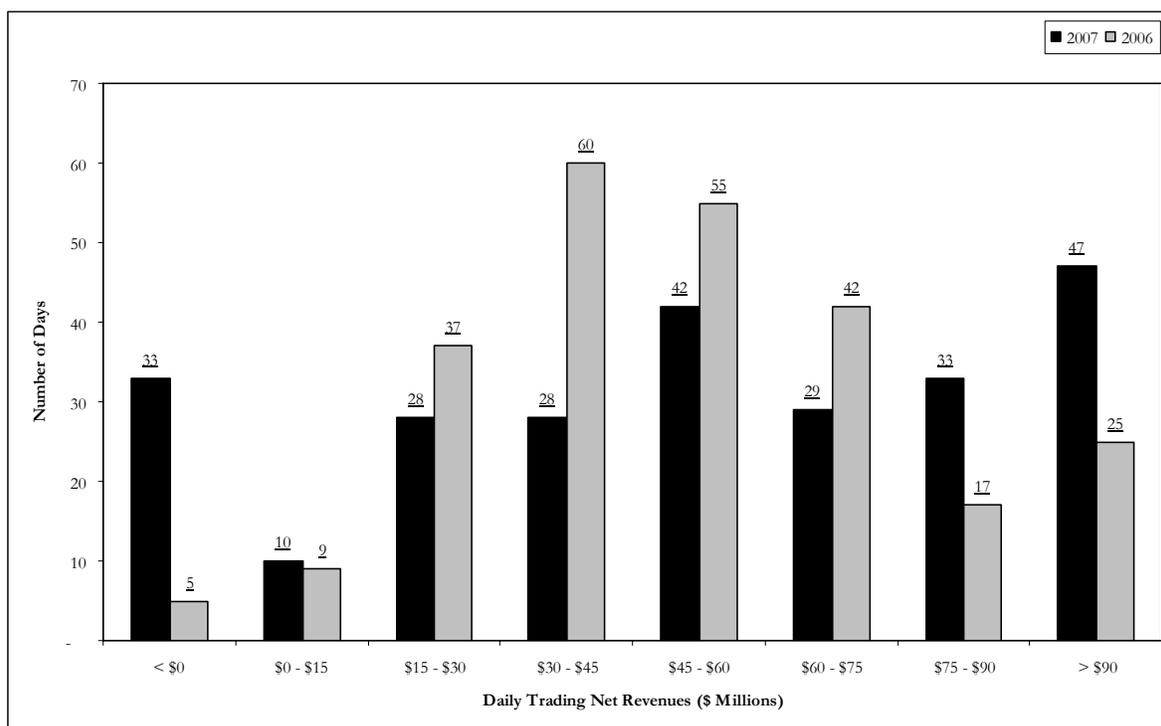
In millions	Average Revenue Volatility Three Months Ended				
	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007	Nov 30, 2006
Interest rate risk	\$ 58	\$ 35	\$ 31	\$ 28	\$ 27
Equity price risk	41	28	25	24	23
Foreign exchange risk	6	5	5	5	5
Commodity risk	4	4	3	2	2
Diversification benefit	(34)	(28)	(27)	(24)	(21)
	\$ 75	\$ 44	\$ 37	\$ 35	\$ 36

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In millions	Average Revenue Volatility		Average Revenue Volatility Year Ended November 30,			
	Nov 30, 2007	Nov 30, 2006	2007		2006	
			High	Low	High	Low
Interest rate risk	38	25	\$75	\$27	\$ 28	\$ 23
Equity price risk	29	19	45	23	24	14
Foreign exchange risk	5	3	7	5	5	2
Commodity risk	3	1	5	2	4	2
Diversification benefit	(27)	(13)				
	48	35	\$95	\$33	\$ 38	\$ 34

The following chart sets forth the frequency distribution for daily trading net revenues for our Capital Markets and Investment Management business segments (including trading activity in the fixed income and equity markets undertaken on behalf of client investors and excluding any trading activity undertaken on behalf of those investors in private equity offerings) for the years ended November 30, 2007 and 2006:



For the year ended November 30, 2007, the largest loss in daily trading net revenues on any single day was \$137 million. For the year ended November 30, 2006, the largest loss in daily trading net revenues on any single day was \$59 million.

2-for-1 Stock Split

On April 5, 2006, the stockholders of Holdings approved an increase in the Company's authorized shares of common stock to 1.2 billion from 600 million, and the Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend, for holders of record as of April 18, 2006, which was paid on April 28, 2006. On April 5, 2006, the Company's Restated Certificate of Incorporation was amended to effect the increase in authorized common shares.

Accounting and Regulatory Developments

The following summarizes accounting standards that have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

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SFAS 123(R). In December 2004, the FASB issued SFAS 123(R) which establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods and services and focuses primarily on accounting for transaction in which an entity obtains employee services in share-based payment transactions. Two key differences between SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS 123(R) relate to the attribution of compensation costs to reporting periods and accounting for award forfeitures. SFAS 123(R) generally requires the immediate expensing of equity-based awards granted to retirement-eligible employees and that awards granted subject to substantive non-compete agreements be expensed over the non-compete period. SFAS 123(R) also requires expected forfeitures to be included in determining stock-based employee compensation expense. We adopted SFAS 123(R) as of the beginning of our 2006 fiscal year and recognized an after-tax gain of approximately \$47 million as the cumulative effect of a change in accounting principle attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. For additional information, see Note 15, "Share-Based Employee Incentive Plans" to the Consolidated Financial Statements.

SFAS 155. In February 2006, the FASB issued SFAS 155. SFAS 155 permits an entity to measure at fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS 155 as of the beginning of our 2006 fiscal year. The effect of adoption resulted in a \$24 million after-tax (\$43 million pre-tax) decrease to opening retained earnings as of the beginning of our 2006 fiscal year, representing the difference between the fair value of these structured notes and the prior carrying value as of November 30, 2005.

SFAS 156. In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. As a result of adopting SFAS 156, we recognized an \$18 million after-tax (\$33 million pre-tax) increase to opening retained earnings in our 2006 fiscal year.

SFAS 157. In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

SFAS 157 also (i) nullifies the guidance in Emerging Issue Task Force ("EITF") No. 02-3, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3"), that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of the derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

We elected to early adopt SFAS 157 beginning in our 2007 fiscal year and we recorded the difference between the carrying amounts and fair values of (i) stand-alone derivatives and/or structured notes measured using the guidance in EITF 02-3 on recognition of a trading profit at the inception of a derivative, and (ii) financial instruments that are traded in active markets that were measured at fair value using block discounts, as a cumulative-effect adjustment to opening retained earnings. As a result of adopting SFAS 157, we recognized a \$45 million after-tax (\$78 million pre-tax) increase to opening retained earnings. For additional information regarding our adoption of SFAS 157, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

SFAS 158. In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* ("SFAS 158"), which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans the benefit obligation is the projected benefit obligation, while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income (net of tax), a component of Stockholders' equity. In accordance with the guidance in SFAS No. 158, we adopted this provision of the standard for the year ended November 30, 2007. The adoption of SFAS No. 158 reduced accumulated other comprehensive income/ (loss), net of tax, by approximately \$206 million at November 30, 2007.

SFAS 159. In February 2007, the FASB issued SFAS 159, which permits certain financial assets and financial liabilities to be measured at fair value, using an instrument-by-instrument election. The initial effect of adopting SFAS 159 must be accounted for as a cumulative-effect adjustment to opening retained earnings for the fiscal year in which we apply SFAS

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Management's Discussion and Analysis of Financial Condition and Results of Operations

159. Retrospective application of SFAS 159 to fiscal years preceding the effective date is not permitted.

We elected to early adopt SFAS 159 beginning in our 2007 fiscal year and to measure at fair value substantially all structured notes not previously accounted for at fair value under SFAS No. 155, as well as certain deposits at our U.S. banking subsidiaries. We elected to adopt SFAS 159 for these instruments to reduce the complexity of accounting for these instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of adopting SFAS 159, we recognized a \$22 million after-tax increase (\$35 million pre-tax) to opening retained earnings as of December 1, 2006, representing the effect of changing the measurement basis of these financial instruments from an adjusted amortized cost basis at November 30, 2006 to fair value.

SFAS 141(R). In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and causes acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

SFAS 160. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and modifies the classification of minority interests to a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

FIN 48. In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which sets out a framework for management to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of SFAS 109 uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained, and the amount of benefit is then measured on a probabilistic approach, as defined in FIN 48. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. We must adopt FIN 48 as of the beginning of our 2008 fiscal year. We estimate that the effect of adopting FIN 48 at the beginning of the first quarter of 2008 to be a decrease to opening retained earnings and an increase to the liability for unrecognized tax benefits of approximately \$● million.

SOP 07-1. In June 2007, the AICPA issued Statement of Position ("SOP") No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 addresses when the accounting principles of the AICPA Audit and Accounting Guide Investment Companies must be applied by an entity and whether those accounting principles must be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for our fiscal year beginning December 1, 2008, with earlier application permitted as of December 1, 2007. We are evaluating the effect of adopting SOP 07-1 on our Consolidated Financial Statements.

EITF Issue No. 04-5. In June 2005, the FASB ratified the consensus reached in EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"), which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with substantive rights to remove the general partner or to liquidate the partnership. As the general partner of numerous private equity and asset management partnerships, we adopted EITF 04-5 effective June 30, 2005 for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that had not been modified, we adopted EITF 04-5 as of the beginning of our 2007 fiscal year. The adoption of EITF 04-5 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 46(R)-6. In April 2006, the FASB issued FASB Staff Position ("FSP") FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)-6"). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46(R) by requiring an analysis of the purpose for which an entity was created and the variability that the entity was designed to create. We adopted FSP FIN 46(R)-6 on September 1, 2006 and applied it prospectively to all entities in which we first became involved after that date. Adoption of FSP FIN 46(R)-6 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 39-1. In April 2007, the FASB directed the FASB Staff to issue FSP No. FIN 39-1, *Amendment of FASB*

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Interpretation No. 39 ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 does not affect our Consolidated Financial Statements because it clarified the acceptability of existing market practice, which we use, of netting cash collateral against net derivative assets and liabilities.

FSP FIN 48-1. In May 2007, the FASB directed the FASB Staff to issue FASB Staff Position No. FIN 48-1, *Definition of "Settlement" In FASB Interpretation No. 48* ("FSP FIN 48-1"). Under FSP FIN 48-1, a previously unrecognized tax benefit may be subsequently recognized if the tax position is effectively settled and other specified criteria are met. We are evaluating the effect of adopting FSP FIN 48-1 on our Consolidated Financial Statements as part of our evaluation of the effect of adopting FIN 48.

FSP FIN 46(R)-7. In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7"). FSP FIN 46(R)-7 makes permanent the temporary deferral of the application of the provisions of FIN 46(R) to unregistered investment companies, and extends the scope exception from applying FIN 46(R) to include registered investment companies. FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. We are evaluating the effect of adopting FSP FIN 46(R)-7 on our Consolidated Financial Statements.

SAB 108. In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 specifies how the carryover or reversal of prior-year unrecorded financial statement misstatements should be considered in quantifying a current-year misstatement. SAB 108 requires an approach that considers the amount by which the current-year statement of income is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current-year statement of financial condition is misstated ("iron-curtain approach"). Prior to the issuance of SAB 108, either the rollover or iron-curtain approach was acceptable for assessing the materiality of financial statement misstatements. SAB 108 became effective for our fiscal year ended November 30, 2006. Upon adoption, SAB 108 allowed a cumulative-effect adjustment to opening retained earnings at December 1, 2005 for prior-year misstatements that were not material under a prior approach but that were material under the SAB 108 approach. Adoption of SAB 108 did not affect our Consolidated Financial Statements.

SAB 109. In November 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB 109"). SAB 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments* ("SAB 105"), and expresses view that, consistent with the guidance in SFAS No. 156, *Accounting for Servicing of Financial Assets*, and SFAS 159, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 105 also expressed the view that internally-developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 retains that staff view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. Adoption of SAB 109 did not have a material affect our Consolidated Financial Statements.

Effect of Adoption. The table presented below summarizes the impact of adoption from the accounting developments summarized above on our results of operations, if any, actual or estimated:

In millions	Date of Adoption	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Net Income
Year Ended November 30, 2006				
SFAS 123(R)	December 1, 2005			\$47
SFAS 155	December 1, 2005		\$ (24)	
SFAS 156	December 1, 2005		18	
Year Ended November 30, 2007				
SFAS 157	December 1, 2006		45	
SFAS 158	November 30, 2007	\$(206)		
SFAS 159	December 1, 2006		22	
Estimated Impact to Year Ended November 30, 2008				
FIN 48	December 1, 2007		●	

Treasury Subprime Plan. On December 6, 2007, various constituency groups as well as representatives of U.S. federal government agencies announced a proposed voluntary framework to reduce the number of subprime mortgage borrowers who might default in the coming year because the borrowers cannot afford to pay the increased loan interest rate after their

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subprime variable loan rate resets. The plan requires a borrower and a loan to meet specific conditions for the loan to qualify for a modification under which the residential mortgage loan interest rate would be kept at the existing rate, generally for five years following the upcoming reset period. We are evaluating the effect of this plan on our accounting for residential mortgage loans and retained interests in securitizations of residential mortgage loans.

Consolidated Supervised Entity. As of December 1, 2005, Holdings became regulated by the SEC as a CSE. Accordingly, Holdings is subject to group-wide supervision and examination by the SEC and, accordingly, we are subject to minimum capital requirements on a consolidated basis. This supervision imposes reporting (including reporting of a capital adequacy measurement consistent with the standards adopted by the Basel Committee on Banking Supervision) and notification requirements for the ultimate holding company. As of November 30, 2007, Holdings was in compliance with the CSE capital requirements and held allowable capital in excess of the minimum capital requirements on a consolidated basis.

As of December 1, 2005, LBI was approved by the SEC to calculate its net capital requirements using an alternative method for broker-dealers that are part of CSEs. The alternative method allows broker-dealers that are part of CSEs to apply internal risk models to calculate net capital charges for market and derivative-related credit risk. Under this rule, LBI is required to hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. As of November 30, 2007, LBI had tentative net capital in excess of \$5.5 billion, and had net capital of \$2.7 billion, which exceeded the minimum net capital requirement by \$2.1 billion.

Effects of Inflation

Because our assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. However, the rate of inflation affects such expenses as employee compensation, office space leasing costs and communications charges, which may not be readily recoverable in the prices of services we offer. To the extent inflation results in rising interest rates and has other adverse effects on the securities markets, it may adversely affect our consolidated financial condition and results of operations in certain businesses.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management" in Part II, Item 7, of this Report is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) Financial Statements

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(b) Condensed unconsolidated financial information of Holdings and notes thereto are set forth in Schedule I beginning on Page F-2 of this Report and are incorporated herein by reference. Holdings has issued a full and unconditional guarantee of certain outstanding and future debt securities of its wholly-owned subsidiary, Lehman Brothers Inc. Condensed consolidating financial information pursuant to Rule 3-10(c) of Regulation S-X is set forth in Note 8 of the notes to such condensed unconsolidated financial information in Schedule I.

Management's Assessment of Internal Control over Financial Reporting

The management of Lehman Brothers Holdings Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of November 30, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we believe that, as of November 30, 2007, the Company's internal control over financial reporting is effective based on those criteria.

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited Lehman Brothers Holdings Inc. (the “Company”) internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for each of the three years in the period ended November 30, 2007 of the Company and our report dated January 9, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
January 9, 2008

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings, Inc.'s internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 9, 2008 expressed an unqualified opinion thereon.

/s/Ernst & Young LLP
New York, New York
January 9, 2008

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Income

In millions, except per share data	Year ended November 30,		
	2007	2006	2005
Revenues			
Principal transactions	\$ 9,119	\$ 9,802	\$ 7,811
Investment banking	3,903	3,160	2,894
Commissions	2,471	2,050	1,728
Interest and dividends	41,693	30,284	19,043
Asset management and other	1,739	1,413	944
Total revenues	58,925	46,709	32,420
Interest expense	39,668	29,126	17,790
Net revenues	19,257	17,583	14,630
Non-Interest Expenses			
Compensation and benefits	9,494	8,669	7,213
Technology and communications	1,145	974	834
Brokerage, clearance and distribution fees	859	629	548
Occupancy	641	539	490
Professional fees	466	364	282
Business development	378	301	234
Other	261	202	200
Total non-personnel expenses	3,750	3,009	2,588
Total non-interest expenses	13,244	11,678	9,801
Income before taxes and cumulative effect of accounting change	6,013	5,905	4,829
Provision for income taxes	1,821	1,945	1,569
Income before cumulative effect of accounting change	4,192	3,960	3,260
Cumulative effect of accounting change	—	47	—
Net income	\$ 4,192	\$ 4,007	\$ 3,260
Net income applicable to common stock	\$ 4,125	\$ 3,941	\$ 3,191
Earnings per basic common share:			
Before cumulative effect of accounting change	\$ 7.63	\$ 7.17	\$ 5.74
Cumulative effect of accounting change	—	0.09	—
Earnings per basic common share	\$ 7.63	\$ 7.26	\$ 5.74
Earnings per diluted common share:			
Before cumulative effect of accounting change	\$ 7.26	\$ 6.73	\$ 5.43
Cumulative effect of accounting change	—	0.08	—
Earnings per diluted common share	\$ 7.26	\$ 6.81	\$ 5.43
Dividends paid per common share	\$ 0.60	\$ 0.48	\$ 0.40

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition

In millions	November 30,	
	2007	2006
Assets		
Cash and cash equivalents	\$ 7,286	\$ 5,987
Cash and securities segregated and on deposit for regulatory and other purposes	12,743	6,091
Financial instruments and other inventory positions owned: (includes \$63,420 in 2007 and \$42,600 in 2006 pledged as collateral)	313,129	226,596
Collateralized agreements:		
Securities purchased under agreements to resell	198,665	117,490
Securities borrowed	102,569	107,666
Receivables:		
Brokers, dealers and clearing organizations	11,005	7,449
Customers	29,622	18,470
Others	2,650	2,052
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$2,438 in 2007 and \$1,925 in 2006)	3,861	3,269
Other assets	5,443	5,113
Identifiable intangible assets and goodwill (net of accumulated amortization of \$338 in 2007 and \$293 in 2006)	4,127	3,362
Total assets	\$691,100	\$503,545

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition—(Continued)

In millions, except share data	November 30,	
	2007	2006
Liabilities and Stockholders' Equity		
Short-term borrowings and current portion of long-term borrowings (including \$9,035 in 2007 and \$3,783 in 2006 at fair value)	\$ 28,066	\$ 20,638
Financial instruments and other inventory positions sold but not yet purchased	149,617	125,960
Collateralized financings:		
Securities sold under agreements to repurchase	217,762	133,547
Securities loaned	17,277	23,982
Other secured borrowings	22,992	19,028
Payables:		
Brokers, dealers and clearing organizations	3,101	2,217
Customers	61,206	41,695
Accrued liabilities and other payables	16,068	14,697
Deposits at banks (including \$16,264 in 2007 and \$14,708 at fair value)	29,363	21,412
Long-term borrowings (including \$27,204 in 2007 and \$11,025 in 2006 at fair value)	123,150	81,178
Total liabilities	668,602	484,354
Commitments and contingencies		
Stockholders' Equity		
Preferred stock	1,095	1,095
Common stock, \$0.10 par value		
Shares authorized: 1,200,000,000 in 2007 and 2006;		
Shares issued: 612,882,506 in 2007 and 609,832,302 in 2006;		
Shares outstanding: 531,887,419 in 2007 and 533,368,195 in 2006	61	61
Additional paid-in capital ⁽¹⁾	9,733	8,727
Accumulated other comprehensive loss, net of tax	(302)	(15)
Retained earnings	19,698	15,857
Other stockholders' equity, net	(2,263)	(1,712)
Common stock in treasury, at cost ⁽¹⁾ : 80,995,087 shares in 2007 and 76,464,107 shares in 2006	(5,524)	(4,822)
Total common stockholders' equity	21,403	18,096
Total stockholders' equity	22,498	19,191
Total liabilities and stockholders' equity	\$691,100	\$503,545

⁽¹⁾ Balances and share amounts at November 30, 2006 reflect the April 28, 2006 2-for-1 common stock split, effected in the form of a 100% stock dividend.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Changes in Stockholders' Equity

In millions	Year ended November 30,		
	2007	2006	2005
Preferred Stock			
5.94% Cumulative, Series C:			
Beginning and ending balance	\$ 250	\$ 250	\$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	—	—	250
Redemptions	—	—	(250)
Ending balance	—	—	—
6.50% Cumulative, Series F:			
Beginning and ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning and ending balance	300	300	300
Total preferred stock, ending balance	1,095	1,095	1,095
Common Stock, Par Value \$0.10 Per Share			
Beginning and ending balance	61	61	61
Additional Paid-In Capital			
Beginning balance	8,727	6,283	5,834
Reclass from Common Stock Issuable and Deferred			
Stock Compensation under SFAS No. 123(R)	—	2,275	—
RSUs exchanged for Common Stock	(580)	(647)	184
Employee stock-based awards	(832)	(881)	(760)
Tax benefit from the issuance of stock-based awards	434	836	1,005
Amortization of RSUs, net	1,898	804	—
Other, net	86	57	20
Ending balance	9,733	8,727	6,283
Accumulated Other Comprehensive Income (Loss)			
Beginning balance	(15)	(16)	(19)
Translation adjustment, net ⁽¹⁾	(81)	1	3
Adoption of SFAS No. 158	(206)	—	—
Ending balance	(302)	(15)	(16)

⁽¹⁾ Net of income taxes of \$● in 2007, \$2 in 2006 and \$1 in 2005.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Changes in Stockholders' Equity—(Continued)

In millions	Year ended November 30,		
	2007	2006	2005
Retained Earnings			
Beginning balance	\$15,857	\$12,198	\$9,240
Cumulative effect of accounting changes ⁽¹⁾	67	(6)	—
Net income	4,192	4,007	3,260
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	—	—	(9)
6.50% Cumulative, Series F Preferred Stock	(22)	(22)	(22)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(19)	(18)	(12)
Common Stock	(351)	(276)	(233)
Ending balance	19,698	15,857	12,198
Common Stock Issuable			
Beginning balance	—	4,548	3,874
Reclass to Additional Paid-In Capital under SFAS 123(R)	—	(4,548)	—
RSUs exchanged for Common Stock	—	—	(832)
Deferred stock awards granted	—	—	1,574
Other, net	—	—	(68)
Ending balance	—	—	4,548
Common Stock Held in RSU Trust			
Beginning balance	(1,712)	(1,510)	(1,353)
Employee stock-based awards	(1,039)	(755)	(676)
RSUs exchanged for Common Stock	535	587	549
Other, net	(47)	(34)	(30)
Ending balance	(2,263)	(1,712)	(1,510)
Deferred Stock Compensation			
Beginning balance	—	(2,273)	(1,780)
Reclass to Additional Paid-In Capital under SFAS 123(R)	—	2,273	—
Deferred stock awards granted	—	—	(1,574)
Amortization of RSUs, net	—	—	988
Other, net	—	—	93
Ending balance	—	—	(2,273)
Common Stock In Treasury, at Cost			
Beginning balance	(4,822)	(3,592)	(2,282)
Repurchases of Common Stock	(2,605)	(2,678)	(2,994)
Shares reacquired from employee transactions	(573)	(1,003)	(1,163)
RSUs exchanged for Common Stock	46	60	99
Employee stock-based awards	2,430	2,391	2,748
Ending balance	(5,524)	(4,822)	(3,592)
Total stockholders' equity	\$22,498	\$19,191	\$16,794

⁽¹⁾ The aggregate adoption impact of SFAS No. 157 and SFAS No. 159 are reflected for the year ended November 30, 2007. The aggregate adoption impact of SFAS No. 155 and SFAS No. 156 are reflected for the year ended November 30, 2006.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Cash Flows

In millions	Year ended November 30,		
	2007	2006	2005
Cash Flows From Operating Activities			
Net income	\$ 4,192	\$ 4,007	\$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	577	514	426
Non-cash compensation	1,805	1,706	1,055
Cumulative effect of accounting change	—	(47)	—
Deferred tax benefit	—	(60)	(502)
Tax benefit from the issuance of stock-based awards	—	—	1,005
Other adjustments	(114)	3	173
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(6,652)	(347)	(1,659)
Financial instruments and other inventory positions owned	(78,907)	(46,102)	(36,652)
Resale agreements, net of repurchase agreements	3,039	6,111	(475)
Securities borrowed, net of securities loaned	(1,608)	(18,383)	(5,165)
Other secured borrowings	3,964	(4,088)	11,495
Receivables from brokers, dealers and clearing organizations	(3,556)	5	(4,054)
Receivables from customers	(11,152)	(5,583)	354
Financial instruments and other inventory positions sold but not yet purchased	23,415	15,224	14,156
Payables to brokers, dealers and clearing organizations	884	347	165
Payables to customers	19,511	9,552	4,669
Accrued liabilities and other payables	743	2,032	(801)
Other receivables and assets and minority interests	(1,736)	(1,267)	345
Net cash used in operating activities	(45,595)	(36,376)	(12,205)
Cash Flows From Investing Activities			
Purchase of property, equipment and leasehold improvements, net	(966)	(586)	(409)
Business acquisitions, net of cash acquired	(965)	(206)	(38)
Proceeds from sale of business	233	—	—
Net cash used in investing activities	(1,698)	(792)	(447)
Cash Flows From Financing Activities			
Derivative contracts with a financing element	242	159	140
Tax benefit from the issuance of stock-based awards	434	836	—
Issuance of short-term borrowings, net	3,381	4,819	84
Deposits at banks	7,068	6,345	4,717
Issuance of long-term borrowings	86,396	48,115	23,705
Principal payments of long-term borrowings, including the current portion of long term borrowings	(46,349)	(19,636)	(14,233)
Issuance of common stock	84	119	230
Issuance of treasury stock	359	518	1,015
Purchase of treasury stock	(2,605)	(2,678)	(2,994)
(Retirement) issuance of preferred stock	—	—	(250)
Dividends paid	(418)	(342)	(302)
Net cash provided by financing activities	48,592	38,255	12,112
Net change in cash and cash equivalents	1,299	1,087	(540)
Cash and cash equivalents, beginning of period	5,987	4,900	5,440
Cash and cash equivalents, end of period	\$ 7,286	\$ 5,987	\$ 4,900
Supplemental Disclosure of Cash Flow Information (in millions):			
Interest paid totaled \$39,847, \$28,684 and \$17,893 in 2007, 2006 and 2005 respectively.			
Income taxes paid totaled \$1,476, \$1,037 and \$789 in 2007, 2006 and 2005 respectively.			

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Notes to Consolidated Financial Statements

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Note 1 Summary of Significant Accounting Policies

Description of Business

Lehman Brothers Holdings Inc. (“Holdings”) and subsidiaries (collectively, the “Company,” “Lehman Brothers,” “we,” “us” or “our”) is one of the leading global investment banks serving institutional, corporate, government and high-net-worth individual clients. Our worldwide headquarters in New York and regional headquarters in London and Tokyo are complemented by offices in additional locations in North America, Europe, the Middle East, Latin America and the Asia-Pacific region. We are engaged primarily in providing financial services. The principal U.S., European, and Asian subsidiaries of Holdings are Lehman Brothers Inc. (“LBI”), a U.S. registered broker-dealer, Lehman Brothers International (Europe) (“LBIE”) and Lehman Brothers Europe Limited, authorized investment firms in the United Kingdom, and Lehman Brothers Japan (“LBJ”), a registered securities company in Japan.

Basis of Presentation

The Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles and include the accounts of Holdings, our subsidiaries, and all other entities in which we have a controlling financial interest or are considered to be the primary beneficiary. All material inter-company accounts and transactions have been eliminated upon consolidation. Certain prior-period amounts reflect reclassifications to conform to the current year’s presentation.

On April 5, 2006, the stockholders of Holdings approved an increase of its authorized shares of common stock to 1.2 billion from 600 million, and the Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend, that was effected on April 28, 2006. All share and per share amounts have been retrospectively adjusted for the increase in authorized shares and the stock split. For additional information about the stock split, see Note 11, “Earnings per Share,” and Note 12, “Share-Based Employee Incentive Plans,” to the Consolidated Financial Statements.

Consolidation Accounting Policies

The Consolidated Financial Statements include the accounts of Holdings and the entities in which the Company has a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first determining whether the entity is a voting interest entity (sometimes referred to as a non-VIE), a variable interest entity (“VIE”) or a qualified special purpose entity (“QSPE”).

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently; and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity’s activities. In accordance with Accounting Research Bulletin No. 51, Consolidated Financial Statements and Statement of Financial Accounting Standards (“SFAS”) No. 94, Consolidation of All Majority-Owned Subsidiaries, voting interest entities are consolidated when the Company has a controlling financial interest, typically more than 50 percent of an entity’s voting interests.

Variable Interest Entity. VIEs are entities that lack one or more voting interest entity characteristics. The Company consolidates VIEs in which it is the primary beneficiary. In accordance with Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46-R, *Consolidation of Variable Interest Entities* (“FIN 46(R)”), we are the primary beneficiary if we have a variable interest, or a combination of variable interests, that will either (i) absorb a majority of the VIEs expected losses; (ii) receive a majority of the VIEs expected residual returns; or (iii) both. To determine if we are the primary beneficiary of a VIE, we review, amongst other factors, the VIE’s design, capital structure, contractual terms, which interests create or absorb variability and related party relationships, if any. Additionally, we may calculate our share of the VIE’s expected losses and expected residual returns based upon the VIE’s contractual arrangements and/or our position in the VIE’s capital structure. This type of analysis is typically performed using expected cash flows allocated to the expected losses and expected residual returns under various probability-weighted scenarios.

Qualified Special Purpose Entity. QSPEs are passive entities with limited permitted activities. SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125* (“SFAS 140”), establishes the criteria an entity must satisfy to be a QSPE, including types of assets held, limits on asset sales, use of derivatives and financial guarantees, and discretion exercised in servicing activities. In accordance with SFAS 140 and FIN 46(R), we do not consolidate QSPEs.

For a further discussion of our involvement with VIEs, QSPEs and other entities see Note 6, “Securitizations and Special Purpose Entities,” to the Consolidated Financial Statements.

Equity-Method Investments. Entities in which we do not have a controlling financial interest (and therefore do not consolidate) but in which we exert significant influence (generally defined as owning a voting interest of 20 percent to 50

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percent, or a partnership interest greater than 3 percent) are accounted for either under Accounting Principles Board (“APB”) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* or SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). For further discussion of our adoption of SFAS 159, see “Accounting and Regulatory Developments—SFAS 159” below.

Other. When we do not consolidate an entity or apply the equity method of accounting, we present our investment in the entity at fair value. We have formed various non-consolidated investment funds with third-party investors that are typically organized as limited partnerships. We typically act as general partner for these funds and when third-party investors have rights to liquidate the funds, to remove us as the general partner without cause or substantive participation rights, we do not consolidate these partnerships.

A determination of whether we have a controlling financial interest in an entity and therefore our assessment of consolidation of that entity is initially made at the time we become involved with the entity. Certain events may occur which cause us to re-assess our initial determination. Those events generally are:

- The entity’s governance structure is changed such that either (i) the characteristics or adequacy of equity at risk are changed; or (ii) expected returns or losses are reallocated amongst the participating parties within the entity.
- The equity investment (or some part thereof) is returned to the equity investors and other interests become exposed to expected returns or losses.
- Additional activities are undertaken or asset acquired by the entity that were beyond those anticipated previously.
- Participants in the entity acquire or sell interests in the entity.

The entity receives additional equity at risk or curtails its activities in a way that changes the expected returns or losses.

Use of Estimates

In preparing our Consolidated Financial Statements and accompanying notes, management makes various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in:

- measuring fair value of certain financial instruments;
- accounting for identifiable intangible assets and goodwill;
- establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations;
- assessing our ability to realize deferred taxes; and
- valuing equity-based compensation awards.

Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our Consolidated Financial Statements and notes thereto.

Currency Translation

Assets and liabilities of subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the applicable Consolidated Statement of Financial Condition date. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating non-U.S. dollar functional currency into U.S. dollars, net of hedging gains or losses, are included in Accumulated other comprehensive income/(loss), net of tax, a component of Stockholders’ equity. Gains or losses resulting from non-U.S. dollar currency transactions are included in the Consolidated Statement of Income

Revenue Recognition Policies

Principal transactions. Gains or losses from Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased, as well as the gains or losses from certain short- and long-term borrowing obligations, principally structured notes, and certain deposits at banks that we measure at fair value are reflected in Principal transactions in the Consolidated Statement of Income as incurred.

Investment banking. Underwriting revenues, net of related underwriting expenses, and revenues for merger and acquisition advisory and other investment banking-related services are recognized when services for the transactions are completed. In instances where our Investment Banking segment provides structuring services and/or advice in a capital markets-related transaction, we record a portion of the transaction-related revenue as Investment Banking fees.

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Notes to Consolidated Financial Statements

Commissions. Commissions primarily include fees from executing and clearing client transactions on stocks, options and futures markets worldwide. These fees are recognized on a trade-date basis.

Interest and dividends revenue and interest expense. We recognize contractual interest on Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased, excluding derivatives, on an accrual basis as a component of Interest and dividends revenue and Interest expense, respectively. We account for our secured financing activities and certain short- and long-term borrowings on an accrual basis with related interest recorded as interest revenue or interest expense, as applicable. Contractual interest expense on all deposit liabilities and structured notes are recorded as a component of Interest expense.

Asset management and other. Investment advisory fees are recorded as earned. In certain circumstances, we receive asset management incentive fees when the return on assets under management exceeds specified benchmarks. Incentive fees are generally based on investment performance over a twelve-month period and are not subject to adjustment after the measurement period ends. Accordingly, we recognize incentive fees when the measurement period ends.

We also receive private equity incentive fees when the returns on certain private equity funds' investments exceed specified threshold returns. Private equity incentive fees typically are based on investment results over a period greater than one year, and future investment underperformance could require amounts previously distributed to us to be returned to the funds. Accordingly, we recognize these incentive fees when all material contingencies have been substantially resolved.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carry-forwards. We record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years. Contingent liabilities related to income taxes are recorded when probable and reasonably estimable in accordance with SFAS No. 5, *Accounting for Contingencies*.

For a discussion of the impact of FIN 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), see "Accounting and Regulatory Developments—FIN 48" below.

Share-Based Compensation

On December 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123* using the prospective adoption method. Under this method of adoption, compensation expense was recognized over the related service periods based on the fair value of stock options and restricted stock units ("RSUs") granted for fiscal 2004 and fiscal 2005. Under SFAS 123, stock options granted in periods prior to fiscal 2004 continued to be accounted for under the intrinsic value method prescribed by APB No. 25, *Accounting for Stock Issued to Employees* ("APB 25"). Accordingly, under SFAS 123 no compensation expense was recognized for stock option awards granted prior to fiscal 2004 because the exercise price equaled or exceeded the market value of our common stock on the grant date.

On December 1, 2005, we adopted SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost recognized during fiscal 2006 includes: (i) compensation cost for all share-based awards granted prior to, but not yet vested as of, December 1, 2005, (including pre-fiscal-2004 options) based on the grant-date fair value and related service period estimates in accordance with the original provisions of SFAS 123; and (ii) compensation cost for all share-based awards granted subsequent to December 1, 2005, based on the grant-date fair value and related service periods estimated in accordance with the provisions of SFAS 123(R). Under the provisions of the modified-prospective transition method, results for fiscal 2005 and fiscal 2004 were not restated.

SFAS 123(R) clarifies and expands the guidance in SFAS 123 in several areas, including how to measure fair value and how to attribute compensation cost to reporting periods. Changes to the SFAS 123 fair value measurement and service period provisions prescribed by SFAS 123(R) include requirements to: (i) estimate forfeitures of share-based awards at the date of grant, rather than recognizing forfeitures as incurred as was permitted by SFAS 123; (ii) expense share-based awards granted to retirement-eligible employees and those employees with non-substantive non-compete agreements immediately, while our accounting practice under SFAS 123 was to recognize such costs over the stated service periods; (iii) attribute compensation costs of share-based awards to the future vesting periods, while our accounting practice under SFAS 123 included a partial attribution of compensation costs of share-based awards to services performed during the year of grant; and (iv) recognize compensation costs of all share-based awards (including amortizing pre-fiscal-2004

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options) based on the grant-date fair value, rather than our accounting methodology under SFAS 123 which recognized pre-fiscal-2004 option awards based on their intrinsic value.

Prior to adopting SFAS 123(R) we presented the cash flows related to income tax deductions in excess of the compensation cost recognized on stock issued under RSUs and stock options exercised during the period (“excess tax benefits”) as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123(R) requires excess tax benefits to be classified as financing cash flows. In addition, as a result of adopting SFAS 123(R), certain balance sheet amounts associated with share-based compensation costs have been reclassified within the equity section of the balance sheet. This change in presentation had no effect on our total equity. Effective December 1, 2005, Deferred stock compensation (representing unearned costs of RSU awards) and Common stock issuable are presented on a net basis as a component of Additional paid-in capital. See “Accounting and Regulatory Developments—SFAS 123(R)” below for a further discussion of SFAS 123(R) and the cumulative effect of this accounting change recognized in fiscal 2006

Earnings per Share

We compute earnings per share (“EPS”) in accordance with SFAS No. 128, *Earnings per Share*. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding, which includes restricted stock units (“RSUs”) for which service has been provided. Diluted EPS includes the components of basic EPS and also includes the dilutive effects of RSUs for which service has not yet been provided and employee stock options

Financial Instruments and Other Inventory Positions

Financial instruments and other inventory positions owned, excluding real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased are carried at fair value. Real estate held for sale is accounted for at the lower of its carrying amount or fair value less cost to sell. For further discussion of our financial instruments and other inventory positions, see Note 3, “Financial Instruments and Other Inventory Positions,” to the Consolidated Financial Statements.

Firm-owned securities pledged to counterparties who have the right, by contract or custom, to sell or repledge the securities are classified as Financial instruments and other inventory positions owned and are disclosed as pledged as collateral. For further discussion of our securities received and pledged as collateral, see Note 5, “Securities Received and Pledged as Collateral,” to the Consolidated Financial Statements.

We adopted SFAS No. 157, *Fair Value Measurements* (“SFAS 157”) effective December 1, 2006. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When observable prices are not available, we either use implied pricing from similar instruments or valuation models based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

Prior to December 1, 2006, we followed the American Institute of Certified Public Accountants (“AICPA”) Audit and Accounting Guide, Brokers and Dealers in Securities when determining fair value for financial instruments, which permitted the recognition of a discount to the quoted price when determining the fair value for a substantial block of a particular security, when the quoted price was not considered to be readily realizable (i.e., a block discount).

For further discussion of our adoption of SFAS 157, see “Accounting and Regulatory Developments—SFAS 157” below.

Derivative financial instruments. Derivatives are financial instruments whose value is based on an underlying asset (e.g., Treasury bond), index (e.g., S&P 500) or reference rate (e.g., LIBOR), and include futures, forwards, swaps, option contracts, or other financial instruments with similar characteristics. A derivative contract generally represents a future commitment to exchange interest payment streams or currencies based on the contract or notional amount or to purchase or sell other financial instruments or physical assets at specified terms on a specified date. Over-the-counter (“OTC”) derivative products are privately-negotiated contractual agreements that can be tailored to meet individual client needs and include forwards, swaps and certain options including caps, collars and floors. Exchange-traded derivative products are standardized contracts transacted through regulated exchanges and include futures and certain option contracts listed on an exchange.

Derivatives are recorded at fair value and included in either Financial instruments and other inventory positions owned or Financial instruments and other inventory positions sold but not yet purchased in the Consolidated Statement of Financial Condition. Derivatives are presented net-by-counterparty when a legal right of offset exists; net across different products or positions when applicable provisions are stated in a master netting agreement; and/or net of cash collateral received or paid on a counterparty basis, provided legal right of offset exists.

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Notes to Consolidated Financial Statements

We enter into derivative transactions both in a trading capacity and as an end-user. Acting in a trading capacity, we enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities (collectively, “Trading-Related Derivatives”). For Trading-Related Derivatives, margins on futures contracts are included in receivables and payables from/to brokers, dealers and clearing organizations, as applicable.

As an end-user, we primarily use derivatives to hedge our exposure to market risk (including foreign currency exchange and interest rate risks) and credit risks (collectively, “End-User Derivatives”). When End-User Derivatives are interest rate swaps they are measured at fair value through earnings and the carrying value of the related hedged item is adjusted through earnings for the effect of changes in the risk being hedged. The hedge ineffectiveness in these relationships is recorded in Interest expense in the Consolidated Statement of Income. When End-User Derivatives are used in hedges of net investments in non-U.S. dollar functional currency subsidiaries, the gains or losses are reported within Accumulated other comprehensive income/(loss), net of tax, in Stockholders’ equity.

Prior to December 1, 2006, we followed Emerging Issues Task Force (“EITF”) Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* (“EITF 02-3”). Under EITF 02-3, recognition of a trading profit at inception of a derivative transaction was prohibited unless the fair value of that derivative was obtained from a quoted market price supported by comparison to other observable inputs or based on a valuation technique incorporating observable inputs. Subsequent to the inception date (“Day 1”), we recognized trading profits deferred at Day 1 in the period in which the valuation of the instrument became observable. The adoption of SFAS 157 nullified the guidance in EITF 02-3 that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs. For further discussion of our adoption of SFAS 157, see “Accounting and Regulatory Developments—SFAS 157” below.

Securitization activities. In accordance with SFAS 140, we recognize transfers of financial assets as sales, if control has been surrendered. We determine control has been surrendered when the following three criteria have been met:

- The transferred assets have been isolated from the transferor – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership (i.e., a true sale opinion has been obtained);
- Each transferee (or, if the transferee is a QSPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and
- The transferor does not maintain effective control over the transferred assets through either (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (ii) the ability to unilaterally cause the holder to return specific assets.

Collateralized Lending Agreements and Financings

Treated as collateralized agreements and financings for financial reporting purposes are the following:

- *Repurchase and resale agreements.* Securities purchased under agreements to resell and securities sold under agreements to repurchase are collateralized primarily by government and government agency securities and are carried net by counterparty, when permitted, at the amounts at which the securities subsequently will be resold or repurchased plus accrued interest. We take possession of securities purchased under agreements to resell. The fair value of the underlying positions is compared daily with the related receivable or payable balances, including accrued interest. We require counterparties to deposit additional collateral or return collateral pledged, as necessary, to ensure the fair value of the underlying collateral remains sufficient.
- *Securities borrowed and securities loaned.* Securities borrowed and securities loaned are carried at the amount of cash collateral advanced or received plus accrued interest. We value the securities borrowed and loaned daily and obtain additional cash as necessary to ensure these transactions are adequately collateralized. When we act as the lender of securities in a securities-lending agreement and we receive securities that can be pledged or sold as collateral, we recognize an asset, representing the securities received and a liability, representing the obligation to return those securities.
- *Other secured borrowings.* Other secured borrowings principally reflect transfers accounted for as financings rather than sales under SFAS 140. Additionally, Other secured borrowings includes non-recourse financings of entities that we have consolidated because we are the primary beneficiaries of such entities.

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Long-Lived Assets

Property, equipment and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated up to a maximum of 40 years. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases, which range up to 30 years. Equipment, furniture and fixtures are depreciated over periods of up to 10 years. Internal-use software that qualifies for capitalization under AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, is capitalized and subsequently amortized over the estimated useful life of the software, generally three years, with a maximum of seven years. We review long-lived assets for impairment periodically and whenever events or changes in circumstances indicate the carrying amounts of the assets may be impaired. If the expected future undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying value of the asset exceeds its fair value.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets with finite lives are amortized over their expected useful lives, which range up to 15 years. Identifiable intangible assets with indefinite lives and goodwill are not amortized. Instead, these assets are evaluated at least annually for impairment. Goodwill is reduced upon the recognition of certain acquired net operating loss carryforward benefits.

Cash Equivalents

Cash equivalents include highly liquid investments not held for resale with maturities of three months or less when we acquire them.

Accounting and Regulatory Developments

The following summarizes accounting standards which have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

The following summarizes accounting standards which have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

SFAS 123(R). In December 2004, the FASB issued SFAS 123(R). SFAS 123(R) establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods and services and focuses primarily on accounting for transaction in which an entity obtains employee services in share-based payment transactions. Two key differences between SFAS 123 and SFAS 123(R) relate to attribution of compensation costs to reporting periods and accounting for award forfeitures. SFAS 123(R) generally requires the immediate expensing of equity-based awards granted to retirement-eligible employees or awards granted subject to substantive non-compete agreements to be expensed over the non-compete period. SFAS 123(R) also requires expected forfeitures to be included in determining stock-based employee compensation expense. We adopted as of the beginning of our 2006 fiscal year and recognized an after-tax gain of approximately \$47 million as the cumulative effect of a change in accounting principle attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. For additional information, see "Share-Based Compensation" above and Note 15, "Share-Based Employee Incentive Plans," to the Consolidated Financial Statements.

SFAS 155. In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* ("SFAS 155"). SFAS 155 permits an entity to measure at fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS 155 in the first quarter of 2006. The effect of adoption resulted in a \$24 million after-tax (\$43 million pre-tax) decrease to opening retained earnings as of the beginning of our 2006 fiscal year, representing the difference between the fair value of these structured notes and the prior carrying value as of November 30, 2005.

SFAS 156. In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140* ("SFAS 156"). SFAS 156 permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. As a result of adopting SFAS 156, we recognized an \$18 million after-tax (\$33 million pre-tax) increase to opening retained earnings in our 2006 fiscal year.

SFAS 157. In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

SFAS 157 also (i) nullifies the guidance in EITF 02-3 that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer's credit standing should be considered

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when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

We elected to early adopt SFAS 157 beginning in our 2007 fiscal year and we recorded the difference between the carrying amounts and fair values of (i) stand-alone derivatives and/or structured notes measured using the guidance in EITF 02-3 on recognition of a trading profit at the inception of a derivative, and (ii) financial instruments that are traded in active markets that were measured at fair value using block discounts, as a cumulative-effect adjustment to opening retained earnings. As a result of adopting SFAS 157, we recognized a \$45 million after-tax (\$78 million pre-tax) increase to opening retained earnings. For additional information regarding our adoption of SFAS 157, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

SFAS 158. In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* ("SFAS 158") which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans the benefit obligation is the projected benefit obligation; while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income (net of tax), a component of Stockholders' equity. In accordance with the guidance in SFAS No. 158, we adopted this provision of the standard for the year ended November 30, 2007. The adoption of SFAS No. 158 reduced accumulated other comprehensive income/ (loss), net of tax, by \$206 million at November 30, 2007.

SFAS 159. In February 2007, the FASB issued SFAS 159 which permits certain financial assets and financial liabilities to be measured at fair value, using an instrument-by-instrument election. The initial effect of adopting SFAS 159 must be accounted for as a cumulative-effect adjustment to opening retained earnings for the fiscal year in which we apply SFAS 159. Retrospective application of SFAS 159 to fiscal years preceding the effective date is not permitted.

We elected to early adopt SFAS 159 beginning in our 2007 fiscal year and to measure at fair value substantially all structured notes not previously accounted for at fair value under SFAS No. 155, as well as certain deposits at our U.S. banking subsidiaries. We elected to adopt SFAS 159 for these instruments to reduce the complexity of accounting for these instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of adopting SFAS 159, we recognized a \$22 million after-tax increase (\$35 million pre-tax) to opening retained earnings as of December 1, 2006, representing the effect of changing the measurement basis of these financial instruments from an adjusted amortized cost basis at November 30, 2006 to fair value.

SFAS 141(R). In December 2007, the FASB issued a revision to SFAS No. 141, SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and a change thereafter reflected in revenue, not goodwill; and changes the recognition timing for acquisition and restructuring costs. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. We are still evaluating the impact of adoption on our Consolidated Financial Statements.

SFAS 160. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 re-characterizes minority interests as non-controlling interests and modifies the classification of minority interests to a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. We are still evaluating the impact of adoption on our Consolidated Financial Statements.

FIN 48. In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which sets out a framework for management to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of SFAS 109 uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained, and the amount of benefit is then measured on a probabilistic approach, as defined in FIN 48. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. We must adopt FIN 48 as of the beginning of our 2008 fiscal year. We estimate that the effect of adopting FIN 48 at the beginning of the first quarter of 2008 to be a decrease to beginning retained earnings and an increase to the liability for unrecognized tax benefits of approximately \$● million.

SOP 07-1. In June 2007, the AICPA issued Statement of Position ("SOP") No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in*

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Investment Companies ("SOP 07-1"). SOP 07-1 addresses when the accounting principles of the AICPA Audit and Accounting Guide Investment Companies must be applied by an entity and whether those accounting principles must be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for our fiscal year beginning December 1, 2008, with earlier application permitted as of December 1, 2007. We are evaluating the effect of adopting SOP 07-1 on our Consolidated Financial Statements.

EITF Issue No. 04-5. In June 2005, the FASB ratified the consensus reached in EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5"), which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with substantive rights to remove the general partner or to liquidate the partnership. As the general partner of numerous private equity and asset management partnerships, we adopted EITF 04-5 effective June 30, 2005 for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that had not been modified, we adopted EITF 04-5 as of the beginning of our 2007 fiscal year. The adoption of EITF 04-5 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 46(R)-6. In April 2006, the FASB issued FASB Staff Position FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)-6"). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46 by requiring an analysis of the purpose for which an entity was created and the variability that the entity was designed to create. We adopted FSP FIN 46(R)-6 on September 1, 2006 and applied it prospectively to all entities in which we first became involved after that date. Adoption of FSP FIN 46(R)-6 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 39-1. In April 2007, the FASB directed the FASB Staff to issue FASB Staff Position ("FSP") No. FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 does not affect our Consolidated Financial Statements because it clarified the acceptability of existing market practice, which we use, of netting cash collateral against net derivative assets and liabilities.

FSP FIN 48-1. In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 48-1, *Definition of "Settlement" In FASB Interpretation No. 48* ("FSP FIN 48-1"). Under FSP FIN 48-1, a previously unrecognized tax benefit may be subsequently recognized if the tax position is effectively settled and other specified criteria are met. We are evaluating the effect of adopting FSP FIN 48-1 on our Consolidated Financial Statements as part of our evaluation of the effect of adopting FIN 48.

FSP FIN 46(R)-7. In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7"). FSP FIN 46(R)-7 makes permanent the temporary deferral of the application of the provisions of FIN 46(R) to unregistered investment companies, and extends the scope exception from applying FIN 46(R) to include registered investment companies. FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. We are evaluating the effect of adopting FSP FIN 46(R)-7 on our Consolidated Financial Statements.

SAB 108. In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 specifies how the carryover or reversal of prior-year unrecorded financial statement misstatements should be considered in quantifying a current-year misstatement. SAB 108 requires an approach that considers the amount by which the current-year statement of income is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current-year statement of financial condition is misstated ("iron-curtain approach"). Prior to the issuance of SAB 108, either the rollover or iron-curtain approach was acceptable for assessing the materiality of financial statement misstatements. SAB 108 became effective for our fiscal year ended November 30, 2006. Upon adoption, SAB 108 allowed a cumulative-effect adjustment to opening retained earnings at December 1, 2005 for prior-year misstatements that were not material under a prior approach but that were material under the SAB 108 approach. Adoption of SAB 108 did not affect our Consolidated Financial Statements.

SAB 109. In November 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB 109"). SAB 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments* ("SAB 105"), and expresses view that, consistent with the guidance in SFAS No. 156, *Accounting for Servicing of Financial Assets*, and SFAS 159, the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 105 also

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expressed the view that internally-developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 retains that staff view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. Adoption of SAB 109 did not have a material affect our Consolidated Financial Statements.

Effect of Adoption. The table presented below summarizes the impact of adoption from the accounting developments summarized above on our results of operations, if any, actual or estimated:

In millions	Date of Adoption	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Net Income
Year Ended November 30, 2006				
SFAS 123(R)	December 1, 2005			\$47
SFAS 155	December 1, 2005		\$ (24)	
SFAS 156	December 1, 2005		18	
Year Ended November 30, 2007				
SFAS 157	December 1, 2006		45	
SFAS 158	November 30, 2007	\$(206)		
SFAS 159	December 1, 2006		22	
Estimated Impact to Year Ended November 30, 2008				
FIN 48	December 1, 2007		●	

Note 2 Business Segments and Geographic Information

Business Segments

We organize our business operations into three business segments: Capital Markets, Investment Banking and Investment Management.

Our business segment information for the periods ended in 2007, 2006 and 2005 is prepared using the following methodologies and generally represents the information that is relied upon by management in its decision-making processes:

- Revenues and expenses directly associated with each business segment are included in determining income before taxes.
- Revenues and expenses not directly associated with specific business segments are allocated based on the most relevant measures applicable, including each segment's revenues, headcount and other factors.
- Net revenues include allocations of interest revenue, interest expense and revaluation of certain long-term and short-term debt measured at fair value to securities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions.
- Business segment assets include an allocation of indirect corporate assets that have been fully allocated to our segments, generally based on each segment's respective headcount figures.

Capital Markets. Our Capital Markets segment is divided into two components:

Fixed Income – We make markets in and trade municipal and public sector instruments, interest rate and credit products, mortgage-related securities and loan products, currencies and commodities. We also originate mortgages and we structure and enter into a variety of derivative transactions. We also provide research covering economic, quantitative, strategic, credit, relative value, index and portfolio analyses. Additionally, we provide financing, advice and servicing activities to the hedge fund community, known as prime brokerage services. We engage in certain proprietary trading activities that are managed within this component.

Equities - We make markets in and trade equities and equity-related products and enter into a variety of derivative transactions. We also provide equity-related research coverage as well as execution and clearing activities for clients. Through our capital markets prime services, we provide pre- and post- trade financing, advice and servicing to the hedge fund community, known as prime brokerage services. We also engage in proprietary trading activities and principal investing in real estate, private equity and other related investments.

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Investment Banking. We take an integrated approach to client coverage, organizing bankers into industry, product and geographic groups within our Investment Banking segment. Business activities provided to corporations and governments worldwide can be separated into:

Global Finance – We serve our clients’ capital raising needs through underwriting, private placements, leveraged finance and other activities associated with debt and equity products.

Advisory Services – We provide business advisory assignments with respect to mergers and acquisitions, divestitures, restructurings, and other corporate activities.

Investment Management. The Investment Management business segment consists of:

Asset Management – We provide customized investment management services for high net worth clients, mutual funds and other small and middle market institutional investors. Asset Management also serves as general partner for private equity and other alternative investment partnerships and has minority stake investments in certain alternative investment managers.

Private Investment Management – We provide investment, wealth advisory and capital markets execution services to high net worth and middle market institutional clients.

Business Segments

In millions	Capital Markets	Investment Banking	Investment Management	Total
At and for the year ended November 30, 2007				
Gross revenues	\$51,741	\$3,903	\$3,281	\$58,925
Interest expense	39,484	—	184	39,668
Net revenues	12,257	3,903	3,097	19,257
Depreciation and amortization expense	432	48	97	577
Other expenses	7,626	2,832	2,209	12,667
Income before taxes	\$ 4,199	\$1,023	\$ 791	\$ 6,013
Segment assets (in billions)	\$ 680.5	\$ 1.4	\$ 9.2	\$ 691.1
At and for the year ended November 30, 2006				
Gross revenues	\$41,074	\$3,160	\$2,475	\$46,709
Interest expense	29,068	—	58	29,126
Net revenues	12,006	3,160	2,417	17,583
Depreciation and amortization expense	377	42	95	514
Other expenses	6,909	2,458	1,797	11,164
Income before taxes	\$ 4,720	\$ 660	\$ 525	\$ 5,905
Segment assets (in billions)	\$ 493.5	\$ 1.3	\$ 8.7	\$ 503.5
At and for the year ended November 30, 2005				
Gross revenues	\$27,545	\$2,894	\$1,981	\$ 32,420
Interest expense	17,738	—	52	17,790
Net revenues	9,807	2,894	1,929	\$ 14,630
Depreciation and amortization expense	308	36	82	426
Other expenses	5,927	2,003	1,445	9,375
Income before taxes	\$ 3,572	\$ 855	\$ 402	\$ 4,829
Segment assets (in billions)	\$ 401.9	\$ 1.2	\$ 7.0	\$ 410.1

Net Revenues by Geographic Region

We organize our operations into three geographic regions:

- Europe and the Middle East, inclusive of our operations in Russia and Turkey;
- Asia-Pacific, inclusive of our operations in Australia and India; and
- Americas, inclusive of our operations in North, South and Central America.

Net revenues presented by geographic region are based upon the location of the senior coverage banker or investment advisor in the case of Investment Banking or Asset Management, respectively, or where the position was risk managed within Capital Markets and Private Investment Management. In addition, certain revenues associated with U.S. products

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and services that result from relationships with international clients have been classified as international revenues using an allocation consistent with our internal reporting.

The following presents, in management's judgment, a reasonable representation of each region's contribution to net revenues.

Net Revenues by Geographic Region

In millions	Year ended November 30,		
	2007	2006	2005
Europe and the Middle East	\$ 6,296	\$ 4,536	\$ 3,601
Asia-Pacific	3,145	1,809	1,650
Total Non–Americas	\$ 9,441	\$ 6,345	\$ 5,251
U.S.	9,634	11,116	9,270
Other Americas	182	122	109
Total Americas	\$ 9,816	\$11,238	9,379
Net revenues	\$19,257	\$17,583	\$14,630

Note 3 Financial Instruments and Other Inventory Positions

Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased were comprised of the following:

In millions	Owned		Sold But Not Yet Purchased	
	Nov 30, 2007	Nov 30, 2006	Nov 30, 2007	Nov 30, 2006
	Mortgages and asset-backed securities	\$ 89,106	\$ 57,726	\$ 332
Government and agencies	40,892	47,293	71,813	70,453
Corporate debt and other	54,098	43,764	6,759	8,836
Corporate equities	58,521	43,087	39,080	28,464
Real estate held for sale	21,917	9,408	—	—
Commercial paper and other money market instruments	4,000	2,622	12	110
Derivatives and other contractual agreements	44,595	22,696	31,621	18,017
	\$313,129	\$226,596	\$149,617	\$125,960

Mortgages and asset-backed securities. Mortgages and asset-backed securities include residential and commercial whole loans and interests in non-agency residential and commercial mortgage-backed securitizations. Additionally and included within Mortgages and asset-backed securities balances are securities whose cash flows are based on pools of assets in bankruptcy-remote entities, or collateralized by cash flows from a specified pool of underlying assets. The pools of assets may include, but are not limited to mortgages, receivables, loans or standard cost utilities.

It is our intent to sell through securitization or syndication activities, residential and commercial mortgage whole loans we originate, as well as those we acquire in the secondary market. We originated approximately \$47 billion and \$60 billion of residential mortgage loans in 2007 and 2006, respectively, and approximately \$60 billion and \$34 billion of commercial mortgage loans in 2007 and 2006, respectively.

Balances reported for Mortgages and asset-backed securities include approximately \$11.8 billion and \$5.5 billion in 2007 and 2006, respectively, of loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The securitization vehicles issued securities that were distributed to investors. We do not consider ourselves to have economic exposure to the underlying assets in those securitization vehicles. For further discussion of our securitization activities, see Note 6, "Securitizations and Special Purpose Entities" to the Consolidated Financial Statements.

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In 2007 and 2006, our inventory of Mortgages and asset-backed securities, excluding those which were accounted for as financings rather than sales under SFAS 140, generally included the following types of assets:

In millions	November 30, 2007	November 30, 2006
Residential		
Whole loans	\$ 14,107	\$ 18,749
Retained interests in securitizations	8,007	7,230
Other ⁽¹⁾	12,379	1,537
	\$ 34,493	\$ 27,516
Commercial		
Whole loans	\$ 36,183	\$ 22,426
Retained interests in securitizations	2,001	1,948
Other ⁽¹⁾	4,619	336
	\$ 42,803	\$ 24,710
Total	\$ 77,296	\$ 52,226

⁽¹⁾ Other includes agented-related inventory; assets for which we perform servicing activities; and asset-backed securities, such as collateralized obligations.

In 2007 and 2006, our portfolio of U.S. subprime residential mortgages, a component of our Mortgages and asset-backed securities inventory, were:⁷

In millions	November 30, 2007	November 30, 2006
U.S. residential subprime mortgages		
Whole loans ⁽¹⁾	\$ 3,226	\$ 4,978
Retained interests in securitizations	1,994	1,817
Other ⁽²⁾	55	54
	\$ 5,275	\$ 6,849

⁽¹⁾ Excludes loans which were accounted for as financings rather than sales under SFAS 140 which were approximately \$2.9 billion and \$3.5 billion at November 30, 2007 and November 30, 2006, respectively.

⁽²⁾ Other includes agented-related inventory; assets for which we perform servicing activities; and asset-backed securities, such as collateralized obligations.

Government and agencies. Included within these balances are instruments issued by a national government or agency thereof, denominated in the country's own currency or in a foreign currency (*e.g.*, sovereign).

Corporate debt and other. Longer-term debt instruments, generally with a maturity date falling at least a year after their issue date; not issued by governments; and may or may not be traded on major exchanges, are included within this component.

Non-derivative, physical commodities are reported as a component of this line item and were approximately \$308 million in 2007. In 2006, we did not have any non-derivative, physical commodities.

Corporate equities. Balances generally reflect held positions in any instrument that has an equity ownership component, such as, equity-related positions and public ownership equity securities that are listed on public exchanges. Our private equity-related positions or non-public ownership equity securities that are not listed on a public exchange are also reflected in these balances.

⁷ We generally define U.S. subprime residential mortgage loans as those associated with borrowers having a credit score in the range of 620 or lower using the Fair Isaac Corporation's statistical model, or having other negative factors within their credit profiles. Prior to its closure in our third quarter, we originated subprime residential mortgage loans through BNC Mortgage LLC ("BNC"), a wholly-owned subsidiary of our U.S. regulated thrift Lehman Brothers Bank, FSB ("LBB"). BNC served borrowers with subprime qualifying credit profiles but may have served borrowers with stronger credit history as a result of broker relationships or product offerings and such loans are also included in our subprime business activity. For residential mortgage loans purchased from other mortgage originators, we use a similar subprime definition as for our origination activity. Additionally, second lien loans are included in our subprime business activity.

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Real estate held for sale. Real estate held for sale reflects our direct equity or debt investments in parcels of land and related physical property. Our net investment positions related to Real estate held for sale, after giving effect to non-recourse financing, was \$12.6 billion and \$5.9 billion at November 30, 2007 and 2006, respectively. The components of our net investment positions related to Real estate held for sale were generally:

In millions	November 30, 2007	November 30, 2006
Land	\$,731	\$ 1,199
Buildings and Developments	10,523	4,266
Other	389	484
	<u>\$12,644</u>	<u>\$5,949</u>

Commercial paper and other money market instruments. Commercial paper and other money market instruments include short-term obligations, generally issued by financial institutions or corporations, with maturities within a calendar year of the financial statement date. These instruments may include promissory notes, drafts, checks and certificates of deposit.

Derivatives and other contractual agreements. These balances generally represent future commitments to exchange interest payment streams or currencies based on contract or notional amounts or to purchase or sell other financial instruments or physical assets at specified terms on a specified date. Both over-the-counter and exchange-traded derivatives are reflected.

The following table presents the fair value of Derivatives and other contractual agreements at November 30, 2007 and 2006, respectively. Assets included in the table represent unrealized gains, net of unrealized losses, for situations in which we have a master netting agreement. Similarly, liabilities represent net amounts owed to counterparties. The fair value of derivative contracts represents our net receivable/payable for derivative financial instruments before consideration of securities collateral. Derivatives and other contractual agreements are presented below net of cash collateral of approximately \$19.7 billion and \$17.5 billion, respectively, in 2007 and \$11.1 billion and \$8.2 billion, respectively, in, 2006.

In millions	Nov 30, 2007		Nov 30, 2006	
	Assets	Liabilities	Assets	Liabilities
Over-the-Counter ⁽¹⁾				
Interest rate, currency and credit default swaps and options	\$22,028	\$ 10,915	\$ 8,634	\$ 5,691
Foreign exchange forward contracts and options	2,479	2,888	1,792	2,145
Other fixed income securities contracts (including TBAs and forwards) ⁽²⁾	8,450	6,024	4,308	2,604
Equity contracts (including equity swaps, warrants and options)	8,357	9,279	4,739	4,744
Exchange Traded				
Equity contracts (including equity swaps, warrants and options)	3,281	2,515	3,223	2,833
	<u>\$ 44,595</u>	<u>\$ 31,621</u>	<u>\$22,696</u>	<u>\$18,017</u>

⁽¹⁾ Our net credit exposure for OTC contracts is \$34.6 billion and \$15.6 billion at November 30, 2007 and 2006, respectively, representing the fair value of OTC contracts in a net receivable position, after consideration of collateral.

⁽²⁾ Includes commodity derivative assets of \$1.5 billion and liabilities of \$1.5 billion in 2007, and commodity derivative assets of \$268 million and liabilities of \$277 million in, 2006.

Concentrations of Credit Risk

A substantial portion of our securities transactions are collateralized and are executed with, and on behalf of, financial institutions, which includes other brokers and dealers, commercial banks and institutional clients. Our exposure to credit risk associated with the non-performance of these clients and counterparties in fulfilling their contractual obligations with respect to various types of transactions can be directly affected by volatile or illiquid trading markets, which may impair the ability of clients and counterparties to satisfy their obligations to us.

Financial instruments and other inventory positions owned include U.S. government and agency securities, and securities issued by non-U.S. governments, which in the aggregate represented 6% and 9% of total assets at November 30, 2007 and 2006, respectively. In addition, collateral held for resale agreements represented approximately 24% and 23% of total assets at November 30, 2007 and 2006, respectively, and primarily consisted of securities issued by the U.S. government, federal agencies or non-U.S. governments. Our most significant industry concentration is financial

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institutions, which includes other brokers and dealers, commercial banks and institutional clients. This concentration arises in the normal course of business.

Note 4 Fair Value of Financial Instruments

Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased, are presented at fair value. In addition, certain long and short-term borrowing obligations, principally structured notes and certain deposits at banks, are presented at fair value.

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Beginning December 1, 2006, assets and liabilities recorded at fair value in the Consolidated Statement of Financial Condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels – defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities – are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, structured notes and certain mortgage and asset backed securities, certain corporate debt, certain private equity investments and certain derivatives, including those for commitments or guarantees.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset backed securities, certain corporate debt, certain private equity investments, certain lending commitments and certain derivatives.

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Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

In millions	Assets at Fair Value as of November 30, 2007			
	Level I	Level II	Level III	Total
Mortgages and asset-backed securities ⁽¹⁾	\$ 240	\$ 63,485	\$25,381	\$ 89,106
Government and agencies	25,291	15,601	—	40,892
Corporate debt and other	678	50,371	3,049	54,098
Corporate equities	39,447	11,433	7,641	58,521
Commercial paper and other money market instruments	4,000	—	—	4,000
Derivative assets ⁽²⁾	3,281	35,678	5,636	44,595
	\$ 72,937	\$176,568	\$41,707	\$291,212

⁽¹⁾ Includes loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The securitization vehicles issued securities that were distributed to investors. We do not consider ourselves to have economic exposure to the underlying assets in those securitization vehicles. The loans are reflected as an asset within Mortgages and asset-backed positions and the proceeds received from the transfer are reflected as a liability within Other secured borrowings.

⁽²⁾ Derivative assets are presented on a net basis by level. Inter- and intra-level cash collateral, cross-product and counterparty netting at November 30, 2007 was approximately \$39.7 billion.

In millions	Liabilities at Fair Value as of November 30, 2007			
	Level I	Level II	Level III	Total
Mortgages and asset-backed positions	\$ —	\$ 332	\$ —	\$ 332
Government and agencies	67,402	4,411	—	71,813
Corporate debt and other	50	6,709	—	6,759
Corporate equities	39,080	—	—	39,080
Commercial paper and other money market instruments	12	—	—	12
Derivative liabilities ⁽¹⁾	2,515	26,011	3,095	31,621
	\$109,059	\$37,463	\$3,095	\$149,617

⁽¹⁾ Derivative liabilities are presented on a net basis by level. Inter- and intra-level cash collateral, cross-product and counterparty netting at November 30, 2007 was approximately \$36.6 billion.

Level III Gains and Losses

Net revenues (both realized and unrealized) for Level III financial instruments are a component of Principal transactions in the Consolidated Statement of Income. Net realized gains associated with Level III financial instruments were approximately \$715 million for the fiscal year ended November 30, 2007. The net unrealized loss on Level III non-derivative financial instruments was approximately \$1.8 billion for the fiscal year ended November 30, 2007, primarily consisting of unrealized losses from mortgage and asset-backed positions. The net realized gain on Level III derivative financial instruments was approximately \$1.8 billion for the fiscal year ended November 30, 2007, primarily consisting of unrealized gains from credit-related derivative positions. Level III financial instruments may be economically hedged with financial instruments not classified as Level III; therefore, gains or losses associated with Level III financial instruments are offset by gains or losses associated with financial instruments classified in other levels of the fair value hierarchy.

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The table presented below summarizes the change in balance sheet carrying value associated with Level III financial instruments during the fiscal year ended November 30, 2007. Caution should be utilized when evaluating reported net revenues for Level III Financial instruments. The values presented exclude economic hedging activities that may be transacted in instruments categorized within other fair value hierarchy levels. Actual net revenues associated with Level III financial instruments inclusive of hedging activities could differ materially.

In millions	Mortgage and asset-backed positions	Corporate debt and other	Corporate Equities	Derivative assets, net ⁽¹⁾	Total
Balance at December 1, 2006	\$ 9,099	\$ 1,453	\$ 2,374	\$ 686	\$ 13,612
Net Payments, Purchases and Sales	6,952	531	4,153	404	12,040
Net Transfers In/(Out)	10,992	906	568	(90)	12,376
Gains/(Losses) ⁽²⁾					
Realized	297	58	532	(187)	700
Unrealized	(1,959)	101	14	1,728	(116)
Balance at November 30, 2007	\$ 25,381	\$ 3,049	\$ 7,641	\$ 2,541	\$ 38,612

⁽¹⁾ Derivatives are presented on a net basis.

⁽²⁾ Realized or unrealized gains/(losses) from changes in values of Level III Financial instruments represent gains/(losses) from changes in values of those Financial instruments only for the period(s) in which the instruments were classified as Level III.

The table presented below summarizes the change in balance sheet carrying value associated with Level III financial instruments during each quarterly period in the 2007 fiscal year. Caution should be utilized when evaluating reported net revenues for Level III Financial instruments. The values presented exclude economic hedging activities that may be transacted in instruments categorized within other fair value hierarchy levels. Actual net revenues associated with Level III financial instruments inclusive of hedging activities could differ materially.

In millions	Mortgage and asset-backed positions	Corporate debt and other	Corporate equities	Derivative assets, net ⁽¹⁾	Total
Balance at December 1, 2006	\$ 9,099	\$ 1,453	\$ 2,374	\$ 686	\$ 13,612
Net Payments, Purchases and Sales	2,347	436	205	283	3,271
Net Transfers In/(Out)	138	—	—	—	138
Gains/(Losses) ⁽²⁾					
Realized	176	19	21	7	223
Unrealized	(79)	11	12	158	102
Balance at February 28, 2007	11,681	1,919	2,612	1,134	17,346
Net Payments, Purchases and Sales	1,680	140	879	(6)	2,693
Net Transfers In/(Out)	(10)	250	108	39	387
Gains/(Losses) ⁽²⁾					
Realized	272	32	4	48	356
Unrealized	(148)	20	121	65	58
Balance at May 31, 2007	13,475	2,361	3,724	1,280	20,840
Net Payments, Purchases and Sales	1,898	(334)	258	(59)	1,763
Net Transfers In/(Out)	9,827	(144)	261	(160)	9,784
Gains/(Losses) ⁽²⁾					
Realized	202	7	42	(4)	247
Unrealized	(848)	39	66	543	(200)
Balance at August 31, 2007	24,554	1,929	4,351	1,600	32,434
Net Payments, Purchases and Sales	1,027	289	2,810	186	4,312
Net Transfers In/(Out)	1,037	800	200	31	2,068
Gains/(Losses) ⁽²⁾					
Realized	255	48	227	(279)	251
Unrealized	(1,492)	(17)	53	1,003	(453)
Balance at November 30, 2007	\$ 25,381	\$ 3,049	\$ 7,641	\$ 2,541	\$ 38,612

⁽¹⁾ Derivatives are presented on a net basis.

⁽²⁾ Realized or unrealized gains/(losses) from changes in values of Level III Financial instruments represent gains/(losses) from changes in values of those Financial instruments only for the period(s) in which the instruments were classified as Level III.

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Fair Value Option

SFAS 159 permits certain financial assets and liabilities to be measured at fair value, using an instrument-by-instrument election. Changes in the fair value of the financial assets and liabilities for which the fair value option was made are reflected in Principal transactions as incurred. As indicated above in the fair value hierarchy tables and further discussed in Note 1, “Summary of Significant Accounting Policies, Accounting and Regulatory Developments—SFAS 159,” we elected to account for the following financial assets and liabilities at fair value:

Certain hybrid financial instruments. These instruments are primarily structured notes that are risk managed on a fair value basis and within our Capital Market activities and for which hedge accounting under SFAS 133 had been difficult to obtain and maintain. The changes in the fair value of these liabilities that was attributable to the observable impact of the changes in Lehman’s own credit spread was approximately \$611 million and \$1.5 billion for the three months ended November 30, 2007 and for the fiscal year ended November 30, 2007, respectively. These gains, which exclude any Interest income or Interest expense as well as any gain or loss from the embedded derivative components of these instruments, are reflected in Principal transactions for the respective periods.

Deposits at banks. We elected to account for certain deposits at our U.S. banking subsidiaries at fair value. The change in fair value attributable to the observable impact from instrument-specific credit risk was not material to our results of operations.

Other secured borrowings. Liabilities recorded as Other secured borrowings reflect the proceeds received from transferring loans to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The transferred loans are reflected as an asset within Mortgages and asset-backed positions and also accounted for at fair value and categorized as Level II in the fair value hierarchy. We do not consider ourselves to have economic exposure to the underlying assets in these securitization vehicles. The change in fair value attributable to the observable impact from instrument-specific credit risk was not material to our results of operations.

Other liabilities for which the fair value option was elected are categorized in the tables below based upon the lowest level of significant input to the valuations.

In millions	At Fair Value as of November 30, 2007			
	Level I	Level II	Level III	Total
Short-term borrowings ⁽¹⁾	—	\$ 9,035	—	\$ 9,035
Other secured borrowings ⁽²⁾	—	\$22,992	—	\$22,992
Deposits at banks ⁽³⁾	—	\$15,915	—	\$15,915
Long-term borrowings ⁽⁴⁾	—	\$27,204	—	\$27,204

⁽¹⁾ Consists of certain hybrid financial instruments accounted for at fair value under SFAS No. 155 and SFAS No. 159. See Note 1, “Summary of Significant Accounting Policies” for further discussion of our adoption of these accounting standards. At November 30, 2007, the principal amount of short-term borrowings carried at fair value was approximately \$9.2 billion.

⁽²⁾ Includes the proceeds received from loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The securitization vehicles issued securities that were distributed to investors. We do not consider ourselves to have economic exposure to the underlying assets in those securitization vehicles. The loans are reflected as an asset within Mortgages and asset-backed positions and the proceeds received from the transfer are reflected as a liability within Other secured borrowings.

⁽³⁾ Consists of deposits at certain of our U.S. deposit taking banks accounted for at fair value under SFAS No. 155 and SFAS No. 159. See Note 1, “Summary of Significant Accounting Policies” for further discussion of our adoption of these accounting standards. At November 30, 2007, the principal amount for deposits at banks carried at fair value was approximately \$16.2 billion.

⁽⁴⁾ Consists of certain hybrid financial instruments accounted for at fair value under SFAS No. 155 and SFAS No. 159. See Note 1, “Summary of Significant Accounting Policies” for further discussion of our adoption of these accounting standards. At November 30, 2007, the principal amount of long-term borrowings carried at fair value was approximately \$29.3 billion.

Fair Value on a Nonrecurring Basis

The Company uses fair value measurements on nonrecurring basis in its assessment for assets classified as Goodwill and financial instruments owned classified as Real estate held for sale. These assets and financial instruments are recorded at fair value initially and assessed for impairment periodically thereafter. During the fiscal year ended November 30, 2007, the carrying amount of Goodwill assets were compared to fair value measurements. No change in carrying amount resulted in accordance with the provisions of SFAS 142. Additionally and on a nonrecurring basis during the fiscal year ended November 30, 2007, the carrying amount of Real estate held for sale inventory positions were compared to fair value measurements less cost to sell. No change in carrying amount resulted in accordance with the provisions of SFAS No. 66, *Accounting for Sales of Real Estate*, SFAS No. 144, *Accounting for Impairment or Disposal of Long Lived Assets*, and other relevant accounting guidance. The lowest level of inputs for fair value measurements for Goodwill and Real estate held for sale are Level III.

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For additional information regarding Goodwill assets, see Note 7, "Identifiable Intangible Assets and Goodwill," to the Consolidated Financial Statements. For additional information regarding our inventory of Real estate held for sale, see Note 3, "Financial Instruments and Other Inventory Positions," to the Consolidated Financial Statements.

Valuation Techniques

In accordance with SFAS 157, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

Market Approach. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

Income Approach. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques; option-pricing models, binomial or lattice models that incorporate present value techniques; and the multi-period excess earnings method.

Cost Approach. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described within SFAS 157 are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation technique may be used. The selection of the valuation method(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required. For assets and liabilities accounted for at fair value, excluding Goodwill and Real estate held for sale, valuation techniques are generally a combination of the market and income approaches. Goodwill and Real estate held for sale valuation techniques generally combine income and cost approaches. For the fiscal year ended November 30, 2007, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Note 5 Securities Received and Pledged as Collateral

We enter into secured borrowing and lending transactions to finance inventory positions, obtain securities for settlement and meet clients' needs. We receive collateral in connection with resale agreements, securities borrowed transactions, borrow/pledge transactions, client margin loans and derivative transactions. We generally are permitted to sell or repledge these securities held as collateral and use them to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions.

At November 30, 2007 and 2006, the fair value of securities received as collateral that we were permitted to sell or repledge was approximately \$731 billion and \$621 billion, respectively. The fair value of securities received as collateral that we sold or repledged was approximately \$672 billion and \$568 billion at November 30, 2007 and 2006, respectively.

We also pledge our own assets, primarily to collateralize certain financing arrangements. These pledged securities, where the counterparty has the right by contract or custom to sell or repledge the financial instruments were approximately \$63 billion and \$43 billion at November 30, 2007 and 2006, respectively. The carrying value of Financial instruments and other inventory positions owned that have been pledged or otherwise encumbered to counterparties where those counterparties do not have the right to sell or repledge, was approximately \$87 billion and \$75 billion at November 30, 2007 and 2006, respectively.

Note 6 Securitizations and Special Purpose Entities

Generally, residential and commercial mortgages, home equity loans, municipal and corporate bonds, and lease and trade receivables are financial assets that we securitize through SPEs. We may continue to hold an interest in the financial assets securitized in the form of either the securities created in the transaction or residual interests in the SPEs ("interests in securitizations") established to facilitate the securitization transaction. Interests in securitizations are presented within Financial instruments and other inventory positions owned (primarily in mortgages and mortgage-backed and government and agencies) in the Consolidated Statement of Financial Condition. For additional information regarding the accounting

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for securitization transactions, see Note 1, "Summary of Significant Accounting Policies—Consolidation Accounting Policies," to the Consolidated Financial Statements.

For the periods ended November 30, 2007 and 2006, we securitized the following financial assets:

In millions	November 30,	
	2007	2006
Residential mortgages	\$100,053	\$145,860
Commercial mortgages	17,914	18,961
Municipal and other asset-backed financial instruments	5,480	3,624
Total	\$123,447	\$168,445

At November 30, 2007 and 2006, we had approximately \$1.6 billion and \$2.0 billion, respectively, of non-investment grade interests from our securitization activities (primarily junior security interests in residential mortgage securitizations).

The table below presents: the fair value of our interests in securitizations at November 30, 2007 and 2006; model assumptions of market factors; sensitivity of valuation models to adverse changes in the assumptions; as well as cash flows received on such interests in the securitizations. The sensitivity analyses presented below are hypothetical and should be used with caution since the stresses are performed without considering the effect of hedges, which serve to reduce our actual risk. We mitigate the risks associated with the above interests in securitizations through dynamic hedging strategies. These results are calculated by stressing a particular economic assumption independent of changes in any other assumption (as required by U.S. GAAP). In reality, changes in one factor often result in changes in another factor which may counter act or magnify the effect of the changes outlined in the table below. Changes in the fair value based on a 10% or 20% variation in an assumption should not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Securitization Activity

Dollars in millions	November 30, 2007			November 30, 2006		
	Residential Mortgages			Residential Mortgages		
	Investment Grade⁽¹⁾	Non-Investment Grade	Other⁽²⁾	Investment Grade⁽¹⁾	Non-Investment Grade	Other⁽²⁾
Interests in securitizations (in billions) ⁽¹⁾	\$ 6.8	\$ 1.5	\$2.6	\$ 5.3	\$ 2.0	\$ 0.6
Weighted-average life (years)	9	5	6	5	6	5
Average constant prepayment rate	11.4	13.1	—	27.2	29.1	—
Effect of 10% adverse change	\$ 51	\$ 5	\$ —	\$ 21	\$ 61	\$ —
Effect of 20% adverse change	\$104	\$ 7	\$ —	\$ 35	\$ 110	\$ —
Weighted-average credit loss assumption	0.6%	2.6%	0.7%	0.6%	1.3%	—
Effect of 10% adverse change	\$108	\$ 98	\$ 6	\$ 70	\$109	\$ —
Effect of 20% adverse change	\$198	\$191	\$ 12	\$ 131	\$196	\$ —
Weighted-average discount rate	7.8%	18.9%	7.3%	7.2%	18.4%	5.8%
Effect of 10% adverse change	\$244	\$47	\$ 84	\$ 124	\$ 76	\$ 13
Effect of 20% adverse change	\$488	\$90	\$ 166	\$ 232	\$147	\$ 22

⁽¹⁾ The amount of investment-grade interests in securitizations related to agency collateralized mortgage obligations was approximately \$2.5 billion and \$1.9 billion at November 30, 2007 and 2006, respectively.

⁽²⁾ At November 30, 2007, other interests in securitizations included approximately \$2.4 billion of investment grade commercial mortgages and approximately \$26 million of non-investment grade commercial mortgages. At November 30, 2006, other interests in securitizations included approximately \$0.6 billion of investment grade commercial mortgages.

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Cash flows received on interests in securitizations

Dollars in millions	November 30, 2007			November 30, 2006		
	\$ ●	\$ ●	\$ ●	\$ 664	\$ 216	\$ 59

Mortgage servicing rights. Mortgage servicing rights (“MSRs”) represent the right to future cash flows based upon contractual servicing fees for mortgage loans and mortgage-backed securities. Our MSRs generally arise from the securitization of residential mortgage loans that we originate. MSRs are presented within Financial instruments and other inventory positions owned on the Consolidated Statement of Financial Condition. At November 30, 2007 and, 2006, the Company had MSRs of approximately \$1.2 million and \$829 million, respectively.

Our MSRs activities for the year ended November 30, 2007 and 2006 are as follows:

In millions	At November 30,	
	2007	2006
Balance, beginning of period	\$ 829	\$ 561
Additions, net	377	507
Changes in fair value:		
Paydowns/servicing fees	(159)	(192)
Resulting from changes in valuation assumptions	202	(80)
Change due to SFAS 156 adoption	—	33
Balance, end of period	\$ 1,249	\$ 829

The determination of MSRs fair value is based upon a discounted cash flow valuation model. Cash flow and prepayment assumptions used in our discounted cash flow model are: based on empirical data drawn from the historical performance of our MSRs; consistent with assumptions used by market participants valuing similar MSRs; and from data obtained on the performance of similar MSRs. These variables can, and generally will, vary from quarter to quarter as market conditions and projected interest rates change. For that reason, risk related to MSRs directly correlates to changes in prepayment speeds and discount rates. We mitigate this risk by entering into hedging transactions.

The following table shows the main assumptions used to determine the fair value of our MSRs at November 30, 2007 and 2006, the sensitivity of our fair value measurements to changes in these assumptions, and cash flows received on contractual servicing:

Dollars in millions	At November 30,	
	2007	2006
Weighted-average prepayment speed (CPR)	24.4	31.1
Effect of 10% adverse change	\$ 109	\$ 84
Effect of 20% adverse change	\$ 202	\$ 154
Discount rate	6.5%	8.0%
Effect of 10% adverse change	\$ 23	\$ 17
Effect of 20% adverse change	\$ 43	\$ 26
Cash flows received on contractual servicing	\$ 273	\$ 255

The above sensitivity analysis is hypothetical and should be used with caution since the stresses are performed without considering the effect of hedges, which serve to reduce our actual risk. These results are calculated by stressing a particular economic assumption independent of changes in any other assumption (as required by U.S. GAAP); in reality, changes in one factor often result in changes in another factor which may counteract or magnify the effect of the changes outlined in the above table. Changes in the fair value based on a 10% or 20% variation in an assumption should not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Non-QSPE activities. We have transactional activity with SPEs that do not meet the QSPE criteria because their permitted activities are not limited sufficiently or the assets are non-qualifying financial instruments (e.g., real estate). Transactions with such SPEs include credit-linked notes, real estate investment vehicles and other structured financing transactions designed to meet clients’ investing or financing needs. Our involvement with such SPEs includes collateralized debt obligations (“CDOs”), credit-linked notes and other structured financing transactions designed to meet clients’ investing or financing needs.

A CDO transaction involves the purchase by an SPE of a diversified portfolio of securities and/or loans that are then managed by an independent asset manager. Interests in the SPE (debt and equity) are sold to third party investors. Our

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primary role is limited to acting as structuring and placement agent, warehouse provider, underwriter and market maker in the related CDO securities. In a typical CDO, at the direction of a third party asset manager, we will temporarily warehouse securities or loans on our balance sheet pending the sale to the SPE once the permanent financing is completed. At November 30, 2007 and 2006, we owned approximately \$581.2 million and \$55.1 million of equity securities in CDOs, respectively. Because our investments do not represent a majority of any CDO equity class, we are not the primary beneficiary of the CDOs and therefore we do not consolidate such SPEs.

As a dealer in credit default swaps, we make a market in buying and selling credit protection on single issuers as well as on portfolios of credit exposures. We mitigate our credit risk, in part, by purchasing default protection through default swaps with SPEs. We pay a premium to the SPEs for assuming credit risk under the default swap. In these transactions, SPEs issue credit-linked notes to investors and use the proceeds to invest in high quality collateral. Our maximum potential loss associated with our involvement with such credit-linked note transactions is measured by the fair value of our credit default swaps with such SPEs. At November 30, 2007 and 2006, respectively, the fair values of these credit default swaps were \$1.8 billion and \$155 million. The underlying investment grade collateral where we are the first-lien holder held by SPEs was \$14.1 billion and \$10.8 billion at November 30, 2007 and 2006, respectively.

Because the investors assume default risk associated with both the reference portfolio and the SPEs' assets our expected loss calculations generally demonstrate the investors in the SPEs bear a majority of the entity's expected losses. Accordingly, we generally are not the primary beneficiary and therefore do not consolidate these SPEs.

In instances where we are the primary beneficiary of the credit default transaction, we consolidate the SPE. At November 30, 2007 and 2006, we consolidated approximately \$118 million and \$718 million of these credit default transactions, respectively. The assets associated with these consolidated credit default transactions are presented as a component of Financial instruments and other inventory positions owned.

We also invest in real estate directly through consolidated subsidiaries and through VIEs. We consolidate our investments in real estate VIEs when we are the primary beneficiary. We record the assets of these consolidated real estate-related investments in VIEs as a component of Financial instruments and other inventory positions owned. At November 30, 2007 and 2006, we consolidated approximately \$9.8 billion and \$3.4 billion, respectively, of real estate-related investments. After giving effect to non-recourse financing, our net investment position in these consolidated real estate VIEs was \$6.0 billion and \$2.2 billion at November 30, 2007 and 2006, respectively.

The following table summarizes our non-QSPE activities at November 30, 2007 and 2006:

In millions	At November 30,	
	2007	2006
Credit default swaps with QSPEs	\$ 1,833	\$ 155
Value of underlying investment-grade collateral	14,093	10,754
Value of assets consolidated	180	718
Consolidated VIE real estate investments	9,786	3,380
Net investment	6,050	2,180

In addition to the above, we enter into other transactions with SPEs designed to meet clients' investment and/or funding needs. For further discussion of our SPE-related and other commitments, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

Note 7 Identifiable Intangible Assets and Goodwill

Aggregate amortization expense for the years ended November 30, 2007, 2006 and 2005 was \$47 million, \$50 million, and \$49 million, respectively. Estimated amortization expenses for each of the years ending November 30, 2007 through 2011 are as follows:

In millions	2008	2009	2010	2011	2012
Estimate amortization expense	\$ 52,636	\$ 41,283	\$ 39,760	\$ 38,369	\$ 37,531

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Identifiable Intangible Assets

In millions	November 30, 2007		November 30, 2006	
	Gross		Gross	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer lists	\$580	\$143	\$504	\$ 110
Other	98	65	82	51
	\$678	\$208	\$586	\$161
Intangible assets not subject to amortization:				
Mutual fund customer-related intangibles	\$395		\$395	
Trade name	125		125	
	\$520		\$520	

The changes in the carrying amount of goodwill for the years ended November 30, 2007 and 2006 are as follows:

Goodwill

In millions	Capital Markets	Investment Management	Total
Balance (net) at November 30, 2005	\$160	\$2,110	\$2,270
Goodwill acquired	116	—	116
Purchase price valuation adjustment	—	12	31
Balance (net) at November 30, 2006	295	2,122	2,417
Goodwill acquired	593	168	761
Goodwill disposed	(27)	(26)	(53)
Purchase price valuation adjustment	19	(7)	12
Balance (net) at November 30, 2007	\$880	\$2,257	\$3,137

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Note 8 Borrowings and Deposit Liabilities

Total borrowings and deposits at November 30, 2007 and 2006, respectively, consisted of the following:

In millions	At November 30,	
	2007	2006
Short-term borrowings		
Secured	\$ 519	\$ 227
Unsecured		
Current portion of long-term borrowings	16,801	12,878
Commercial paper	3,101	1,653
Other	7,645	5,880
Total	\$ 28,066	\$ 20,638
Amount carried at fair value ⁽¹⁾	\$ 9,035	\$ 3,783
Weighted-average interest rate after effect of hedging activities	5.14%	5.39%
Deposit liabilities at banks		
Time deposits		
At U.S. banks	\$ 16,189	\$ 14,592
At non-U.S. banks	10,974	5,621
Savings deposits		
At U.S. banks	1,556	1,199
At non-U.S. banks	644	—
Total	\$ 29,363	\$ 21,412
Amount carried at fair value ⁽¹⁾	\$ 15,915	\$ 14,708
Weighted-average interest rate	4.67%	4.66%
Long-term borrowings		
Senior notes	\$108,914	\$ 75,202
Subordinated notes	9,259	3,238
Junior subordinated notes	4,977	2,738
Total	\$123,150	\$ 81,178
Amount carried at fair value ⁽¹⁾	\$ 27,204	\$ 11,025
Weighted-average U.S. dollar contractual interest rate	5.65%	5.21%
Weighted-average non-U.S. dollar contractual interest rate	4.50%	3.15%

⁽¹⁾ Borrowings and deposits are carried at fair value in accordance with SFAS 155 and SFAS 159. For additional information, see Note 1, "Summary of Significant Accounting Policies," and Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

Maturity Profile

The maturity dates of long-term borrowings are as follows:

In millions	U.S. Dollar		Non-U.S. Dollar		Total	
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Nov 30, 2007	Nov 30, 2006
Maturing in fiscal 2009	\$ 2,369	\$ 429	\$14,121	\$ 8,104	\$ 25,023	\$17,892
Maturing in fiscal 2010	3,754	1,663	4,845	3,269	13,531	13,583
Maturing in fiscal 2011	2,215	1,798	3,315	7,287	14,615	7,744
Maturing in fiscal 2012	4,636	3,234	2,605	7,513	17,988	12,412
December 1, 2012 and thereafter	18,414	8,782	7,805	16,992	51,993	29,547
	\$31,388	\$15,906	\$32,691	\$43,165	\$123,150	\$81,178

At November 30, 2007, \$863 million of outstanding long-term borrowings are repayable at par value prior to maturity at the option of the holder. These obligations are reflected in the above table as maturing at their put dates, which range from fiscal 2009 to fiscal 2022, rather than at their contractual maturities, which range from fiscal 2013 to fiscal 2031. In addition,

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\$20.2 billion of long-term borrowings are redeemable prior to maturity at our option under various terms and conditions. These obligations are reflected in the above table at their contractual maturity dates, which range from fiscal 2009 to fiscal 2054, rather than at their call dates which range from fiscal 2009 to fiscal 2027. Extendible debt structures totaling approximately \$5.4 billion are shown in the above table at their earliest maturity dates, which range from fiscal 2009 to fiscal 2013. The maturity date of extendible debt is automatically extended unless the debt holders instruct the Company to redeem their debt at least one year prior to the earliest maturity date.

Included in long-term borrowings is \$5.1 billion of structured notes with early redemption features linked to market prices or other triggering events (e.g., the downgrade of a reference obligation underlying a credit-linked note). In the above maturity table, these notes are shown at their contractual maturity dates.

At November 30, 2007, our U.S. dollar and non-U.S. dollar debt portfolios included approximately \$12.9 billion and \$16.9 billion, respectively, of structured notes for which the interest rates and/or redemption values are linked to the performance of an underlying measure (including industry baskets of stocks, commodities or credit events). Generally, such notes are issued as floating rate notes or the interest rates on such index notes are effectively converted to floating rates based primarily on LIBOR through the use of derivatives.

End-User Derivative Activities

We use a variety of derivative products including interest rate and currency swaps as an end-user to modify the interest rate characteristics of our long-term borrowing portfolio. We use interest rate swaps to convert a substantial portion of our fixed-rate debt to floating interest rates to more closely match the terms of assets being funded and to minimize interest rate risk. In addition, we use cross-currency swaps to hedge our exposure to foreign currency risk arising from our non-U.S. dollar debt obligations, after consideration of non-U.S. dollar assets that are funded with long-term debt obligations in the same currency. In certain instances, we may use two or more derivative contracts to manage the interest rate nature and/or currency exposure of an individual long-term borrowings issuance.

End-User Derivative Activities resulted in the following mix of fixed and floating rate debt:

Long-Term Borrowings After End-User Derivative Activities

In millions	November 30,	
	2007	2006
U.S. dollar:		
Fixed rate	\$ 1,096	\$ 942
Floating rate	81,762	57,053
Total U.S. dollar	82,858	57,995
Weighted-average effective interest rate	5.20%	5.60%
Non-U.S. dollar	40,292	23,183
Weighted-average effective interest rate	4.62%	3.51%
Total	\$123,150	\$81,178
Weighted-average effective interest rate	4.83%	5.00%

LEHMAN BROTHERS HOLDINGS INC.
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Junior Subordinated Notes

Junior subordinated notes are notes issued to trusts or limited partnerships (collectively, the "Trusts") which qualify as equity capital by leading rating agencies (subject to limitation). The Trusts were formed for the purposes of: (a) issuing securities representing ownership interests in the assets of the Trusts; (b) investing the proceeds of the Trusts in junior subordinated notes of Holdings; and (c) engaging in activities necessary and incidental thereto. The securities issued by the Trusts are comprised of the following:

In millions	November 30,	
	2007	2006
Trust Preferred Securities:		
Lehman Brothers Holdings Capital Trust III	\$ 300	\$ 300
Lehman Brothers Holdings Capital Trust IV	300	300
Lehman Brothers Holdings Capital Trust V	400	399
Lehman Brothers Holdings Capital Trust VI	225	225
Lehman Brothers Holdings Capital Trust VII	1,000	—
Lehman Brothers Holdings Capital Trust VIII	500	—
Euro Perpetual Preferred Securities:		
Lehman Brothers U.K. Capital Funding LP	256	231
Lehman Brothers U.K. Capital Funding II LP	369	329
Enhanced Capital Advantaged Preferred Securities (ECAPS®):		
Lehman Brothers Holdings E-Capital Trust I	255	296
Enhanced Capital Advantaged Preferred Securities (Euro ECAPS®):		
Lehman Brothers U.K. Capital Funding III L.P.	577	658
Lehman Brothers U.K. Capital Funding IV L.P.	295	—
Lehman Brothers U.K. Capital Funding V L.P.	500	—
	\$4,977	\$2,738

The following table summarizes the key terms of Trusts with outstanding securities at November 30, 2007:

Trusts Issued Securities

November 30, 2007	Issuance Date	Mandatory Redemption Date	Redeemable by Issuer on or after
Holdings Capital Trust III	March 2003	March 15, 2052	March 15, 2008
Holdings Capital Trust IV	October 2003	October 31, 2052	October 31, 2008
Holdings Capital Trust V	April 2004	April 22, 2053	April 22, 2009
Holdings Capital Trust VI	January 2005	January 18, 2054	January 18, 2010
Holdings Capital Trust VII	May 2007	Perpetual	May 31, 2012
Holdings Capital Trust VIII	May 2007	Perpetual	May 31, 2012
U.K. Capital Funding LP	March 2005	Perpetual	March 30, 2010
U.K. Capital Funding II LP	September 2005	Perpetual	September 21, 2009
Holdings E-Capital Trust I	August 2005	August 19, 2065	August 19, 2010
U.K. Capital Funding III LP	February 2006	February 22, 2036	February 22, 2011
U.K. Capital Funding IV LP	January 2007	Perpetual	April 25, 2012
U.K. Capital Funding V LP	May 2007	Perpetual	June 1, 2012

Credit Facilities

We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a \$2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks which expires in February 2009. In addition, we maintain a \$2.5 billion multi-currency unsecured, committed revolving credit facility ("European Facility") with a syndicate of banks for Lehman Brothers Bankhaus AG ("Bankhaus") and Lehman Brothers Treasury Co. B.V. which expires in April 2010. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. We draw on both of these facilities from time to time in the normal course of conducting our business. As of November 30, 2007, there were no outstanding borrowings against Holdings' and the European credit facility.

LEHMAN BROTHERS HOLDINGS INC.
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Note 9 Commitments, Contingencies and Guarantees

In the normal course of business, we enter into various commitments and guarantees, including lending commitments to high grade and high yield borrowers, private equity investment commitments, liquidity commitments and other guarantees.

Lending-Related Commitments

The following table summarizes lending-related commitments at November 30, 2007 and 2006:

In millions	Expiration Per Period at November 30,					Total Contractual Amount	
	2008	2009	2010- 2011	2012- 2013	Later	November 30, 2007	2006
Lending commitments							
High grade ⁽¹⁾	\$ 5,579	\$ 1,039	\$ 6,554	\$ 10,411	\$ 403	\$23,986	\$17,945
High yield ⁽²⁾	4,051	411	2,103	4,850	2,658	14,073	7,558
Contingent acquisition facilities							
High grade	10,230	—	—	—	—	10,230	1,918
High yield	9,749	—	—	—	—	9,749	12,766
Mortgage commitments	5,082	670	1,378	271	50	7,451	12,162
Secured lending transactions	122,661	455	429	468	1,846	125,859	83,071

⁽¹⁾ We view our net credit exposure for high grade commitments, after consideration of hedges, to be \$12.2 billion and \$4.9 billion at November 30, 2007 and 2006, respectively.

⁽²⁾ We view our net credit exposure for high yield commitments, after consideration of hedges, to be \$12.8 billion and \$5.9 billion at November 30, 2007 and 2006, respectively.

We use various hedging and funding strategies to actively manage our market, credit and liquidity exposures on these commitments. We do not believe total commitments necessarily are indicative of actual risk or funding requirements because the commitments may not be drawn or fully used and such amounts are reported before consideration of hedges.

High grade and high yield. Through our high grade (investment grade) and high yield (non-investment grade) sales, trading and underwriting activities, we make commitments to extend credit in loan syndication transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. We define high yield exposures as securities of or loans to companies rated BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade.

We had commitments to high grade borrowers at November 30, 2007 and 2006 of \$24.0 billion (net credit exposure of \$12.2 billion, after consideration of hedges) and \$17.9 billion (net credit exposure of \$4.9 billion, after consideration of hedges), respectively. We had commitments to high yield borrowers of \$14.1 billion (net credit exposure of \$12.8 billion, after consideration of hedges) and \$7.6 billion (net credit exposure of \$5.9 billion, after consideration of hedges) at November 30, 2007 and 2006, respectively.

Contingent acquisition facilities. We provide contingent commitments to investment and non-investment grade counterparties related to acquisition financing. We do not believe contingent acquisition commitments are necessarily indicative of actual risk or funding requirements as funding is dependent both upon a proposed transaction being completed and the acquiror fully utilizing our commitment. Typically, these commitments are made to a potential acquiror in a proposed acquisition, which may or may not be completed depending on whether the potential acquiror to whom we have provided our commitment is successful. A contingent borrower's ability to draw on the commitment is typically subject to there being no material adverse change in the borrower's financial conditions, among other factors and the commitments also generally contain certain flexible pricing features to adjust for changing market conditions prior to closing. In addition, acquirers generally utilize multiple financing sources, including other investment and commercial banks, as well as accessing the general capital markets for completing transactions. Further, our past practice, consistent with our credit facilitation framework, has been to syndicate acquisition financings to investors. Therefore, our contingent acquisition commitments are generally greater than the amounts we will ultimately fund. The ultimate timing, amount and pricing of a syndication, however, is influenced by market conditions that may not necessarily be consistent with those at the time the commitment was entered.

LEHMAN BROTHERS HOLDINGS INC.
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We provided contingent commitments to high grade counterparties related to acquisition financing of approximately \$10.2 billion and \$1.9 billion at November 30, 2007 and 2006, respectively. In addition, we provided contingent commitments to high yield counterparties related to acquisition financing of approximately \$9.8 billion and \$12.8 billion at November 30, 2007 and 2006, respectively.

Mortgage commitments. Through our mortgage origination platforms we make commitments to extend mortgage loans. At November 30, 2007 and 2006, we had outstanding mortgage commitments of approximately \$7.5 billion and \$12.2 billion, respectively. These commitments included \$3.1 billion and \$7.0 billion of residential mortgages in 2007 and 2006 and \$4.4 billion and \$5.2 billion of commercial mortgages at 2007 and 2006. Typically, residential mortgage loan commitments require us to originate mortgage loans at the option of a borrower generally within 90 days at fixed interest rates. Consistent with past practice, our intention is to sell residential mortgage loans, once originated, primarily through securitizations.

Secured lending transactions. In connection with our financing activities, we had outstanding commitments under certain collateralized lending arrangements of approximately \$9.7 billion and \$7.4 billion at November 30, 2007 and 2006, respectively. These commitments require borrowers to provide acceptable collateral, as defined in the agreements, when amounts are drawn under the lending facilities. Advances made under these lending arrangements typically are at variable interest rates and generally provide for over-collateralization. In addition, at November 30, 2007, we had commitments to enter into forward starting secured resale and repurchase agreements, primarily secured by government and government agency collateral, of \$70.8 billion and \$45.3 billion, respectively, compared to \$44.4 billion and \$31.2 billion, respectively, at November 30, 2006.

Other Commitments and Guarantees

The following table summarizes other commitments and guarantees at November 30, 2007 and 2006:

In millions	Expiration Per Period at November 30,					Total Contractual Amount	
	2008	2009	2010- 2011	2012- 2013	Later	November 30, 2007	2006
Derivative contracts ⁽¹⁾	\$89,407	\$62,688	\$154,771	\$210,236	\$239,714	\$756,816	\$534,585
Municipal-securities-related commitments	2,362	733	86	69	3,652	6,902	1,599
Other commitments with variable interest entities	106	3,100	170	963	4,772	9,111	4,902
Standby letters of credit	1,685	5	—	—	—	1,690	2,380
Private equity and other principal investment commitments	826	675	541	412	136	2,590	1,088

⁽¹⁾ We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. In 2007 and 2006, the fair value of these derivatives contracts approximated \$14.8 and \$9.3 billion, respectively.

Derivative contracts. Under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"), derivative contracts are considered to be guarantees if such contracts require us to make payments to counterparties based on changes in an underlying instrument or index (e.g., security prices, interest rates, and currency rates) and include written credit default swaps, written put options, written foreign exchange and interest rate options. Derivative contracts are not considered guarantees if these contracts are cash settled and we cannot determine if the derivative counterparty held the contracts' underlying instruments at inception. We have determined these conditions have been met for certain large financial institutions. Accordingly, when these conditions are met, we have not included these derivatives in our guarantee disclosures.

At November 30, 2007 and 2006, the maximum payout value of derivative contracts deemed to meet the FIN 45 definition of a guarantee was approximately \$756.8 billion and \$534.6 billion, respectively. For purposes of determining maximum payout, notional values are used; however, we believe the fair value of these contracts is a more relevant measure of these obligations because we believe the notional amounts greatly overstate our expected payout. At November 30, 2007 and 2006, the fair value of such derivative contracts approximated \$14.8 billion and \$9.3 billion, respectively. In addition, all amounts included above are before consideration of hedging transactions. We substantially mitigate our risk on these contracts through hedges, using other derivative contracts and/or cash instruments. We manage risk associated with derivative guarantees consistent with our global risk management policies.

LEHMAN BROTHERS HOLDINGS INC.
Notes to Consolidated Financial Statements

Municipal-securities-related commitments. At November 30, 2007 and 2006, we had municipal-securities-related commitments of approximately \$6.9 billion and \$1.6 billion, respectively, which are principally comprised of liquidity commitments related to trust certificates backed by investment grade municipal securities. We believe our liquidity commitments to these trusts involve a low level of risk because our obligations are supported by investment grade securities and generally cease if the underlying assets are downgraded below investment grade or upon an issuer's default. In certain instances, we also provide credit default protection to investors, which approximated \$508 million and \$48 million at November 30, 2007 and 2006, respectively.

Other commitments with VIEs. We make certain liquidity commitments and guarantees to VIEs. We provided liquidity commitments of approximately \$1.4 billion and \$1.0 billion at November 30, 2007 and 2006, respectively, which represented our maximum exposure to loss, to commercial paper conduits in support of certain clients' secured financing transactions. However, we believe our actual risk to be limited because these liquidity commitments are supported by over-collateralization with investment grade collateral.

In addition, we provide limited downside protection guarantees to investors in certain VIEs by guaranteeing return of their initial principal investment. Our maximum exposure to loss under such commitments was approximately \$6.2 billion and \$3.9 billion at November 30, 2007 and 2006, respectively. We believe our actual risk to be limited because our obligations are collateralized by the VIEs' assets and contain significant constraints under which downside protection will be available (e.g., the VIE is required to liquidate assets in the event certain loss levels are triggered).

Holdings is also committed to provide \$1.6 billion of back-up liquidity to a VIE, which exists to provide funding for our contingent acquisition commitments, if necessary. Holdings' commitment to provide financing is contingent upon the VIE being unable to remarket certain secured liquidity notes upon their maturity. Such financing from Holdings to the VIE is due, generally, one year after a failed remarketing event, if any.

Standby letters of credit. At November 30, 2007 and 2006, respectively, we had commitments under letters of credit issued by banks to counterparties for \$1.7 billion and \$2.4 billion. We are contingently liable for these letters of credit which are primarily used to provide collateral for securities and commodities borrowed and to satisfy margin deposits at option and commodity exchanges.

Private equity and other principal investments. At November 30, 2007 and 2006, we had private equity and other principal investment commitments of approximately \$2.6 billion and \$1.1 billion, respectively, comprising commitments to Lehman private equity partnerships and other principal investment opportunities that we intend to distribute and syndicate, in part, to investing clients.

Other. In the normal course of business, we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral.

In connection with certain asset sales and securitization transactions, we often make customary representations and warranties about the assets. Violations of these representations and warranties, such as early payment defaults by borrowers, may require us to repurchase loans previously sold, or indemnify the purchaser against any losses. To mitigate these risks, to the extent the assets being securitized may have been originated by third parties, we generally obtain equivalent representations and warranties from these third parties when we acquire the assets. We have established reserves which we believe to be adequate in connection with such representations and warranties.

In the normal course of business, we are exposed to credit and market risk as a result of executing, financing and settling various client security and commodity transactions. These risks arise from the potential that clients or counterparties may fail to satisfy their obligations and the collateral obtained is insufficient. In such instances, we may be required to purchase or sell financial instruments at unfavorable market prices. We seek to control these risks by obtaining margin balances and other collateral in accordance with regulatory and internal guidelines.

Certain of our subsidiaries, as general partners, are contingently liable for the obligations of certain public and private limited partnerships. In our opinion, contingent liabilities, if any, for the obligations of such partnerships will not, in the aggregate, have a material adverse effect on our Consolidated Statement of Financial Condition or Consolidated Statement of Income.

In connection with certain acquisitions and strategic investments, we agreed to pay additional consideration contingent on the acquired entity meeting or exceeding specified income, revenue or other performance thresholds. These payments will be recorded as amounts become determinable. Had the determination dates been November 30, 2007 and 2006, our estimated obligations related to these contingent consideration arrangements would have been \$420 million and \$224 million, respectively.

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Income Taxes

We are continuously under audit examination by the Internal Revenue Service (the "IRS") and other tax authorities in jurisdictions in which we conduct significant business activities, such as the United Kingdom, Japan and various U.S. states and localities. We regularly assess the likelihood of additional tax assessments in each of these tax jurisdictions and the related impact on our Consolidated Financial Statements. We have established tax reserves, which we believe to be adequate, in relation to the potential for additional tax assessments. Once established, tax reserves are adjusted only when additional information is obtained or an event occurs requiring a change to such tax reserves.

During 2006, the IRS completed its 1997 through 2000 federal income tax examination, which resulted in unresolved issues asserted by the IRS that challenge certain of our tax positions (the "proposed adjustments"). We believe our positions comply with the applicable tax law and intend to vigorously dispute the proposed adjustments through judicial procedures, as appropriate. We believe that we have adequate tax reserves in relation to these unresolved issues. However, it is possible that amounts greater than our reserves could be incurred, which we estimate would not exceed \$100 million.

Litigation

In the normal course of business we have been named as a defendant in a number of lawsuits and other legal and regulatory proceedings. Such proceedings include actions brought against us and others with respect to transactions in which we acted as an underwriter or financial advisor, actions arising out of our activities as a broker or dealer in securities and commodities and actions brought on behalf of various classes of claimants against many securities firms, including us. We provide for potential losses that may arise out of legal and regulatory proceedings to the extent such losses are probable and can be estimated. Although there can be no assurance as to the ultimate outcome, we generally have denied, or believe we have a meritorious defense and will deny, liability in all significant cases pending against us, and we intend to defend vigorously each such case. Based on information currently available, we believe the amount, or range, of reasonably possible losses in excess of established reserves not to be material to the Company's consolidated financial condition or cash flows. However, losses may be material to our operating results for any particular future period, depending on the level of income for such period.

Lease Commitments

Total rent expense for 2007, 2006 and 2005 was \$250 million, \$181 million and \$167 million, respectively. Certain leases on office space contain escalation clauses providing for additional payments based on maintenance, utility and tax increases.

Minimum future rental commitments under non-cancelable operating leases (net of subleases of approximately \$324 million) and future commitments under capital leases are as follows:

Minimum Future Rental Commitments Under Operating and Capital Lease Agreements

In millions	Operating Leases	Capital Leases
Fiscal 2008	\$ 280	\$ 74
Fiscal 2009	269	99
Fiscal 2010	251	101
Fiscal 2011	241	105
Fiscal 2012	227	108
December 1, 2012 and thereafter	1,346	2,489
Total minimum lease payments	\$ 2,614	2,975
Less: Amount representing interest		1,447
Present value of future minimum capital lease payments		\$ 1,527

Note 10 Stockholders' Equity

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. Prior period share and earnings per share amounts have been restated to reflect the split. The par value of the common stock remained at \$0.10 per share. Accordingly, an adjustment from Additional paid-in capital to Common stock was required to preserve the par value of the post-split shares.

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Preferred Stock

Holdings is authorized to issue a total of 24,999,000 shares of preferred stock. At November 30, 2007, Holdings had 798,000 shares issued and outstanding under various series as described below. All preferred stock has a dividend preference over Holdings' common stock in the paying of dividends and a preference in the liquidation of assets.

On March 28, 2000, Holdings issued 5,000,000 Depositary Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), \$1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock was 7.115% per annum through May 31, 2005. On May 31, 2005, Holdings redeemed all of our issued and outstanding shares, together with accumulated and unpaid dividends.

The following table summarizes our outstanding preferred stock at November 30, 2007:

Series	Depositary Shares	Shares Outstanding/ Issued	Dividend Rate	Earliest Redemption Date	Redemption Value
C	5,000,000	500,000	5.94%	May 31, 2008	250,000,000
D	4,000,000	40,000	5.67%	August 31, 2008	200,000,000
F	13,800,000	138,000	6.50%	August 31, 2008	345,000,000
G	12,000,000	120,000	one-month LIBOR + 0.75% ⁽¹⁾	February 15, 2009	300,000,000

⁽¹⁾ Subject to a floor of 3.0% per annum.

The Series C, D, F and G Preferred Stock have no voting rights except as provided below or as otherwise from time to time required by law. If dividends payable on any of the Series C, D, F or G Preferred Stock or on any other equally-ranked series of preferred stock have not been paid for six or more quarters, whether or not consecutive, the authorized number of directors of the Company will automatically be increased by two. The holders of the Series C, D, F or G Preferred Stock will have the right, with holders of any other equally-ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly created directorships until the dividends in arrears are paid.

Common Stock

Dividends declared per common share were \$0.60, \$0.48 and \$0.40 in 2007, 2006 and 2005, respectively. During the years ended November 30, 2007, 2006 and 2005, we repurchased or acquired shares of our common stock at an aggregate cost of approximately \$3.2 billion, \$3.7 billion and \$4.2 billion, respectively, or \$73.85, \$69.61, and \$51.59 per share, respectively. These shares were acquired in the open market and from employees who tendered mature shares to pay for the exercise cost of stock options or for statutory tax withholding obligations on restricted stock unit ("RSU") issuances or option exercises.

Changes in the number of shares of common stock outstanding are as follows:

Common Stock

	November 30,		
	2007	2006	2005
Shares outstanding, beginning of period	533,368,195	542,874,206	548,318,822
Exercise of stock options and other share issuances	17,056,454	22,374,748	53,142,714
Shares issued to the RSU Trust	24,500,000	21,000,000	22,000,000
Treasury stock acquisitions	(43,037,230)	(52,880,759)	(80,587,330)
Shares outstanding, end of period	531,887,419	533,368,195	542,874,206

In 1997, we established an irrevocable grantor trust (the "RSU Trust") to provide common stock voting rights to employees who hold outstanding RSUs and to encourage employees to think and act like owners. In 2007, 2006 and 2005, we transferred 24.5 million, 21 million and 22 million treasury shares, respectively, into the RSU Trust. At November 30, 2007, approximately 72.5 million shares were held in the RSU Trust with a total value of approximately \$2.3 billion. These shares are valued at weighted-average grant prices. Shares transferred to the RSU Trust do not affect the total number of shares used in the calculation of basic and diluted earnings per share because we include amortized RSUs in the calculations. Accordingly, the RSU Trust has no effect on total equity, net income or earnings per share.

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Note 11 Earnings per Common Share

Earnings per Common Share

In millions, except per share data	November 30,		
	2007	2006	2005
Numerator:			
Net income	\$4,192	\$4,007	\$3,260
Preferred stock dividends	67	66	69
Numerator for basic earnings per share—net income applicable to common stock	\$4,125	\$3,941	\$3,191
Denominator:			
Denominator for basic earnings per share—weighted-average common shares	540.6	543.0	556.3
Effect of dilutive securities:			
Employee stock options	23.6	29.1	25.4
Restricted stock units	4.1	6.3	5.5
Dilutive potential common shares	27.7	35.4	30.9
Denominator for diluted earnings per share—weighted-average common and dilutive potential common shares ⁽¹⁾	568.3	578.4	587.2
Basic earnings per common share	\$ 7.63	\$ 7.26	\$ 5.74
Diluted earnings per common share	\$ 7.26	\$ 6.81	\$ 5.43
⁽¹⁾ Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share	13.7	4.4	8.7

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. See Note 10, "Stockholders' Equity," for additional information about the stock split.

Note 12 Share-Based Employee Incentive Plans

We adopted the fair value recognition provisions for share-based awards pursuant to SFAS 123(R) effective as of the beginning of the 2006 fiscal year. For a further discussion, see Note 1, "Summary of Significant Accounting Policies—Accounting and Regulatory Developments," to the Consolidated Financial Statements.

We sponsor several share-based employee incentive plans. Amortization of compensation costs for grants awarded under these plans was approximately \$1,277 million, \$1,007 million and \$1,055 million during 2007, 2006 and 2005, respectively. Not included in the \$1,277 million of 2007 amortization expense is \$528 million of stock awards granted to retirement eligible employees in December 2007, which were accrued as compensation expense in fiscal 2007. The total income tax benefit recognized in the Consolidated Statement of Income for these plans was \$515 million, \$421 million and \$457 for 2007, 2006 and 2005, respectively.

At November 30, 2007, unrecognized compensation cost related to nonvested stock option and RSU awards totaled \$2.0 billion. The cost of these non-vested awards is expected to be recognized over the next 9 years over a weighted-average period of 3.8 years.

Below is a description of our share-based employee incentive compensation plans.

Share-Based Employee Incentive Plans

We sponsor several share-based employee incentive plans. The total number of shares of common stock remaining available for future awards under these plans at November 30, 2007, was 82.3 million (not including shares that may be returned to the Stock Incentive Plan (the "SIP") as described below, but including an additional 0.4 million shares authorized for issuance under the Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") that have been reserved solely for issuance in respect of dividends on outstanding awards under this plan). In connection with awards made under our share-based employee incentive plans, we are authorized to issue shares of common stock held in treasury or newly-issued shares.

1994 and 1996 Management Ownership Plans and Employee Incentive Plan. The 1994 Plan, the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (the "1996 Plan"), and the Lehman Brothers Holdings Inc. Employee Incentive Plan (the "EIP") all expired following the completion of their various terms. These plans provided for the

LEHMAN BROTHERS HOLDINGS INC.
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issuance of RSUs, performance stock units, stock options and other share-based awards to eligible employees. At November 30, 2007, awards with respect to 605.6 million shares of common stock have been made under these plans, of which 130.3 million are outstanding and 475.3 million have been converted to freely transferable common stock.

Stock Incentive Plan. The SIP has a 10-year term ending in May 2015, with provisions similar to the previous plans. The SIP authorized the issuance of up to the total of (i) 95.0 million shares (20.0 million as originally authorized, plus an additional 75.0 million authorized by the stockholders of Holdings at its 2007 Annual Meeting), plus (ii) the 32.5 million shares authorized for issuance under the 1996 Plan and the EIP that remained unawarded upon their expiration, plus (iii) any shares subject to repurchase or forfeiture rights under the 1996 Plan, the EIP or the SIP that are reacquired by the Company, or the award of which is canceled, terminates, expires or for any other reason is not payable, plus (iv) any shares withheld or delivered pursuant to the terms of the SIP in payment of any applicable exercise price or tax withholding obligation. Awards with respect to 51.1 million shares of common stock have been made under the SIP as of November 30, 2007, 50.4 million of which are outstanding.

1999 Long-Term Incentive Plan. The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of common stock that may be issued under the LTIP is 15.4 million. At November 30, 2007, awards with respect to approximately 13.7 million shares of common stock had been made under the LTIP, of which 3.2 million were outstanding.

Restricted Stock Units

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with RSU awards. RSU awards generally vest over two to five years and convert to unrestricted freely transferable common stock five years from the grant date. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period. We accrue dividend equivalents on outstanding RSUs (in the form of additional RSUs), based on dividends declared on our common stock.

For RSUs granted prior to 2004, we measured compensation cost based on the market value of our common stock at the grant date in accordance with APB Opinion No. 25 Accounting for Stock Issued to Employees, and, accordingly, a discount from the market price of an unrestricted share of common stock on the RSU grant date was not recognized for selling restrictions subsequent to the vesting date. For awards granted beginning in 2004, we measure compensation cost based on the market price of our common stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with SFAS No. 123 Share-Based Payment ("SFAS 123") and SFAS No. 123(revised) Share-Based Payment ("SFAS 123(R)"). The fair value of RSUs subject to post-vesting date sale restrictions are generally discounted by three to eight percent for each year based upon the duration of the post-vesting restriction. These discounts are based on market-based studies and academic research on securities with restrictive features. RSUs granted in each of the periods presented contain selling restrictions subsequent to the vesting date.

The fair value of RSUs converted to common stock without restrictions for the year ended November 30, 2007 was \$1.2 billion. Compensation costs previously recognized and tax benefits recognized in equity upon issuance of these awards were approximately \$760 million.

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The following table summarizes RSU activity for the years ended November 30, 2007, 2006 and 2005:

Restricted Stock Units

	Unamortized	Amortized	Total Number of RSUs	Weighted Average Grant Date Fair Value
Balance, November 30, 2005	48,116,384	72,301,290	120,417,674	\$38.35
Granted	8,251,700	-	8,251,700	71.41
Canceled	(2,244,585)	(72,424)	(2,317,009)	43.81
Exchanged for stock without restrictions	-	(25,904,367)	(25,904,367)	28.93
Amortization	(19,218,999)	19,218,999	-	
Balance, November 30, 2006	34,904,500	65,543,498	100,447,998	\$43.37
Granted	38,839,114	-	38,839,114	68.92
Canceled	(4,720,625)	1,079,269	(3,641,356)	51.27
Exchanged for stock without restrictions	-	(17,716,614)	(17,716,614)	31.51
Amortization	(34,166,465)	34,166,465	-	-
Balance, November 30, 2007	34,856,524	83,072,618	117,929,142	\$53.33

The above table does not include approximately 49.4 million of RSUs which were granted to employees on December 7, 2007, comprised of 11.0 million awarded to retirement eligible employees and expensed in fiscal 2007 and 38.4 million awarded to employees and subject to future vesting provisions. Therefore, after this grant, there were approximately 94.8 million RSUs outstanding, net of shares held in the RSU trust.

Of the 117.9 million RSUs outstanding at November 30, 2007, approximately 83.1 million were amortized and included in basic earnings per share. Approximately 42.4 million of the RSUs outstanding at November 30, 2007 will be amortized during 2008, and the remainder will be amortized subsequent to 2008. Of the 38.4 million RSUs awarded on December 7, 2007 to non-retirement eligible employees and subject to future vesting provisions, approximately 14.8 million will be amortized during 2008.

The above table includes approximately 5.8 million RSUs awarded to certain senior officers, the terms of which were modified in 2006 (the "Modified RSUs"). The original RSUs resulted from PSUs for which the performance periods have expired, but which were not previously converted into RSUs as their vesting was contingent upon a change in control of the Company or certain other specified circumstances as determined by the Compensation and Benefits Committee of the Board of Directors (the "CIC RSUs"). On November 30, 2006, with the approval of the Compensation and Benefits Committee, each executive agreed to a modification of the vesting terms of the CIC RSUs to eliminate the change in control provisions and to provide for vesting in ten equal annual installments from 2007 to 2016, provided the executive continues to be an employee on the vesting date of the respective installment. Vested installments will remain subject to forfeiture for detrimental behavior for an additional two years, after which time they will convert to Common Stock on a one-for-one basis and be issued to the executive. The Modified RSUs will vest (and convert to Common Stock and be issued) earlier only upon death, disability or certain government service approved by the Compensation Committee. Dividends will be payable by the Corporation on the Modified RSUs from the date of their modification and will be reinvested in additional RSUs with the same terms.

Also included in the previous table are PSUs for which the number of RSUs to be earned was dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs were accounted for as variable awards. At the end of the performance period, any PSUs earned converted one-for-one to RSUs that then vest in three or more years. At November 30, 2006, all performance periods have been completed and any PSUs earned have been converted into RSUs. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Stock Options

Employees and Directors may receive stock options, in lieu of cash, as a portion of their total compensation. Such options generally become exercisable over a one- to five-year period and generally expire 5 to 10 years from the date of grant, subject to accelerated expiration upon termination of employment.

During the fiscal year ended November 30, 2007, 10,200 stock options were granted. We use the Black-Scholes option-pricing model to measure the grant date fair value of stock options granted to employees. Stock options granted have

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exercise prices equal to the market price of our common stock on the grant date. The principal assumptions utilized in valuing options and our methodology for estimating such model inputs include: (i) risk-free interest rate - estimate is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the option; (ii) expected volatility - estimate is based on the historical volatility of our common stock for the three years preceding the award date, the implied volatility of market-traded options on our common stock on the grant date and other factors; and 3) expected option life - estimate is based on internal studies of historical and projected exercise behavior based on different employee groups and specific option characteristics, including the effect of employee terminations. Based on the results of the model, the weighted-average fair value of stock options granted were \$24.94, \$15.83 and \$13.24 for 2007, 2006 and 2005, respectively. The weighted-average assumptions used for 2007, 2006 and 2005 were as follows:

Weighted Average Black-Scholes Assumptions

	November 30,		
	2007	2006	2005
Risk-free interest rate	4.72%	4.49%	3.97%
Expected volatility	25.12%	23.08%	23.73%
Annual dividends per share	\$0.60	\$0.48	\$0.40
Expected life	7.0 years	4.5 years	3.9 years

The valuation technique takes into account the specific terms and conditions of the stock options granted including vesting period, termination provisions, intrinsic value and time dependent exercise behavior.

The following table summarizes stock option activity for the years ended 2007, 2006 and 2005:

Stock Option Activity

	Options	Weighted-Average Exercise Price	Expiration Dates
Balance, November 30, 2005	101,750,326	\$31.36	12/05—11/15
Granted	2,670,400	\$66.14	
Exercised	(22,453,729)	\$28.38	
Canceled	(570,626)	\$31.63	
Balance, November 30, 2006	81,396,371	\$33.32	12/06—05/16
Granted	10,200	\$72.07	
Exercised	(15,429,250)	\$28.86	
Canceled	(371,778)	\$31.64	
Balance, November 30, 2007	65,605,543	\$34.39	01/08—04/17

The total intrinsic value of stock options exercised in 2007 was \$711 million for which compensation costs previously recognized and tax benefits recognized in equity upon issuance totaled approximately \$238 million. Cash received from the exercise of stock options in 2007 totaled \$443 million.

The table below provides additional information related to stock options outstanding:

	Outstanding at Nov 30,			Options Exercisable at Nov 30,		
	2007	2006	2005	2007	2006	2005
Number of options	65,605,543	81,396,371	101,750,326	51,748,377	54,561,355	52,638,434
Weighted-average exercise price	\$34.39	\$33.32	\$31.36	\$30.24	\$30.12	\$27.65
Aggregate intrinsic value (in millions)	\$1,867	\$3,284	\$3,222	\$1,676	\$2,376	\$1,861
Weighted-average remaining contractual terms in years	4.00	4.84	5.46	3.70	4.25	4.58

At November 30, 2007, the number of options outstanding, net of projected forfeitures, was approximately 65 million shares, with a weighted-average exercise price of \$34.19, aggregate intrinsic value of \$1.8 billion, and weighted-average remaining contractual terms of 3.97 years.

At November 30, 2007, the intrinsic value of unexercised vested options was approximately \$1.7 billion for which compensation cost and tax benefits expected to be recognized in equity, upon issuance, are approximately \$508 million.

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Restricted Stock

In addition to RSUs, we also continue to issue restricted stock to certain Neuberger employees under the LTIP. The following table summarizes restricted stock activity for the years ended 2007, 2006 and 2005:

	2007	2006	2005
Balance, beginning of year	671,956	1,042,376	1,541,692
Granted	-	43,520	15,534
Canceled	(4,444)	(6,430)	(37,446)
Exchanged for stock without restrictions	(311,892)	(407,510)	(477,404)
Balance, end of year	355,620	671,956	1,042,376

At November 30, 2007, there were 355,620 shares of restricted stock outstanding. The fair value of the 311,892 shares of restricted stock that became freely tradable in 2007 was approximately \$23 million.

Stock Repurchase Program

We maintain a common stock repurchase program to manage our equity capital. Our stock repurchase program is effected through regular open-market purchases, as well as through employee transactions where employees tender shares of common stock to pay for the exercise price of stock options and the required tax withholding obligations upon option exercises and conversion of RSUs to freely-tradable common stock. For 2007, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings' common stock for the management of our equity capital, including offsetting dilution due to employee stock awards. During 2007, we repurchased approximately 34.6 million of our common stock through open-market purchases at an aggregate cost of \$2.6 billion, or \$75.40 per share. In addition, we withheld approximately 8.5 million shares of common stock from employees at an equivalent cost of approximately \$573 million. At fiscal year end, approximately 57 million shares remained available for repurchase under this authorization. See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds," for more information.

Note 13 Employee Benefit Plans

We provide both funded and unfunded noncontributory defined benefit pension plans for the majority of our employees worldwide. In addition, we provide certain other postretirement benefits, primarily health care and life insurance, to eligible employees. We use a November 30 measurement date for our plans.

In September 2006, the FASB issued SFAS 158, which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans the benefit obligation is the projected benefit obligation; while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income (net of tax), a component of Stockholders' equity.

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The following table illustrates the incremental effect of the application of SFAS No. 158 on the Consolidated Statement of Financial Condition:

In millions	Before Application	SFAS No. 158 Adoption Adjustments	After Application
Prepaid pension cost	\$ 661	\$(335)	\$ 326
Deferred tax assets	2,177	130	2,307
Total Assets	691,305	(205)	691,100
Liability for pension and postretirement benefits	60	8	68
Deferred tax liabilities	584	(3)	581
Total Liabilities	668,597	5	668,602
Amount recognized in prior period		(3)	
Accumulated other comprehensive income/(loss)	(96)	(206)	(302)
Total Stockholders' Equity	\$ 22,705	(206)	\$ 22,499

The minimum pension liability of \$● million was eliminated with the adoption of SFAS No. 158

The following table provides a summary of the changes in the plans' benefit obligations, fair value of plan assets, and funded status and amounts recognized in the Consolidated Statement of Financial Condition for our U.S. and non-U.S. defined benefit pension and postretirement benefit plans:

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Defined Benefit Plans

In millions	Pension Benefits				Other Postretirement Benefits	
	U.S.		Non-U.S.			
	2007	2006	2007	2006	2007	2006
Change in benefit obligation						
Benefit obligation at beginning of year	\$1,168	\$1,017	\$ 514	\$399	\$61	\$ 60
Service cost	54	47	7	8	1	1
Interest cost	67	61	26	20	3	3
Plan amendment	(3)	3	(11)	—	—	—
Actuarial loss (gain)	(176)	69	(71)	37	(6)	2
Benefits paid	(32)	(29)	(9)	(7)	(6)	(5)
Foreign currency exchange rate changes	—	—	28	57	—	—
Benefit obligation at end of year	1,078	1,168	484	514	53	61
Change in plan assets						
Fair value of plan assets at beginning of year	1,147	1,030	494	378	—	—
Actual return on plan assets, net of expenses	94	96	28	43	—	—
Employer contribution	—	50	48	26	6	5
Benefits paid	(32)	(29)	(9)	(6)	(6)	(5)
Foreign currency exchange rate changes	—	—	27	53	—	—
Fair value of plan assets at end of year	1,209	1,147	588	494	—	—
Funded (underfunded) status ⁽¹⁾	(131)	(21)	(104)	(20)	(53)	(61)
Unrecognized net actuarial loss (gain) ⁽¹⁾		455		161		(9)
Unrecognized prior service cost (benefit) ⁽¹⁾		30		1		(1)
Prepaid (accrued) benefit cost ⁽¹⁾		\$ 464		\$142		\$(71)
Accumulated benefit obligation—funded plans	\$ 947	\$1,020	\$ 482	\$490		
Accumulated benefit obligation—unfunded plans	64	76	12	—		
Weighted-Average Assumptions Used to Determine Benefit Obligations						
November 30,	2007	2006	2007	2006	2007	2006
Discount rate	6.66%	5.73%	5.00%	4.82%	6.45%	5.70%
Rate of compensation increase	5.00%	5.00%	4.60%	4.30%		

⁽¹⁾ In accordance with SFAS 158, the funded /(underfunded) status was recognized in the Consolidated Statement of Financial Position at November 30, 2007 and unrecognized actuarial gain/(loss) and Prior service cost/(benefit) was recognized in the Consolidated Statement of Stockholders' Equity at November 30, 2007.

The following table presents the pre-tax net actuarial loss/(gain) and prior service cost/(benefit) recognized in accumulated other comprehensive income/(loss) at November 30, 2007:

In millions	Pension Benefits		Other Postretirement Benefits	
	U.S.	Non-U.S.		
Net actuarial loss/(gain)	\$234	\$97	\$ (16)	
Prior Service cost/(benefit)	7	—	(1)	
Total	\$241	\$97	\$ (17)	

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The following table presents the estimated pre-tax net actuarial loss/(gain) and estimated prior service costs/(credits) that will be amortized from accumulated other comprehensive income/(loss) into net periodic cost/(income) and recorded into the Consolidated Statement of Income in 2008:

In millions	Pension Benefits		Other Postretirement Benefits
	U.S.	Non-U.S.	
Net actuarial loss/(gain)	\$25	\$ 3	\$—
Prior Service cost/(benefit)	\$ 1	\$—	\$—

Components of Net Periodic Cost

In millions	Pension Benefits						Postretirement Benefits		
	U.S. Pensions			Non-U.S.					
	2007	2006	2005	2007	2006	2005	2007	2006	2005
November 30,									
Service cost	\$57	\$49	\$42	\$ 7	\$ 8	\$ 7	\$ 1	\$ 2	\$ 2
Interest cost	67	61	56	26	20	19	4	3	3
Expected return on plan assets	(86)	(76)	(74)	(37)	(26)	(24)	—	—	—
Amortization of net actuarial loss	26	30	33	11	10	11	—	—	—
Amortization of prior service cost	4	4	3	—	1	1	(1)	(1)	(1)
Net periodic cost	\$68	\$68	\$60	\$ 7	\$13	\$ 14	\$ 4	\$ 4	\$ 4

Weighted-Average Assumptions Used to Determine Net Periodic Cost for the Years Ended November 30,

	2007	2006	2005	2007	2006	2005	2007	2006	2005
Discount rate	●%	5.98%	5.90%	5.00%	4.82%	4.80%	●%	5.70%	5.90%
Expected return on plan assets	7.50%	7.50%	8.50%	7.50%	6.57%	6.96%			
Rate of compensation increase	5.00%	5.00%	5.00%	4.60%	4.30%	4.30%			

Return on Plan Assets

U.S. and non-U.S. Plans. Establishing the expected rate of return on pension assets requires judgment. We consider the following factors in determining this assumption:

- The types of investment classes in which pension plan assets are invested and the expected compounded return we can reasonably expect the portfolio to earn over appropriate time periods. The expected return reflects forward-looking economic assumptions.
- The investment returns we can reasonably expect our active investment management program to achieve in excess of the returns expected if investments were made strictly in indexed funds.
- Investment related expenses.

We review the expected long-term rate of return annually and revise it as appropriate. Also, we periodically commission detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries. These studies project stated future returns on plan assets. The studies performed in the past support the reasonableness of our assumptions based on the targeted allocation investment classes and market conditions at the time the assumptions were established.

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Plan Assets

Pension plan assets are invested with the objective of meeting current and future benefit payment needs, while minimizing future contributions.

U.S. plan. Plan assets are invested with several investment managers. Assets are diversified among U.S. and international equity securities, U.S. fixed income securities, real estate and cash. The plan employs a mix of active and passive investment management programs. The strategic target of plan asset allocation is approximately 65% equities and 35% U.S. fixed income. The investment sub-committee of our pension committee reviews the asset allocation quarterly and, with the approval of the pension committee, determines when and how to rebalance the portfolio. The plan does not have a dedicated allocation to Lehman Brothers common stock, although the plan may hold a minimal investment in Lehman Brothers common stock as a result of investment decisions made by various investment managers.

Non-U.S. plans. Non-U.S. pension plan assets are invested with several investment managers across a range of different asset classes. The strategic target of plan asset allocation is approximately 75% equities, 20% fixed income and 5% real estate.

Weighted-average plan asset allocations were as follows:

	U.S. Plans		Non-U.S. Plans	
	Nov 30, 2007	Nov 30, 2006	Nov 30, 2007	Nov 30, 2006
Equity securities	●%	72%	72%	72%
Fixed income securities	●	23	14	14
Real estate	●	—	4	5
Cash	●	5	10	9
	●%	100%	100%	100%

Expected Contributions for the Fiscal Year Ending November 30, 2008

We do not expect it to be necessary to contribute to our U.S. pension plans in the fiscal year ending November 30, 2008. We expect to contribute approximately \$8 million to our non-U.S. pension plans in the fiscal year ending November 30, 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

In millions	Pension			Postretirement
	U.S.	Non-U.S.		
Fiscal 2008	\$ ●	\$6		\$ ●
Fiscal 2009	●	6		●
Fiscal 2010	●	7		●
Fiscal 2011	●	7		●
Fiscal 2012	●	8		●
Fiscal 2013—2016	●	42		●

Postretirement Benefits

Assumed health care cost trend rates were as follows:

	November 30,	
	2007	2006
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year the rate reaches the ultimate trend rate	2012	2011

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A one-percentage-point change in assumed health care cost trend rates would be immaterial to our other postretirement plans.

Note 14 Income Taxes

We file a consolidated U.S. federal income tax return reflecting the income of Holdings and its subsidiaries. The provision for income taxes consists of the following:

Provision for Income Taxes

In millions	November 30,		
	2007	2006	2005
Current:			
Federal	\$●	\$1,024	\$ 1,037
State	●	91	265
Foreign	●	890	769
	●	2,005	2,071
Deferred:			
Federal	●	(80)	(634)
State	●	(22)	(59)
Foreign	●	42	191
	●	(60)	(502)
Provision for income taxes	\$●	\$1,945	\$1,569

Income before taxes included \$● million, \$2,667 million and \$1,880 million that also were subject to income taxes of foreign jurisdictions for 2007, 2006 and 2005, respectively.

The income tax provision differs from that computed by using the statutory federal income tax rate for the reasons shown below:

Reconciliation of Provision for Income Taxes to Federal Income Taxes at Statutory Rate

In millions	November 30,		
	2007	2006	2005
Federal income taxes at statutory rate	\$●	\$2,068	\$1,690
State and local taxes	●	45	134
Tax-exempt income	●	(125)	(135)
Foreign operations	●	(17)	(113)
Other, net	●	(26)	(7)
Provision for income taxes	\$●	\$1,945	\$1,569

The provision for income taxes resulted in effective tax rates of ●%, 32.9% and 32.5% for 2007, 2006 and 2005, respectively. The increases in the effective tax rates in 2006 and 2005 compared with the prior years were primarily due to an increase in level of pretax earnings which minimizes the impact of certain tax benefit items, and in 2006 a net reduction in certain benefits from foreign operations, partially offset by a reduction in state and local taxes due to favorable audit settlements in 2006 and 2005.

Income tax benefits related to employee stock compensation plans of approximately \$● million, \$836 million and \$1,005 million in 2007, 2006 and 2005, respectively, were allocated to Additional paid-in capital.

In 2007, 2006 and 2005 we recorded income tax charges of \$● million, \$2 million and \$1 million, respectively.

Deferred income taxes are provided for the differences between the tax bases of assets and liabilities and their reported amounts in the Consolidated Financial Statements. These temporary differences will result in future income or deductions for income tax purposes and are measured using the enacted tax rates that will be in effect when such items are expected to reverse.

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At November 30, 2007 and 2006, deferred tax assets and liabilities consisted of the following:

Deferred Tax Assets and Liabilities

In millions	At November 30,	
	2007	2006
Deferred tax assets:		
Liabilities and other accruals not currently deductible	\$ ●	\$ 415
Deferred compensation	●	1,657
Unrealized investment activity	●	251
Foreign tax credits including carryforwards	●	214
Foreign operations (net of associated tax credits)	●	709
Net operating loss carryforwards	●	64
Other	●	91
Total deferred tax assets	●	3,401
Less: valuation allowance	●	(5)
Total deferred tax assets, net of valuation allowance	●	3,396
Deferred tax liabilities:		
Excess tax over financial depreciation, net	●	(103)
Acquired intangibles	●	(384)
Pension and retirement costs	●	(192)
Other	●	(47)
Total deferred tax liabilities	●	(726)
Net deferred tax assets	\$●	\$2,670

Net deferred tax assets are included in Other assets in the Consolidated Statement of Financial Condition.

We have permanently reinvested earnings in certain foreign subsidiaries. At November 30, 2007, \$● billion of accumulated earnings were permanently reinvested. At current tax rates, additional Federal income taxes (net of available tax credits) of approximately \$● million would become payable if such income were to be repatriated.

We have approximately \$● million of Federal net operating loss carryforwards that are subject to separate company limitations. Substantially all of these net operating loss carryforwards begin to expire between 2023 and 2026. At November 30, 2007, the \$● million deferred tax asset valuation allowance relates to federal net operating loss carryforwards of an acquired entity that is subject to separate company limitations. If future circumstances permit the recognition of the acquired tax benefit, goodwill will be reduced.

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Note 15 Real Estate Reconfiguration Charge

In connection with the Company's decision in 2002 to reconfigure certain of our global real estate facilities, we established a liability for the expected losses from subleasing such facilities, principally our downtown New York City offices after the events of September 11, 2001 and our prior London office facilities at Broadgate given our decision to move to a new facility just outside the city of London. In March 2004, we reached an agreement to exit virtually all of our remaining leased space at our downtown New York City location, which clarified the loss on the location and resulted in the \$19 million charge (\$11 million after tax).

During the years ended November 30, 2007 and 2006, changes in the liability related to these charges were as follows:

Real Estate Reconfiguration Charge

In millions	Beginning Balance	Real Estate Reconfiguration	Used	Ending Balance
Year ended November 30, 2006	\$75	\$—	\$(30)	\$45
Year ended November 30, 2007	45	—	(45)	—

Note 16 Regulatory Requirements

For regulatory purposes, Holdings and its subsidiaries are referred to collectively as a consolidated supervised entity ("CSE"). CSEs are supervised and examined by the SEC, which requires minimum capital standards on a consolidated basis. At November 30, 2007, Holdings was in compliance with the CSE capital requirements and held allowable capital in excess of the minimum capital requirements on a consolidated basis.

In the United States, LBI and Neuberger Berman, LLC ("NBLLC") are registered broker-dealers that are subject to SEC Rule 15c3-1 and Rule 1.17 of the Commodity Futures Trading Commission, which specify minimum net capital requirements for the registrants. LBI and NBLLC have consistently operated with net capital in excess of their respective regulatory capital requirements. LBI has elected to calculate its minimum net capital in accordance to Appendix E of the Net Capital Rule which establishes alternative net capital requirements for broker-dealers that are part of CSEs. In addition to meeting the alternative net capital requirements, LBI is required to maintain tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. LBI is also required to notify the SEC in the event that its tentative net capital is less than \$5 billion. As of November 30, 2007, LBI had net capital of \$2.7 billion, which exceeded the minimum net capital requirement by \$2.1 billion. As of November 30, 2007, NBLLC had net capital of \$194 million, which exceeded the minimum net capital requirement by \$189 million.

LBIE, a United Kingdom registered broker-dealer and subsidiary of Holdings, is subject to the capital requirements of the Financial Services Authority ("FSA") in the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At November 30, 2007, LBIE's financial resources of approximately \$16.2 billion exceeded the minimum requirement by approximately \$3.8 billion. LBJ, a regulated broker-dealer, is subject to the capital requirements of the Financial Services Agency in Japan and the Bank of Japan. At November 30, 2007, LBJ had net capital of approximately \$1.3 billion, which was approximately \$759 million in excess of Financial Services Agency in Japan's required level and approximately \$524 million in excess of Bank of Japan's required level.

Lehman Brothers Bank, FSB ("LBB"), our thrift subsidiary, is regulated by the Office of Thrift Supervision ("OTS"). Lehman Brothers Commercial Bank ("LBCB"), our Utah industrial bank subsidiary is regulated by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation. LBB and LBCB exceed all regulatory capital requirements and are considered to be well capitalized as of November 30, 2007. Bankhaus is subject to the capital requirements of the Federal Financial Supervisory Authority of the German Federal Republic. At November 30, 2007, Bankhaus' financial resources, as defined, exceed its minimum financial resources requirement.

Certain other subsidiaries are subject to various securities, commodities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2007, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

In addition, our "AAA" rated derivatives subsidiaries, Lehman Brothers Financial Products Inc. ("LBFP") and Lehman Brothers Derivative Products Inc. ("LBDP"), have established certain capital and operating restrictions that are reviewed by various rating agencies. At November 30, 2007, LBFP and LBDP each had capital that exceeded the requirements of the rating agencies.

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The regulatory rules referred to above, and certain covenants contained in various debt agreements, may restrict Holdings' ability to withdraw capital from its regulated subsidiaries, which in turn could limit its ability to pay dividends to shareholders. Holdings provides guarantees of certain activities of its subsidiaries, including our fixed income derivative business conducted through Lehman Brothers Special Financing, Inc.

Note 17 Quarterly Information (unaudited)

The following table presents unaudited quarterly results of operations for 2007 and 2006. Certain amounts reflect reclassifications to conform to the current period's presentation. These quarterly results reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results. Revenues and net income can vary significantly from quarter to quarter due to the nature of our business activities.

Quarterly Information (unaudited)

In millions, except per share data	For the quarter ended			
	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007
Total revenues	\$14,812	\$14,739	\$15,579	\$13,795
Interest expense	10,422	10,431	10,067	8,748
Net revenues	4,390	4,308	5,512	5,047
Non-interest expenses:				
Compensation and benefits	2,164	2,124	2,718	2,488
Non-personnel expenses	996	979	915	860
Total non-interest expenses	3,160	3,103	3,633	3,348
Income before taxes and cumulative effect of accounting change	1,230	1,205	1,879	1,699
Provision for income taxes	344	318	606	553
Net income	\$ 886	\$ 887	\$ 1,273	\$ 1,146
Net income applicable to common stock	\$ 870	\$ 870	\$ 1,256	\$ 1,129
Earnings per share				
Basic	\$ 1.60	\$ 1.61	\$ 2.33	\$ 2.09
Diluted	\$ 1.54	\$ 1.54	\$ 2.21	\$ 1.96
Weighted-average shares				
Basic	542.6	540.4	538.2	540.9
Diluted	563.7	565.8	568.1	575.4
Dividends per common share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15
Book value per common share (at period end)	\$ 39.45	\$ 38.29	\$ 37.15	\$ 35.15

LEHMAN BROTHERS HOLDINGS INC.
Notes to Consolidated Financial Statements

In millions, except per share data	For the quarter ended			
	Nov 30, 2006	Aug 31, 2006	May 31, 2006	Feb 28, 2006
Total revenues	\$13,160	\$11,727	\$11,515	\$10,307
Interest expense	8,627	7,549	7,104	5,846
Net revenues	4,533	4,178	4,411	4,461
Non-interest expenses:				
Compensation and benefits	2,235	2,060	2,175	2,199
Non-personnel expenses	809	751	738	711
Total non-interest expenses	3,044	2,811	2,913	2,910
Income before taxes and cumulative effect of accounting change	1,489	1,367	1,498	1,551
Provision for income taxes	485	451	496	513
Cumulative effect of accounting change	—	—	—	47
Net income	\$ 1,004	\$ 916	\$ 1,002	\$ 1,085
Net income applicable to common stock	\$ 987	\$ 899	\$ 986	\$ 1,069
Earnings per share				
Basic	\$ 1.83	\$ 1.66	\$ 1.81	\$ 1.96
Diluted	\$ 1.72	\$ 1.57	\$ 1.69	\$ 1.83
Weighted-average shares				
Basic	539.2	540.9	545.1	546.2
Diluted	573.1	573.3	582.8	584.2
Dividends per common share	\$ 0.12	\$ 0.12	\$ 0.12	\$ 0.12
Book value per common share (at period end)	\$ 33.87	\$ 32.16	\$ 31.08	\$ 30.01

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings (its principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of the end of the fiscal year covered by this Report.

Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this Report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by Holdings in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by Holdings in such reports is accumulated and communicated to our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting and the attestation report of our independent registered public accounting firm are contained in Part II, Item 8, of this Report and are incorporated herein by reference. There was no change in our internal control over financial reporting that occurred during the fourth fiscal quarter of 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to Directors of the Registrant is set forth under the captions "Nominees for Election as Directors," "Committees of the Board of Directors—Audit Committee" and "—Nominating and Corporate Governance Committee" and "Other Matters—Procedures for Recommending Director Candidates to the Nominating and Corporate Governance Committee" in the Proxy Statement, and information relating to Executive Officers of the Registrant is set forth under the caption "Executive Officers of the Company" in the Proxy Statement, and is incorporated herein by reference.

Information relating to beneficial ownership reporting compliance by Directors and Executive Officers of the Registrant pursuant to Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

We have a Code of Ethics which is applicable to all Directors, officers and employees of the Company, including the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings (its principal executive officer and principal financial and accounting officer, respectively). The Code of Ethics is available on the Corporate Governance page of the Company's web site at www.lehman.com/shareholder/corpgov. A copy of the Code of Ethics will be provided without charge to any person who requests it by writing to the address or telephoning the number indicated under "Available Information" on page 2. We will disclose on our web site amendments to or waivers from our Code of Ethics applicable to Directors or executive officers of Holdings, including the Chairman and Chief Executive Officer and the Chief Financial Officer, in accordance with all applicable laws and regulations.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is set forth under the captions “Compensation of Directors,” “Compensation and Benefits Committee Interlocks and Insider Participation” and “Compensation of Executive Officers” in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to security ownership of certain beneficial owners and management is set forth under the captions “Security Ownership of Principal Stockholders” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement and is incorporated herein by reference.

Information regarding shares of our common stock authorized for issuance under equity compensation plans is set forth under the caption “Proposal 3—Amendment to the 2005 Stock Incentive Plan—Equity Compensation Plan Information” in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to certain relationships and related transactions is set forth under the caption “Certain Transactions and Agreements with Directors and Executive Officers” in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to fees paid to our independent registered public accounting firm and certain related matters is set forth under the caption “Ernst & Young LLP Fees and Services” in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES1. Financial Statements:

The Financial Statements and the Notes thereto and the Report of Independent Registered Public Accounting Firm thereon included in this Report are listed on page F-1.

2. Financial Statement Schedules:

The financial statement schedule and the notes thereto filed as a part hereof are listed on page F-1.

3. Exhibits:

<u>Exhibit No.</u>	
3.01	Restated Certificate of Incorporation of the Registrant dated October 10, 2006 (<i>incorporated by reference to Exhibit 3.04 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2006</i>)
3.02	By-Laws of the Registrant, amended as of December 21, 2006 (<i>incorporated by reference to Exhibit 3.01 to the Registrant's Current Report on Form 8-K filed with the SEC on December 27, 2006</i>)
4.01	Standard multiple series indenture provisions with respect to the senior and subordinated debt securities (<i>incorporated by reference to Exhibit 4(a) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-16141)</i>)
4.02	Indenture with respect to senior debt securities (<i>incorporated by reference to Exhibit 4(b) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-16141)</i>)
4.03	First Supplemental Indenture with respect to senior debt securities (<i>incorporated by reference to Exhibit 4(m) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-25797)</i>)
4.04	Second Supplemental Indenture with respect to senior debt securities (<i>incorporated by reference to Exhibit 4(e) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-49062)</i>)
4.05	Third Supplemental Indenture with respect to senior debt securities (<i>incorporated by reference to Exhibit 4(f) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-46146)</i>)
4.06	Fourth Supplemental Indenture with respect to senior debt securities (<i>incorporated by reference to Exhibit 4(f) to Registrant's Registration Statement on Form 8-A filed with the SEC on October 7, 1993</i>)
4.07	Fifth Supplemental Indenture with respect to the senior debt securities (<i>incorporated by reference to Exhibit 4(b) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-56615)</i>)
4.08	Sixth Supplemental Indenture with respect to the senior debt securities (<i>incorporated by reference to Exhibit 4(b) to the Registrant's Registration Statement on Form S-3 (No. 333-38227)</i>)
4.09	Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 2 to the Registrant's Registration Statement on Form 8-A filed with the SEC on February 8, 1996</i>)
4.10	First Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A filed with the SEC on February 8, 1996</i>)
4.11	Second Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on January 27, 1999</i>)
4.12	Third Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on April 20, 1999</i>)
4.13	Fourth Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on March 17, 2003</i>)
4.14	Fifth Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on October 31, 2003</i>)
4.15	Sixth Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on April 22, 2004</i>)
4.16	Seventh Supplemental Indenture with respect to subordinated debt securities (<i>incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on January 18, 2005</i>)

LEHMAN BROTHERS HOLDINGS INC.

- 4.17 Eighth Supplemental Indenture with respect to subordinated debt securities (*incorporated by reference to Exhibit 4.04 to the Registrant's Registration Statement on Form S-4 (No. 333-129195)*)
- 4.18 Ninth Supplemental Indenture with respect to subordinated debt securities (*incorporated by reference to Exhibit 4.01 to the Registrant's Current Report on Form 8-K filed with the SEC on October 27, 2006*)
The other instruments defining the rights of holders of the long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
- 10.01 Tax Allocation Agreement between Shearson Lehman Brothers Holdings Inc. and American Express Company (*incorporated by reference to Exhibit 10.2 to the Registrant's Transition Report on Form 10-K for the eleven months ended November 30, 1994*)
- 10.02 Amended and Restated Agreements of Limited Partnership of Shearson Lehman Hutton Capital Partners II (*incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988*)
- 10.03 Amended and Restated Agreement of Limited Partnership of Lehman Brothers Capital Partners III, L.P. (*incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 1995*)
- 10.04 Agreement of Limited Partnership of Lehman Brothers Capital Partners IV, L.P. (*incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 1997*)
- 10.05 Purchase and Sale Agreement dated as of October 19, 2001, between MSDW 745, LLC, as seller, and LB 745 LLC, as purchaser (*incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001*)
- 10.06 Amendment to Purchase and Sale Agreement dated as of the October 19, 2001, between MSDW 745, LLC, as seller, and LB 745 LLC, as purchaser (*incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001*)
- 10.07 JV Option Agreement dated November 19, 1998, between Rock-Forty-Ninth LLC and LB 745 LLC (as assignee of MSDW 745, LLC) (*incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001*)
- 10.08 † Lehman Brothers Inc. Executive and Select Employees Plan (*incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (Reg. No. 33-12976)*)
- 10.09 † 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (*incorporated by reference to Exhibit 10.1 to Neuberger Berman Inc.'s Registration Statement on Form S-1 (Reg. No. 333-84525)*)
- 10.10 † Amendment No. 1 to the 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (*incorporated by reference to Exhibit 10.17 to Neuberger Berman Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2000*)
- 10.11 † 1999 Neuberger Berman Inc. Long-Term Incentive Plan (*incorporated by reference to Exhibit 10.2 to Neuberger Berman Inc.'s Registration Statement on Form S-1 (Reg. No. 333-84525)*)
- 10.12 † Amendment No. 1 to the 1999 Neuberger Berman Inc. Long-Term Incentive Plan (*incorporated by reference to Exhibit 10.18 to Neuberger Berman Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2000*)
- 10.13 † Neuberger Berman Inc. Wealth Accumulation Plan, Amended and Restated as of September 1, 2000 (*incorporated by reference to Exhibit 10.21 to Neuberger Berman Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2000*)
- 10.14 † Neuberger Berman Inc. Employee Stock Purchase Plan, Amended and Restated as of September 1, 2000 (*incorporated by reference to Exhibit 10.22 to Neuberger Berman Inc.'s Annual Report on Form 10-K, for the year ended December 31, 2000*)
- 10.15 † Lehman Brothers Holdings Inc. 1994 Management Ownership Plan, as amended through November 19, 2002 (*incorporated by reference to Exhibit 10.05 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2002*)
- 10.16 † Lehman Brothers Holdings Inc. 1996 Management Ownership Plan, as amended through November 19, 2002 (*incorporated by reference to Exhibit 10.06 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2002*)
- 10.17 † Form of Agreement evidencing a grant of Restricted Stock Units to Executive Officers under the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (*incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2004*)
- 10.18 † Form of Agreement evidencing a grant of Nonqualified Stock Options to Executive Officers under the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (*incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2004*)

LEHMAN BROTHERS HOLDINGS INC.

- 10.19 † Lehman Brothers Holdings Inc. Short-Term Executive Compensation Plan, as amended through February 19, 2003 (*incorporated by reference to Exhibit 10.07 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2002*)
- 10.20 † Amended and Restated Lehman Brothers Holdings Inc. Employee Incentive Plan, as amended through February 19, 2003 (*incorporated by reference to Exhibit 10.08 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2002*)
- 10.21 † Form of Agreement evidencing a grant of Restricted Stock Units to Directors pursuant to the Lehman Brothers Holdings Inc. Employee Incentive Plan (*incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2004*)
- 10.22 † Form of Agreement evidencing a grant of Nonqualified Stock Options to Directors pursuant to the Lehman Brothers Holdings Inc. Employee Incentive Plan (*incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2004*)
- 10.23 † Lehman Brothers Supplemental Retirement Plan, as amended through December 10, 2003 (*incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2003*)
- 10.24 † Lehman Brothers Holdings Inc. Retirement Plan for Non-Employee Directors (*incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2004*)
- 10.25 † Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan (*incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement for its 2005 Annual Meeting of Stockholders*)
- 10.26 † Form of Agreement evidencing a Grant of Restricted Stock Units to Executive Officers under the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended (*incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2005*)
- 10.27 † Form of Agreement evidencing a grant of Performance-Based Restricted Stock Units to Executive Officers under the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended (*incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 7, 2006*)
- 10.28 † Form of Agreement evidencing a grant of Nonqualified Stock Options to Executive Officers under the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended (*incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on December 6, 2005*)
- 10.29 † Form of Agreement evidencing a grant of Restricted Stock Units to Directors under the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended (*incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 31, 2006*)
- 10.30 † Form of Agreement evidencing a grant of Nonqualified Stock Options to Directors under the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan, as amended (*incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the SEC on March 31, 2006*)
- 10.31 †* Base Salaries of Named Executive Officers of the Registrant
- 10.32 † Compensation for Non-Management Directors of the Registrant (*incorporated by reference to Exhibit 10.05 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2006*)
- 10.33 † Lehman Brothers Holdings Inc. Amended and Restated Deferred Compensation Plan for Non-Employee Directors (*incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 10, 2005*)
- 10.34 † Letter Agreement between Lehman Brothers Holdings Inc. and Jonathan E. Beyman dated as of April 6, 2006 (*incorporated by reference to Exhibit 10.06 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2006*)
- 11.01 Computation of Per Share Earnings (*omitted in accordance with section (b)(11) of Item 601 of Regulation S-K; the calculation of per share earnings is set forth in Part II, Item 8, in Note 11 to the Consolidated Financial Statements (Earnings Per Common Share)*)
- 12.01* Computations in support of ratios of earnings to fixed charges and to combined fixed charges and preferred stock dividends
- 21.01* List of the Registrant's Subsidiaries
- 23.01* Consent of Ernst & Young LLP
- 24.01* Powers of Attorney
- 31.01* Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a)
- 31.02* Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a)
- 32.01* Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Enacted by Section 906 of the Sarbanes-Oxley Act of 2002 (*This certification is being furnished and shall not be deemed "filed" with the Commission for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.*)

LEHMAN BROTHERS HOLDINGS INC.

32.02* Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Enacted by Section 906 of the Sarbanes-Oxley Act of 2002 *(This certification is being furnished and shall not be deemed "filed" with the Commission for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.)*

* Filed/furnished herewith.

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b) of Form 10-K.

LEHMAN BROTHERS HOLDINGS INC. and SUBSIDIARIES
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LEHMAN BROTHERS HOLDINGS INC.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Schedule I

Statement of Income
(Parent Company Only)

In millions	Year ended November 30,		
	2007	2006	2005
Interest and dividends	\$11,994	\$6,518	\$3,336
Principal transactions and other	(1,349)	630	631
Total revenues	10,645	7,148	3,967
Interest expense	12,935	7,439	4,144
Net revenues	(2,290)	(291)	(177)
Equity in income of subsidiaries	6,092	4,613	3,836
Non-interest expenses	752	867	1,038
Income before taxes and cumulative effect of accounting change	3,050	3,455	2,621
Provision (benefit) for income taxes	(1,142)	(527)	(639)
Income before cumulative effect of accounting change	4,192	3,982	3,260
Cumulative effect of accounting change	—	25	—
Net income	\$4,192	\$4,007	\$3,260
Net income applicable to common stock	\$4,125	\$3,941	\$3,191

See Notes to Condensed Financial Information of Registrant.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Statement of Financial Condition

(Parent Company Only)

In millions, except share data	November 30,	
	2007	2006
Assets		
Cash and cash equivalents	\$ 2,218	\$ 3,435
Cash segregated and on deposit for regulatory and other purposes	12	51
Financial instruments and other inventory positions owned: (including \$● in 2007 and \$9,575 in 2006 pledged as collateral)	34,221	17,866
Receivables and accrued interest	660	591
Other assets	7,093	4,354
Due from subsidiaries	144,194	95,640
Equity in net assets of subsidiaries	25,059	19,333
Total assets	\$213,457	\$141,270
Liabilities and Stockholders' Equity		
Short-term borrowings and current portion of long-term borrowings (including \$● in 2007 and \$2,295 in 2006 at fair value)	\$ 16,574	\$ 10,721
Financial instruments and other inventory positions sold but not yet purchased	3,020	92
Collateralized financing	9,451	6,136
Accrued liabilities and other payables	3,714	2,286
Due to subsidiaries	71,091	45,389
Long-term borrowings (including \$● in 2007 and \$864 in 2006 at fair value)	87,109	57,455
Total liabilities	190,959	122,079
Commitments and contingencies		
Stockholders' Equity		
Preferred stock	1,095	1,095
Common stock, \$0.10 par value; Shares authorized: 1,200,000,000 in 2007 and 2006; Shares issued: in 612,882,506 2007 and 609,832,302 in 2006; Shares outstanding: 531,887,419 in 2007 and 533,368,195 in 2006	61	61
Additional paid-in capital ⁽¹⁾	6,027	8,727
Accumulated other comprehensive loss, net of tax	(302)	(15)
Retained earnings	19,698	15,857
Other stockholders' equity, net	1,443	(1,712)
Common stock in treasury, at cost: 80,995,087 shares in 2007 and 76,464,107 shares in 2006	(5,524)	(4,822)
Total common stockholders' equity	21,403	18,096
Total stockholders' equity	22,498	19,191
Total liabilities and stockholders' equity	\$213,457	\$141,270

See Notes to Condensed Financial Information of Registrant.

LEHMAN BROTHERS HOLDINGS INC.

Schedule I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Statement of Cash Flows

(Parent Company Only)

In millions	Year ended November 30,		
	2007	2006	2005
Cash Flows From Operating Activities			
Net income	\$ 4,192	\$ 4,007	\$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in income of subsidiaries	(6,092)	(4,613)	(3,836)
Depreciation and amortization	197	164	115
Deferred tax provision	—	250	39
Tax benefit from the issuance of stock-based awards	—	—	1,005
Non-cash compensation	1,805	1,706	1,055
Cumulative effect of accounting change	—	(25)	—
Other adjustments	12	16	22
Net change in:			
Cash segregated and on deposit for regulatory and other purposes	39	(3)	(48)
Financial instruments and other inventory positions owned	(11,827)	6,013	(15,284)
Financial instruments and other inventory positions sold but not yet purchased	2,928	(146)	64
Collateralized agreements and collateralized financing, net	3,315	(7,022)	12,775
Other assets and payables, net	(2,070)	(1,677)	(1,039)
Due to/from affiliates, net	(22,852)	(21,542)	1,553
Net cash used in operating activities	(30,353)	(22,872)	(319)
Cash Flows From Investing Activities			
Dividends received	3,023	2,974	2,394
Capital contributions from/to subsidiaries, net	(2,262)	(1,348)	(1,272)
Purchase of property, equipment and leasehold improvements, net	(504)	(331)	(243)
Business acquisitions, net of cash acquired	—	—	—
Net cash provided by investing activities	257	1,295	879
Cash Flows From Financing Activities			
Tax benefit from the issuance of stock-based awards	434	836	—
Issuance of short-term borrowings, net	2,345	295	231
Issuance of long-term borrowings	49,563	30,231	11,862
Principal payments of long-term borrowings	(20,883)	(8,020)	(8,239)
Issuance of common stock	84	119	230
Issuance of treasury stock	359	518	1,015
Purchase of treasury stock	(2,605)	(2,678)	(2,994)
(Retirement) issuance of preferred stock	—	—	(250)
Dividends paid	(418)	(342)	(302)
Net cash provided by financing activities	28,879	20,959	1,553
Net change in cash and cash equivalents	(1,217)	(618)	2,113
Cash and cash equivalents, beginning of period	3,435	4,053	1,940
Cash and cash equivalents, end of period	\$ 2,218	\$ 3,435	\$ 4,053
Supplemental Disclosure of Cash Flow Information (in millions):			
Interest paid totaled \$12,532, \$7,937 and \$4,563 in 2007, 2006 and 2005 respectively.			
Income taxes received totaled \$1,169, \$1,602 and \$1,876 in 2007, 2006 and 2005 respectively.			

See Notes to Condensed Financial Information of Registrant.

LEHMAN BROTHERS HOLDINGS INC.
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Only)

Note 1 Basis of Presentation

The condensed financial information of Lehman Brothers Holdings Inc. (“Holdings,” “we,” “us” or “our”) should be read in conjunction with the Consolidated Financial Statements of Lehman Brothers Holdings Inc. (collectively, the “Company”) and the notes thereto. Certain prior period amounts reflect reclassifications to conform to the current period’s presentation. Equity in net assets of subsidiaries is accounted for in accordance with the equity method of accounting.

Note 2 Financial Instruments

Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased are recorded at fair value and were comprised of the following:

In millions	Owned		Sold But Not Yet Purchased	
	Nov 30, 2007	Nov 30, 2006	Nov 30, 2007	Nov 30, 2006
Mortgages and asset-backed positions	\$20,104	\$16,311	\$ —	\$ —
Government and agencies	1	—	—	—
Corporate debt and other	420	157	—	92
Corporate equities	553	290	—	—
Real estate held for sale	5,214	—	—	—
Commercial paper and other money market instruments	1,004	101	—	—
Derivatives and other contractual agreements	6,925	1,007	3,020	—
	\$34,221	\$17,866	\$3,020	\$ 92

Note 3 Fair Value of Financial Instruments

Financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased, are presented at fair value. In addition, certain long and short-term borrowing obligations, principally structured notes, and certain deposits at banks, are reflected at fair value.

Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity.

Beginning December 1, 2006, assets and liabilities recorded at fair value in the Consolidated Statement of Financial Condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels – defined by Statement of Financial Accounting Standards (“SFAS”) No. 157, *Fair Value Measurements* (“SFAS 157”) and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities – are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level III – Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

An asset or a liability’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

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Fair valued financial instruments and other inventory positions owned, and financial instruments and other inventory positions sold but not yet purchased and other liabilities at November 30, 2007 were:

In millions	At November 30, 2007			
	Level I	Level II	Level III	Total
Financial instruments and other inventory positions owned:				
Mortgages and mortgage-backed positions	\$●	\$ ●	\$ 5,201	\$ 20,104
Government and agencies	●	●	—	1
Corporate debt and other	●	●	—	420
Corporate equities	●	●	177	553
Commercial paper and other money market instruments	●	●	—	1,004
Derivative assets	●	●	—	6,925
	\$●	\$ ●	\$ 1,754	\$ 29,007
Financial instruments and other inventory positions sold but not yet purchased:				
Derivative liabilities	●	●	—	\$ 3,020
	\$ ●	\$ ●	\$—	\$ 3,020
Other liabilities carried at fair value: ⁽¹⁾				
Short-term borrowings	—	\$ 1,819	—	\$ 1,819
Long-term borrowings	—	\$ 5,371	—	\$ 5,371

⁽¹⁾ In accordance with our adoption of SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140* ("SFAS 155"), SFAS 157, and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), we also measure certain non-inventory liabilities at fair value.

The net unrealized loss on Level III financial instruments was approximately \$181 million for the fiscal year ended November 30, 2007, primarily consisting of unrealized losses from mortgage and asset-backed positions. The following tables summarize the change in balance sheet carrying value associated with Level III financial instruments carried at fair value during the year ended November 30, 2007:

In millions	Balance	Periodic	Net	Gains/(Losses) ^{(1), (2)}		Balance
Fiscal year ended	November 30,	Payments,	Transfers	Realized	Unrealized	November 30,
November 30, 2007	2006	Sales, Net	In/(Out)			2007
Mortgages and asset-backed positions	2,618	1,309	1,226	346	(298)	5,201
Corporate equities	—	14	137	—	26	177
	2,618	1,323	1,363	346	(272)	5,378

⁽¹⁾ Caution should be utilized when evaluating reported net revenues for Level III Financial instruments. These values are not presented net of hedging activities that may be transacted in instruments categorized within other hierarchy levels. Actual net revenues associated with Level III, inclusive of hedging activities, would differ materially.

⁽²⁾ The current period gains/ (losses) from changes in values of Level III Financial instruments represent gains/ (losses) from changes in values of those Financial instruments only for the period(s) in which the instruments were classified as Level III.

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Note 4 Borrowings

Total borrowings consist of the following:

In millions	November 30,	
	2007	2006
Short-term borrowings		
Secured		
Unsecured		
Current portion of long-term borrowings	\$12,106	\$ 8,598
Commercial paper	3,102	1,432
Other short-term debt	1,366	691
Total	\$16,574	\$10,721
Amount carried at fair value ⁽²⁾	\$ 1,819	\$ 2,295
Weighted-average interest rate after effect of hedging activities	4.88%	5.77%
Long-term borrowings		
Senior notes	\$74,818	\$53,718
Subordinated notes	12,291	3,737
Total	87,109	\$57,455
Amount carried at fair value ⁽²⁾	\$ 5,371	\$ 864
Weighted-average contractual interest rate	5.26%	4.87%

⁽²⁾ Borrowings are carried at fair value in accordance with SFAS 155 and SFAS 159. For additional information, Note 3, "Fair Value of Financial Instruments," to the Condensed Financial Information.

Maturity Profile

The maturity dates of long-term borrowings are as follows:

In millions	U.S. Dollar		Non-U.S.		Total	
	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Nov 30, 2007	Nov 30, 2006
Maturing in fiscal 2009	\$ 1,560	\$ 237	\$11,676	\$ 2,314	\$15,786	\$8,977
Maturing in fiscal 2010	3,610	1,270	3,242	743	8,865	4,892
Maturing in fiscal 2011	2,196	1,356	2,400	4,839	10,790	9,962
Maturing in fiscal 2012	4,640	3,121	1,949	5,676	15,387	3,794
December 1, 2012 and thereafter	17,970	4,704	6,061	7,546	36,281	16,740
	\$29,976	\$10,688	\$25,329	\$21,117	\$87,109	\$57,455

The weighted-average contractual interest rates on U.S. dollar and non-U.S. dollar borrowings were 5.65% and 4.61%, respectively, at November 30, 2007 and 5.46% and 3.83%, respectively, at November 30, 2006.

At November 30, 2007, approximately \$13.0 billion of long-term borrowings are redeemable prior to maturity at our option under various terms and conditions. These obligations are reflected in the above table at their contractual maturity dates which range from fiscal 2009 to fiscal 2054, rather than at their call dates which range from fiscal 2009 to fiscal 2027. Extendible debt structures totaling approximately \$2.3 billion are shown in the above table at their earliest maturity dates, which range from fiscal 2009 to fiscal 2013. The maturity date of extendible debt is automatically extended unless the debt holders instruct the Company to redeem their debt at least one year prior to the earliest maturity date.

At November 30, 2007, our U.S. dollar and non-U.S. dollar debt portfolios included approximately \$5.2 billion and \$14 million, respectively, of structured notes for which the interest rates and/or redemption values are linked to the performance of an underlying measure (including industry baskets of stocks, commodities or credit events). Generally, such notes are issued as floating rate notes or the interest rates on such index notes are effectively converted to floating rates based primarily on LIBOR through the use of derivatives.

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End-User Derivative Activities

We use a variety of derivative products including interest rate and currency swaps as an end-user to modify the interest rate characteristics of our long-term borrowings portfolio. We use interest rate swaps to convert a substantial portion of our fixed-rate debt to floating interest rates to more closely match the terms of assets being funded and to minimize interest rate risk. In addition, we use cross-currency swaps to hedge our exposure to foreign currency risk arising from our non-U.S. dollar debt obligations, after consideration of non-U.S. dollar assets that are funded with long-term debt obligations in the same currency. In certain instances, we may use two or more derivative contracts to manage the interest rate nature and/or currency exposure of an individual long-term borrowings issuance.

End-User Derivative Activities resulted in the following mix of fixed and floating rate debt:

Long-Term Borrowings After End-User Derivative Activities

In millions	November 30,	
	2007	2006
U.S. dollar obligations:		
Fixed rate	\$ 29,976	\$ 875
Floating rate	10,688	47,950
Total U.S. dollar obligations	40,644	48,825
Non-U.S. dollar obligations	46,465	8,630
	<u>\$ 87,109</u>	<u>\$57,455</u>

The weighted-average effective interest rates after end-user derivative activities on U.S. dollar, non-U.S. dollar, and total borrowings were 5.18%, 4.22%, and 4.99%, respectively, at November 30, 2007. The weighted-average effective interest rates after end-user derivative activities on U.S. dollar, non-U.S. dollar, and total borrowings were 5.63%, 3.67%, and 5.34%, respectively, at November 30, 2006.

Credit Facilities

We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a \$2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks which expires in February 2009. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. As of November 30, 2006, there were no borrowings against this facility.

Note 5 Commitments, Contingencies and Guarantees

We guarantee certain long-term borrowings issued by subsidiaries totaling \$34.4 billion and \$21.7 billion at November 30, 2007 and 2006, respectively. In addition, we guarantee certain liquidity facilities and certain subsidiaries' derivative and other obligations.

Note 6 Related Party Transactions

In the normal course of business, we engage in various securities trading and financing activities with many of our subsidiaries (the "Related Parties"). Included within non-interest expenses are management fees associated with affiliate services provided, of \$● million, \$251 million and \$423 million in 2007, 2006 and 2005, respectively. Various charges, such as compensation and benefits, occupancy, administration and computer processing are allocated among the Related Parties, based on specific identification and other allocation methods.

We and our subsidiaries raise money through short- and long-term funding in capital markets, which is used to fund the operations of certain of our wholly-owned subsidiaries. We believe amounts arising through related party transactions, including those allocated expenses referred to above, are reasonable and approximate the amounts that would have been recorded if we operated as an unaffiliated entity.

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Amounts outstanding to and from Related Parties are reflected in the Statement of Financial Condition as set forth below:

In millions	Nov 30, 2007		Nov 30, 2006	
	Assets	Liabilities	Assets	Liabilities
Cash on deposit with affiliates	\$ —	\$ —	\$ 270	\$ —
Derivative and other contractual agreements	6,943	70	1,009	12
Advances from/to subsidiaries	117,531	54,411	78,047	34,427
Securities purchased/sold under agreements to resell/repurchase	26,766	16,346	17,593	10,962
Other assets	216	—	—	—
Payables to brokers, dealers and clearing organizations	—	282	—	—
Long-term borrowings	—	230	—	722

Dividends declared to us by our subsidiaries and affiliates were approximately \$3.0 billion, \$3.0 billion and \$2.4 billion in 2007, 2006 and 2005, respectively.

Certain covenants contained in various debt agreements may restrict our ability to withdraw capital from our regulated subsidiaries, which in turn could limit our ability to pay dividends to shareholders. At November 30, 2007, approximately \$10.1 billion of net assets of subsidiaries were restricted as to the payment of dividends to us.

Note 7 Real Estate Reconfiguration Charge

In connection with the Company's decision in 2002 to reconfigure certain of our global real estate facilities, we established a liability for the expected losses from subleasing such facilities, principally our downtown New York City offices after the events of September 11, 2001.

During the years ended November 30, 2007 and 2006, changes in the liability, related to these charges were as follows:

In millions	Beginning Balance	Real Estate Reconfiguration	Used	Ending Balance
Year ended November 30, 2006	38	—	(20)	18
Year ended November 30, 2007	18	—	(18)	—

Note 8 Condensed Consolidating Financial Statement Schedules

LBI had approximately \$0.8 billion of debt securities outstanding at November 30, 2007 that were issued in registered public offerings and were therefore subject to the reporting requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 ("the Exchange Act"). Holdings has fully and unconditionally guaranteed these outstanding debt securities of LBI (and any debt securities of LBI that may be issued in the future under these registration statements), which, together with the information presented in this Note 8, allows LBI to avail itself of an exemption provided by SEC rules from the requirement to file separate LBI reports under the Exchange Act. See Note 16 to the 2007 Consolidated Financial Statements included in this Form 10-K for a discussion of restrictions on the ability of Holdings to obtain funds from its subsidiaries by dividend or loan.

During September 2006, certain wholly-owned subsidiaries of LBI were sold to Holdings at their then carrying values as part of a corporate restructuring. In accordance with Statement SFAS 141, *Business Combinations*, the accompanying condensed consolidating financial statements report the results of operations of LBI excluding the results of these entities. As a result, LBI's net income for the year ended November 30, 2006 does not include approximately \$99 million earned by these entities through September 2006 when they were transferred. In addition, LBI's opening retained earnings for the year ended November 30, 2006 was reduced by approximately \$229 million, representing the carrying value of these transferred entities at November 30, 2005. In addition, this sale has been retrospectively applied in the condensed consolidating financial statements as of and for the years ended November 30, 2005 and 2004.

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The following schedules set forth our condensed consolidating statements of income for the years ended November 30, 2007, 2006 and 2005; our condensed consolidating balance sheets at November 30, 2007 and 2006, and our condensed consolidating statements of cash flows for the years ended November 30, 2007, 2006 and 2005. In the following schedules, "Holdings" refers to the unconsolidated balances of Holdings, "LBI" refers to the unconsolidated balances of Lehman Brothers Inc. and "Other Subsidiaries" refers to the combined balances of all other subsidiaries of Holdings. "Eliminations" represents the adjustments necessary to (i) eliminate inter-company transactions; and (ii) eliminate our investments in subsidiaries.

In millions	Holdings	LBI	Other Subsidiaries	Eliminations	Total
Condensed Consolidating Statement of Income for the Year Ended November 30, 2007					
Net revenues	\$(2,290)	\$2,016	\$19,531	\$ —	\$19,257
Equity in net income of subsidiaries	6,092	1,743	—	(7,835)	—
Total non-interest expenses	752	2,183	10,309	—	13,244
Income before taxes	3,050	1,576	9,222	(7,835)	6,013
Provision (benefit) for income taxes	(1,142)	(243)	3,206	—	1,821
Net income	\$4,192	\$1,819	\$6,016	\$(7,835)	\$4,192
Condensed Consolidating Statement of Income for the Year Ended November 30, 2006					
Net revenues	\$ (291)	\$6,483	\$11,391	\$ —	\$17,583
Equity in net income of subsidiaries	4,613	523	—	(5,136)	—
Total non-interest expenses	867	4,252	6,559	—	11,678
Income before taxes and cumulative effect					
of accounting change	3,455	2,754	4,832	(5,136)	5,905
Provision (benefit) for income taxes	(527)	875	1,597	—	1,945
Income before cumulative effect of					
accounting change	3,982	1,879	3,235	(5,136)	3,960
Cumulative effect of accounting change	25	22	—	—	47
Net income	\$4,007	\$1,901	\$ 3,235	\$(5,136)	\$ 4,007
Condensed Consolidating Statement of Income for the Year Ended November 30, 2005					
Net revenues	\$ (177)	\$ 4,394	\$10,413	\$ —	\$14,630
Equity in net income of subsidiaries	3,836	688	—	(4,524)	—
Total non-interest expenses	1,038	3,138	5,625	—	9,801
Income before taxes	2,621	1,944	4,788	(4,524)	4,829
Provision (benefit) for income taxes	(639)	491	1,717	—	1,569
Net income	\$ 3,260	\$ 1,453	\$ 3,071	\$(4,524)	\$ 3,260

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Condensed Consolidating Balance Sheet at November 30, 2007

In millions	Holdings	LBI	Other Subsidiaries	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 2,218	\$ 356	\$ 6,205	\$ (1,493)	\$ 7,286
Cash segregated and on deposit for regulatory and other purposes	12	7,986	4,745	—	12,743
Financial instruments and other inventory positions owned	34,221	85,617	262,752	(69,462)	313,128
Collateralized agreements	—	177,499	123,735	—	301,234
Receivables and other assets	7,753	18,304	48,360	(17,708)	56,709
Due from subsidiaries	144,194	81,078	658,226	(883,498)	—
Equity in net assets of subsidiaries	25,059	1,500	78,661	(105,220)	—
Total assets	\$213,457	\$372,341	\$1,182,683	\$(1,077,381)	\$691,100
Liabilities and stockholders' equity					
Short-term borrowings including the current portion of long-term borrowings	\$ 16,574	\$ 936	\$ 13,020	\$ (2,464)	\$ 28,066
Financial instruments and other inventory positions sold but not yet purchased	3,020	52,422	155,352	(61,177)	149,617
Collateralized financing	9,451	118,912	134,733	(5,065)	258,031
Accrued liabilities and other payables	3,713	24,780	70,240	(18,357)	80,376
Due to subsidiaries	70,861	165,607	567,840	(804,307)	—
Deposits at banks	—	—	29,584	(221)	29,363
Long-term borrowings	87,339	5,228	111,151	(80,569)	123,150
Total liabilities	190,959	367,886	1,081,919	(972,161)	668,602
Total stockholders' equity	22,498	4,455	100,764	(105,219)	22,498
Total liabilities and stockholders' equity	\$213,457	\$372,341	\$1,182,683	\$(1,077,380)	\$691,100

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Condensed Consolidating Balance Sheet at November 30, 2006

In millions	Holding s	LBI	Other Subsidiaries	Eliminations	Total
Assets					
Cash and cash equivalents	\$ 3,435	\$ 534	\$ 4,369	\$ (2,351)	\$ 5,987
Cash segregated and on deposit for regulatory and other purposes	51	3,256	2,784	—	6,091
Financial instruments and other inventory positions owned	17,866	73,8885	173,839	(38,994)	226,596
Collateralized agreements	—	149,288	75,868	—	225,156
Receivables and other assets	4,945	12,998	27,911	(6,139)	39,715
Due from subsidiaries	95,640	66,074	434,208	(595,922)	—
Equity in net assets of subsidiaries	19,333	1,267	43,532	(64,132)	—
Total assets	\$141,270	\$307,302	\$762,511	\$(707,538)	\$503,545
Liabilities and stockholders' equity					
Short-term borrowings including the current portion of long-term borrowings	\$ 10,721	\$ 538	\$ 9,412	\$ (33)	\$ 20,638
Financial instruments and other inventory positions sold but not yet purchased	92	58,393	104,910	(37,435)	125,960
Collateralized financing	6,136	89,512	80,909	—	176,557
Accrued liabilities and other payables	2,286	18,893	44,599	(7,169)	58,609
Due to subsidiaries	45,389	130,145	376,137	(551,671)	—
Deposits at banks	—	—	23,786	(2,374)	21,412
Long-term borrowings	57,455	5,821	62,626	(44,724)	81,178
Total liabilities	122,079	303,302	702,379	(643,406)	484,354
Total stockholders' equity	19,191	4,000	60,132	(64,132)	19,191
Total liabilities and stockholders' equity	\$141,270	\$307,302	\$762,511	\$(707,538)	\$503,545

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Condensed Consolidating Statement of Cash Flows for the Year Ended November 30, 2007

In millions	Holdings	LBI	Other Subsidiaries	Eliminations	Total
Cash Flows from Operating Activities					
Net income	\$ 4,192	\$ 1,819	\$ 6,016	\$ (7,835)	\$ 4,192
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in income of subsidiaries	(6,092)	(1,743)	—	7,835	—
Depreciation and amortization	197	36	344	—	577
Non-cash compensation	1,805	—	—	—	1,805
Other adjustments	12	26	(144)	(8)	(114)
Net change in:					
Cash segregated and on deposit for regulatory and other purposes	39	(4,730)	(1,961)	—	(6,652)
Financial instruments and other inventory positions owned	(11,827)	(11,731)	(85,277)	29,928	(78,907)
Financial instruments and other inventory positions sold but not yet purchased	2,928	(5,971)	50,200	(23,742)	23,415
Collateralized agreements and collateralized financing, net	3,315	1,189	5,956	(5,065)	5,395
Other assets and payables, net	(2,070)	590	5,119	1,055	4,694
Due to/from affiliates, net	(22,852)	20,458	(32,315)	34,709	—
Net cash provided by (used in) operating activities	(30,353)	(57)	(52,062)	36,877	(45,595)
Cash Flows from Investing Activities					
Dividends received/(paid)	3,023	149	(3,172)	—	—
Purchase of property, equipment and leasehold improvements, net	(504)	(47)	(415)	—	(966)
Business acquisitions, net of cash acquired	—	—	(965)	—	(965)
Proceeds from sale of business	—	—	233	—	233
Capital contributions from/to subsidiaries, net	(2,262)	—	2,262	—	—
Net cash provided by (used in) investing activities	257	102	(2,057)	—	(1,698)
Cash Flows from Financing Activities					
Derivative contracts with a financing element	—	—	242	—	242
Tax benefit from the issuance of stock-based awards	434	—	—	—	434
Issuance of short-term borrowings, net	2,345	97	3,370	(2,431)	3,381
Deposits at banks	—	—	4,915	2,153	7,068
Issuance of long-term borrowings	49,563	—	85,677	(48,844)	86,396
Principal payments of long-term borrowings	(20,883)	(320)	(38,249)	13,103	(46,349)
Issuance of common stock	84	—	—	—	84
Issuance of treasury stock	359	—	—	—	359
Purchase of treasury stock	(2,605)	—	—	—	(2,605)
Dividends paid	(418)	—	—	—	(418)
Net cash provided by financing activities	28,879	(223)	55,955	(36,019)	48,592
Net change in cash and cash equivalents	(1,217)	(178)	1,836	858	1,299
Cash and cash equivalents, beginning of period	3,435	534	4,369	(2,351)	5,987
Cash and cash equivalents, end of period	\$ 2,218	\$ 356	\$ 6,205	\$ (1,493)	\$ 7,286

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Condensed Consolidating Statement of Cash Flows for the Year Ended November 30, 2006

In millions	Holdings	LBI	Other Subsidiaries	Eliminations	Total
Cash Flows from Operating Activities					
Net income	\$ 4,007	\$ 1,901	\$ 3,235	\$ (5,136)	\$ 4,007
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in income of subsidiaries	(4,613)	(523)	—	5,136	—
Depreciation and amortization	164	51	299	—	514
Deferred tax provision (benefit)	250	(346)	36	—	(60)
Non-cash compensation	1,706	—	—	—	1,706
Cumulative effect of accounting change	(25)	(22)	—	—	(47)
Other adjustments	16	15	(28)	—	3
Net change in:					
Cash segregated and on deposit for regulatory and other purposes	(3)	(450)	106	—	(347)
Financial instruments and other inventory positions owned	6,013	(17,937)	(22,538)	(11,640)	(46,102)
Financial instruments and other inventory positions sold but not yet purchased	(146)	4,162	(952)	12,160	15,224
Collateralized agreements and collateralized financing, net	(7,022)	(4,116)	(5,222)	—	(16,360)
Other assets and payables, net	(1,677)	(2,538)	13,176	(3,875)	5,086
Due to/from affiliates, net	(21,542)	20,832	(15,876)	16,586	—
Net cash provided by (used in) operating activities	(22,872)	1,029	(27,764)	13,231	(36,376)
Cash Flows from Investing Activities					
Dividends received/(paid)	2,974	(1,124)	(1,850)	—	—
Purchase of property, equipment and leasehold improvements, net	(331)	(33)	(222)	—	(586)
Business acquisitions, net of cash acquired	—	—	(206)	—	(206)
Capital contributions from/to subsidiaries, net	(1,348)	(100)	1,448	—	—
Net cash provided by (used in) investing activities	1,295	(1,257)	(830)	—	(792)
Cash Flows from Financing Activities					
Derivative contracts with a financing element	—	—	159	—	159
Tax benefit from the issuance of stock-based awards	836	—	—	—	836
Issuance of short-term borrowings, net	295	123	4,434	(33)	4,819
Deposits at banks	—	—	5,198	1,147	6,345
Issuance of long-term borrowings	30,231	516	39,809	(22,441)	48,115
Principal payments of long-term borrowings	(8,020)	(324)	(19,071)	7,779	(19,636)
Issuance of common stock	119	—	—	—	119
Issuance of treasury stock	518	—	—	—	518
Purchase of treasury stock	(2,678)	—	—	—	(2,678)
Dividends paid	(342)	—	—	—	(342)
Net cash provided by financing activities	20,959	315	30,529	(13,548)	38,255
Net change in cash and cash equivalents	(618)	87	1,935	(317)	1,087
Cash and cash equivalents, beginning of period	4,053	447	2,434	(2,034)	4,900
Cash and cash equivalents, end of period	\$ 3,435	\$ 534	\$ 4,369	\$ (2,351)	\$ 5,987

LEHMAN BROTHERS HOLDINGS INC.
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Only)

Condensed Consolidating Statement of Cash Flows for the Year Ended November 30, 2005

In millions	Holdings	LBI	Other Subsidiaries	Eliminations	Total
Cash Flows from Operating Activities					
Net income	\$ 3,260	\$ 1,453	\$ 3,071	\$(4,524)	\$ 3,260
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Equity in income of subsidiaries	(3,836)	(688)	—	4,524	—
Depreciation and amortization	115	48	263	—	426
Deferred tax provision (benefit)	39	(102)	(439)	—	(502)
Tax benefit from the issuance of stock-based awards	1,005	—	—	—	1,005
Non-cash compensation	1,055	—	—	—	1,055
Other adjustments	22	33	118	—	173
Net change in:					
Cash and securities segregated and on deposit for regulatory and other purposes	(48)	(1,215)	(396)	—	(1,659)
Financial instruments and other inventory positions owned	(15,284)	(8,382)	(22,712)	9,726	(36,652)
Financial instruments and other inventory positions sold but not yet purchased	64	20,564	2,384	(8,856)	14,156
Collateralized agreements and collateralized financing, net	12,775	(21,038)	14,118	—	5,855
Other assets and payables, net	(1,039)	3,543	(4,332)	2,506	678
Due to/from affiliates, net	1,553	5,745	(10,573)	3,275	—
Net cash provided by (used in) operating activities	(319)	(39)	(18,498)	6,651	(12,205)
Cash Flows from Investing Activities					
Dividends received/(paid)	2,394	(259)	(2,135)	—	—
Purchase of property, equipment and leasehold improvements, net	(243)	(31)	(135)	—	(409)
Business acquisitions, net of cash acquired	—	(5)	(33)	—	(38)
Capital contributions from/to subsidiaries, net	(1,272)	—	1,272	—	—
Net cash provided by (used in) investing activities	879	(295)	(1,031)	—	(447)
Cash Flows from Financing Activities					
Derivative contracts with a financing element	—	—	140	—	140
Issuance of short-term borrowings, net	231	(174)	27	—	84
Deposits at bank	—	—	8,238	(3,521)	4,717
Issuance of long-term borrowings	11,862	500	17,332	(5,989)	23,705
Principal payments of long-term borrowings	(8,239)	(102)	(6,717)	825	(14,233)
Issuance of common stock	230	—	—	—	230
Issuance of treasury stock	1,015	—	—	—	1,015
Purchase of treasury stock	(2,994)	—	—	—	(2,994)
Retirement of preferred stock	(250)	—	—	—	(250)
Dividends paid	(302)	—	—	—	(302)
Net cash provided by financing activities	1,553	224	19,020	(8,685)	12,112
Net change in cash and cash equivalents	2,113	(110)	(509)	(2,034)	(540)
Cash and cash equivalents, beginning of period	1,940	557	2,943	—	5,440
Cash and cash equivalents, end of period	\$ 4,053	\$ 447	\$ 2,434	\$(2,034)	\$ 4,900

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
10.31	Base Salaries of Named Executive Officers of the Registrant
12.01*	Computation in support of ratios of earnings to fixed charges and to combined fixed charges and preferred stock dividends
21.01*	List of the Registrant's Subsidiaries
23.01	Consent of Ernst & Young LLP
24.01	Powers of Attorney
31.01*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a)
31.02*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a)
32.01*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Enacted by Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Enacted by Section 906 of the Sarbanes-Oxley Act of 2002

*Included in this booklet.

BASE SALARIES OF NAMED EXECUTIVE OFFICERS OF THE REGISTRANT

As of January 29, 2008, the following are the base salaries (on an annual basis) of the named executive officers (as defined in Item 402(a)(3)(i) and (ii) of Regulation S-K applicable as of such date) of Lehman Brothers Holdings Inc.:

{LEGAL INSERT}

**Computation of Ratios of Earnings to Fixed Charges and
to Combined Fixed Charges and Preferred Stock Dividends
(Unaudited)**

Dollars in millions	2007	Year-ended November 30,			2003
		2006	2005	2004	
Pre-tax earnings from continuing operations	●	\$ 5,905	\$ 4,829	\$ 3,518	\$ 2,536
Add: Fixed charges (excluding capitalized interest)	●	29,323	18,040	9,773	8,724
Pre-tax earnings before fixed charges	●	\$35,228	\$22,869	\$13,291	\$11,260
Fixed charges:					
Interest	●	\$29,126	\$17,790	\$ 9,674	\$ 8,640
Other ⁽¹⁾	●	108	125	114	119
Total fixed charges	●	29,234	17,915	9,788	8,759
Preferred stock dividend requirements	●	98	101	129	143
Total combined fixed charges and preferred stock dividends	●	\$29,332	\$18,016	\$ 9,917	\$ 8,902
Ratio of earnings to fixed charges	●	1.21	1.28	1.36	1.29
Ratio of earnings to combined fixed charges and preferred stock dividends	●	1.20	1.27	1.34	1.26

⁽¹⁾ Other fixed charges consist of the interest factor in rentals and capitalized interest.

LIST OF THE REGISTRANT'S SUBSIDIARIES

Pursuant to Item 601(b)(21)(ii) of Regulation S-K, certain subsidiaries of the Registrant have been omitted which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary (as defined in Rule 1-02(w) of Regulation S-X) as of November 30, 2006.

<u>Company</u>	<u>Jurisdiction of Incorporation</u>
Lehman Brothers Holdings Inc.	Delaware
Appalachian Asset Management Corp.	Delaware
Lehman Risk Services (Bermuda) Ltd.	Bermuda
Aegis Finance LLC.	Delaware
ARS Holdings I LLC.	Delaware
Banque Lehman Brothers S.A.	France
Erin Asset Management I LLC.	Delaware
Opal Finance Holdings Ireland Limited	Ireland
LB 745 LLC	Delaware
LB 745 Leaseco I LLC.	Delaware
LBAC Holdings I Inc.	Delaware
Lehman Brothers Asia Capital Company	Hong Kong
LBASC LLC.	Delaware
LBCCA Holdings I LLC.	Delaware
Falcon Holdings I LLC.	Delaware
Falcon Holdings II Inc.	Delaware
CIMT Limited	Cayman Islands
TMIC Limited	Cayman Islands
MICT Limited	Cayman Islands
Falcon Investor I-X Inc.	Cayman Islands
Global Thai Property Fund	Thailand
Lehman Brothers Asia Capital Company	Hong Kong
Lehman Brothers Commercial Corporation Asia Limited	Hong Kong
Revival Holdings Limited	Cayman Islands
Sunrise Finance Co., Ltd.	Japan
LBCCA Holdings II LLC.	Delaware
Falcon Holdings I LLC.	Delaware
Falcon Holdings II Inc.	Delaware
CIMT Limited	Cayman Islands
TMIC Limited	Cayman Islands
MICT Limited	Cayman Islands
Falcon Investor I-X Inc.	Cayman Islands
Global Thai Property Fund	Thailand
Lehman Brothers Commercial Corporation Asia Limited	Hong Kong
Revival Holdings Limited	Cayman Islands
Sunrise Finance Co., Ltd.	Japan
LB Delta Funding	Cayman Islands
LB Delta (Cayman) No 1 Ltd.	Cayman Islands
LBHK Funding (Cayman) No. 4 Ltd.	Cayman Islands
LB Asia Issuance Company Ltd.	Cayman Islands
LBHK Funding (Cayman) No. 1 Ltd.	Cayman Islands
Lehman ALI Inc.	Delaware
314 Commonwealth Ave. Inc.	Delaware
Alnwick Investments (UK) Limited	United Kingdom
Bamburgh Investments (UK) Ltd.	United Kingdom
Brasstown LLC	Delaware
Brasstown Entrada I SCA.	Luxembourg
Brasstown Mansfield I SCA	Luxembourg
Cohort Investments Limited	Cayman Islands
Stockholm Investments Limited	Cayman Islands

LUBS Inc.	Delaware
Property Asset Management Inc.....	Delaware
L.B.C. YK	Japan
LBS Holdings SARL.....	Luxembourg
Lehman Brothers Global Investments LLC.....	Delaware
New Century Finance Co., LTD.....	Japan
Lehman Brothers Hy Opportunities Inc.....	Republic of Korea
Lehman Brothers P. A. LLC.....	Delaware
Lehman Brothers AIM Holding LLC.....	Delaware
Lehman Brothers Alternative Investment Management LLC.....	Delaware
Lehman Brothers Asset Management Inc.....	Delaware
Lehman Brothers Asia Holdings Limited.....	Hong Kong
Lehman Brothers Equity Finance (Cayman) Limited.....	Cayman Islands
Lehman Brothers Securities N.V.....	The Netherlands
Lehman Brothers Pacific Holdings Pte Ltd.....	Singapore
Lehman Brothers Asia Limited.....	Hong Kong
Lehman Brothers Securities Asia Limited.....	Hong Kong
Lehman Brothers Investment Korea Inc.....	Republic of Korea
Lehman Brothers Bancorp Inc.....	Delaware
Lehman Brothers Commercial Bank.....	Utah
Lehman Brothers Bank, FSB.....	United States of America
Aurora Loan Services LLC.....	Delaware
BNC Mortgage, Inc.	Delaware
Lehman Brothers Trust Company, National Association.....	United States of America
Lehman Brothers Trust Company of Delaware.....	Delaware
Lehman Brothers Canada Inc.....	Canada
Lehman Brothers Commercial Corporation.....	Delaware
Lehman Brothers Finance S.A.....	Switzerland
Lehman Brothers Inc.....	Delaware
Lehman Brothers Derivative Products Inc.....	Delaware
Lehman Brothers Financial Products Inc.....	Delaware
Lehman Brothers Special Financing Inc.....	Delaware
LB3 GmbH.....	Germany
Lehman Brothers Commodity Services Inc.....	Delaware
Lehman Commercial Paper Inc.....	New York
Bromley LLC.....	Delaware
Ivanhoe Lane Pty Limited.....	Australia
Serafino Investments Pty Limited.....	Australia
LCPI Properties Inc.....	New Jersey
LW-LP Inc.....	Delaware
Lehman Pass-Through Securities Inc.....	Delaware
M&L Debt Investments Holdings Pty Limited.....	Australia
M&L Debt Investments Pty Limited.....	Australia
Pentaring Inc.....	New York
Pindar Pty Ltd.....	Australia
Long Point Funding Pty Ltd.....	Australia
Nale Trust.....	Australia
Portsmouth Investment Company Pty Ltd.....	Australia
LB I Group Inc.....	Delaware
Blue Way Finance Corporation U.A.....	The Netherlands
GRA Finance Corporation Ltd.....	Mauritius
LB-NL Holdings I Inc.....	Delaware
LB-NL Holdings L.P.....	Delaware
LB-NL U.S. Investor Inc.....	Delaware
NL Funding, L.P.....	Delaware
Lehman Brothers Offshore Partners Ltd.....	Bermuda
RIBCO LLC.....	Delaware
Lehman Brothers Insurance Agency L.L.C.....	Delaware
Lehman Brothers Japan Inc.....	Japan
Lehman Brothers (Luxembourg) S.A.....	Luxembourg
Lehman Brothers Offshore Real Estate Associates, Ltd.....	Bermuda
Lehman Brothers OTC Derivatives Inc.....	Delaware
Lehman Brothers Private Equity Advisers L.L.C.....	Delaware

Lehman Brothers Private Funds Investment Company LP, LLC.....	Delaware
Lehman Brothers Private Funds Investment Company GP, LLC.....	Delaware
Lehman Brothers Private Fund Advisers LP.....	Delaware
Lehman Crossroads Corporate Investors, LP.....	Delaware
Lehman Crossroads Corporate Investors II, LP.....	Delaware
Lehman Brothers Private Fund Management LP.....	Delaware
The Main Office Management Company, LP.....	Delaware
Capital Analytics II, LP.....	Delaware
e-Valuate, LP.....	Delaware
Security Assurance Advisers, LP.....	Delaware
Lehman Brothers South East Asia Investments PTE Limited.....	Singapore
Phuket Hotel 1 Holdings Company Limited.....	Thailand
Nai Harn Hotel 1 Company Limited.....	Thailand
Lehman Brothers U.K. Holdings (Delaware) Inc.....	Delaware
Ballybunion Investments No. 2 Ltd.....	Cayman Islands
Ballybunion Investments No. 3 Ltd.....	Cayman Islands
Dynamo Investments Ltd.....	Cayman Islands
Ballybunion Partnership.....	Hong Kong
LB India Holdings Cayman I Limited.....	Cayman Islands
Lehman Brothers Services India Private Limited.....	India
LB India Holdings Cayman II Limited.....	Cayman Islands
Lehman Brothers Capital GmbH, Co.....	Germany
LB UK RE Holdings Ltd.....	United Kingdom
Lehman Brothers Spain Holdings Limited.....	United Kingdom
Lehman Brothers Luxembourg Investments Sarl.....	Luxembourg
Woori-LB Fifth Asset Securitization Specialty Co., Ltd.....	Republic of Korea
Woori-LB First Asset Securitization Specialty Co., Ltd.....	Republic of Korea
Lehman Brothers Asset Management France.....	France
Lehman Brothers UK Investments Limited.....	United Kingdom
LB Investments (UK) Limited.....	United Kingdom
LB Alpha Finance Cayman Limited.....	Cayman Islands
LB Beta Finance Cayman Limited.....	Cayman Islands
Lehman Brothers U.K. Holdings Ltd.....	United Kingdom
Lehman Brothers Holdings Plc.....	United Kingdom
Furno & Del Castano Capital Partners LLP.....	United Kingdom
LB Holdings Intermediate 1 Ltd.....	United Kingdom
LB Holdings Intermediate 2 Ltd.....	United Kingdom
Lehman Brothers International (Europe).....	United Kingdom
MABLE Commercial Funding Limited.....	United Kingdom
MBAM Investor Limited.....	United Kingdom
Resetfan Limited.....	United Kingdom
Capstone Mortgage Services Ltd.....	United Kingdom
Southern Pacific Mortgage Limited.....	United Kingdom
Preferred Holdings Limited.....	United Kingdom
Preferred Group Limited.....	United Kingdom
Preferred Mortgages Limited.....	United Kingdom
Lehman Brothers Europe Limited.....	United Kingdom
Lehman Brothers Limited.....	United Kingdom
Storm Funding Ltd.....	United Kingdom
Lehman Brothers (PTG) Limited.....	United Kingdom
Eldon Street Holdings Limited.....	United Kingdom
Thayer Properties Limited.....	United Kingdom
Thayer Group Limited.....	United Kingdom
Thayer Properties (Jersey) Ltd.....	United Kingdom
Lehman Brothers Treasury Co. B.V.....	The Netherlands
Lehman Brothers Bankhaus Aktiengesellschaft.....	Germany
Lehman Re Ltd.....	Bermuda
Lehman Risk Advisors Inc.....	Delaware
Lehman Brothers Asset Management, LLC.....	Delaware
Neuberger Berman Inc.....	Delaware
Neuberger Berman Management Inc.....	New York
Neuberger Berman Asset Management, LLC.....	Delaware
Neuberger Berman Investment Services, LLC.....	Delaware
Neuberger Berman Management Inc.....	New York

Sage Partners, LLC.....	New York
Executive Monetary Management, Inc.	New York
Neuberger Berman, LLC.....	Delaware
Neuberger Berman Pty Ltd.	Australia
Neuberger & Berman Agency, Inc.	New York
Principal Transactions Inc.....	Delaware
Y.K. Park Funding	Japan
Pike International Y.K.	Japan
Real Estate Private Equity Inc.....	Delaware
REPE LBREP II LLC.....	Delaware
Lunar Constellation Limited Partnership	Delaware
Southern Pacific Funding 5 Ltd	United Kingdom
Wharf Reinsurance Inc.	New York

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the inclusion in this Annual Report (Form 10-K) of Lehman Brothers Holdings Inc. of our reports dated January XX, 2008, with respect to the consolidated financial statements of Lehman Brothers Holdings Inc and the effectiveness of internal control over financial reporting of Lehman Brothers Holdings Inc.

Our audits also included the financial statement schedule of Lehman Brothers Holdings Inc. listed in Item 15(a). The schedule is the responsibility of Lehman Brothers Holdings Inc.'s management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We consent to the incorporation by reference in the following Registration Statements and Post Effective Amendments:

- (1) Registration Statement (Form S-3 No. 333-134553) of Lehman Brothers Holdings Inc.,
- (2) Registration Statement (Form S-3 No. 033-53651) of Lehman Brothers Holdings Inc.,
- (3) Registration Statement (Form S-3 No. 033-56615) of Lehman Brothers Holdings Inc.,
- (4) Registration Statement (Form S-3 No. 033-58548) of Lehman Brothers Holdings Inc.,
- (5) Registration Statement (Form S-3 No. 033-62085) of Lehman Brothers Holdings Inc.,
- (6) Registration Statement (Form S-3 No. 033-65674) of Lehman Brothers Holdings Inc.,
- (7) Registration Statement (Form S-3 No. 333-14791) of Lehman Brothers Holdings Inc.,
- (8) Registration Statement (Form S-3 No. 333-30901) of Lehman Brothers Holdings Inc.,
- (9) Registration Statement (Form S-3 No. 333-38227) of Lehman Brothers Holdings Inc.,
- (10) Registration Statement (Form S-3 No. 333-44771) of Lehman Brothers Holdings Inc.,
- (11) Registration Statement (Form S-3 No. 333-50197) of Lehman Brothers Holdings Inc.,
- (12) Registration Statement (Form S-3 No. 333-60474) of Lehman Brothers Holdings Inc.,
- (13) Registration Statement (Form S-3 No. 333-61878) of Lehman Brothers Holdings Inc.,
- (14) Registration Statement (Form S-3 No. 033-64899) of Lehman Brothers Holdings Inc.,
- (15) Registration Statement (Form S-3 No. 333-75723) of Lehman Brothers Holdings Inc.,
- (16) Registration Statement (Form S-3 No. 333-76339) of Lehman Brothers Holdings Inc.,
- (17) Registration Statement (Form S-3 No. 333-108711-01) of Lehman Brothers Holdings Inc.,
- (18) Registration Statement (Form S-3 No. 333-121067) of Lehman Brothers Holdings Inc.,
- (19) Registration Statement (Form S-3 No. 333-51913) of Lehman Brothers Inc.,
- (20) Registration Statement (Form S-3 No. 333-08319) of Lehman Brothers Inc.,
- (21) Registration Statement (Form S-3 No. 333-63613) of Lehman Brothers Inc.,
- (22) Registration Statement (Form S-3 No. 033-28381) of Lehman Brothers Inc.,
- (23) Registration Statement (Form S-3 No. 002-95523) of Lehman Brothers Inc.,
- (24) Registration Statement (Form S-3 No. 002-83903) of Lehman Brothers Inc.,
- (25) Registration Statement (Form S-4 No. 333-129195) of Lehman Brothers Inc.,
- (26) Registration Statement (Form S-8 No. 033-53923) of Lehman Brothers Holdings Inc.,
- (27) Registration Statement (Form S-8 No. 333-07875) of Lehman Brothers Holdings Inc.,
- (28) Registration Statement (Form S-8 No. 333-57239) of Lehman Brothers Holdings Inc.,
- (29) Registration Statement (Form S-8 No. 333-59184) of Lehman Brothers Holdings Inc.,
- (30) Registration Statement (Form S-8 No. 333-68247) of Lehman Brothers Holdings Inc.,
- (31) Registration Statement (Form S-8 No. 333-110179) of Lehman Brothers Holdings Inc.,
- (32) Registration Statement (Form S-8 No. 333-110180) of Lehman Brothers Holdings Inc.,
- (33) Registration Statement (Form S-8 No. 333-121193) of Lehman Brothers Holdings Inc.,
- (34) Registration Statement (Form S-8 No. 333-130161) of Lehman Brothers Holdings Inc.;

of our report dated January •, 2008, with respect to the consolidated financial statements of Lehman Brothers Holdings Inc. incorporate herein by reference, our report dated January •, 2008, with respect to the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting of Lehman Brothers Holdings Inc., included herein, and our report included in the preceding paragraph with respect to the financial statement schedule of Lehman Brothers Holdings Inc. included in this Annual Report (Form 10-K) of Lehman Brothers Holdings Inc.

/s/ Ernst & Young LLP
 New York, New York
 January •, 2008

EXHIBIT 24.01

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas A. Russo and Jeffrey A. Welikson, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Lehman Brothers Holdings Inc., for the fiscal year ended November 30, 2006, and any and all amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Dated: As of January 9, 2008

Signature	Title
<u>/s/ RICHARD S. FULD, JR.</u> Richard S. Fuld, Jr.	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)
<u>/s/ ERIN M. CALLAN</u> Erin M. Callan	Chief Financial Officer and Executive Vice President (principal financial and accounting officer)
<u>/s/ MICHAEL L. AINSLIE</u> Michael L. Ainslie	Director
<u>/s/ JOHN F. AKERS</u> John F. Akers	Director
<u>/s/ ROGER S. BERLIND</u> Roger S. Berlind	Director
<u>/s/ THOMAS H. CRUIKSHANK</u> Thomas H. Cruikshank	Director
<u>/s/ MARSHA JOHNSON EVANS</u> Marsha Johnson Evans	Director
<u>/s/ SIR CHRISTOPHER GENT</u> Sir Christopher Gent	Director
<u>/s/ HENRY KAUFMAN</u> Henry Kaufman	Director
<u>/s/ ROLAND A. HERNANDEZ</u> Roland A. Hernandez	Director
<u>/s/ JOHN D. MACOMBER</u> John D. Macomber	Director

CERTIFICATION

I, Richard S. Fuld, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Lehman Brothers Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2008

/s/ Richard S. Fuld, Jr.
Richard S. Fuld, Jr.
Chairman and Chief Executive Officer

CERTIFICATION

I, Erin M. Callan, certify that:

1. I have reviewed this annual report on Form 10-K of Lehman Brothers Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January •, 2008

/s/ Erin M. Callan
Erin M. Callan
Chief Financial Officer and
Executive Vice President

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), I, Richard S. Fuld, Jr., certify that:

1. The Annual Report on Form 10-K for the year ended November 30, 2006 (the "Report") of Lehman Brothers Holdings Inc. (the "Company") as filed with the Securities and Exchange Commission as of the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 3, 2008

/s/ Richard S. Fuld, Jr.
Richard S. Fuld, Jr.
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Lehman Brothers Holdings Inc. and will be retained by Lehman Brothers Holdings Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ENACTED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), I, Christopher M. O'Meara, certify that:

1. The Annual Report on Form 10-K for the year ended November 30, 2006 (the "Report") of Lehman Brothers Holdings Inc. (the "Company") as filed with the Securities and Exchange Commission as of the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January •, 2008

/s/ Erin M. Callan
Erin M. Callan
Chief Financial Officer and
Executive Vice President

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Lehman Brothers Holdings Inc. and will be retained by Lehman Brothers Holdings Inc. and furnished to the Securities and Exchange Commission or its staff upon request.