

Strategic and Financial Review

January 2008

LEHMAN BROTHERS

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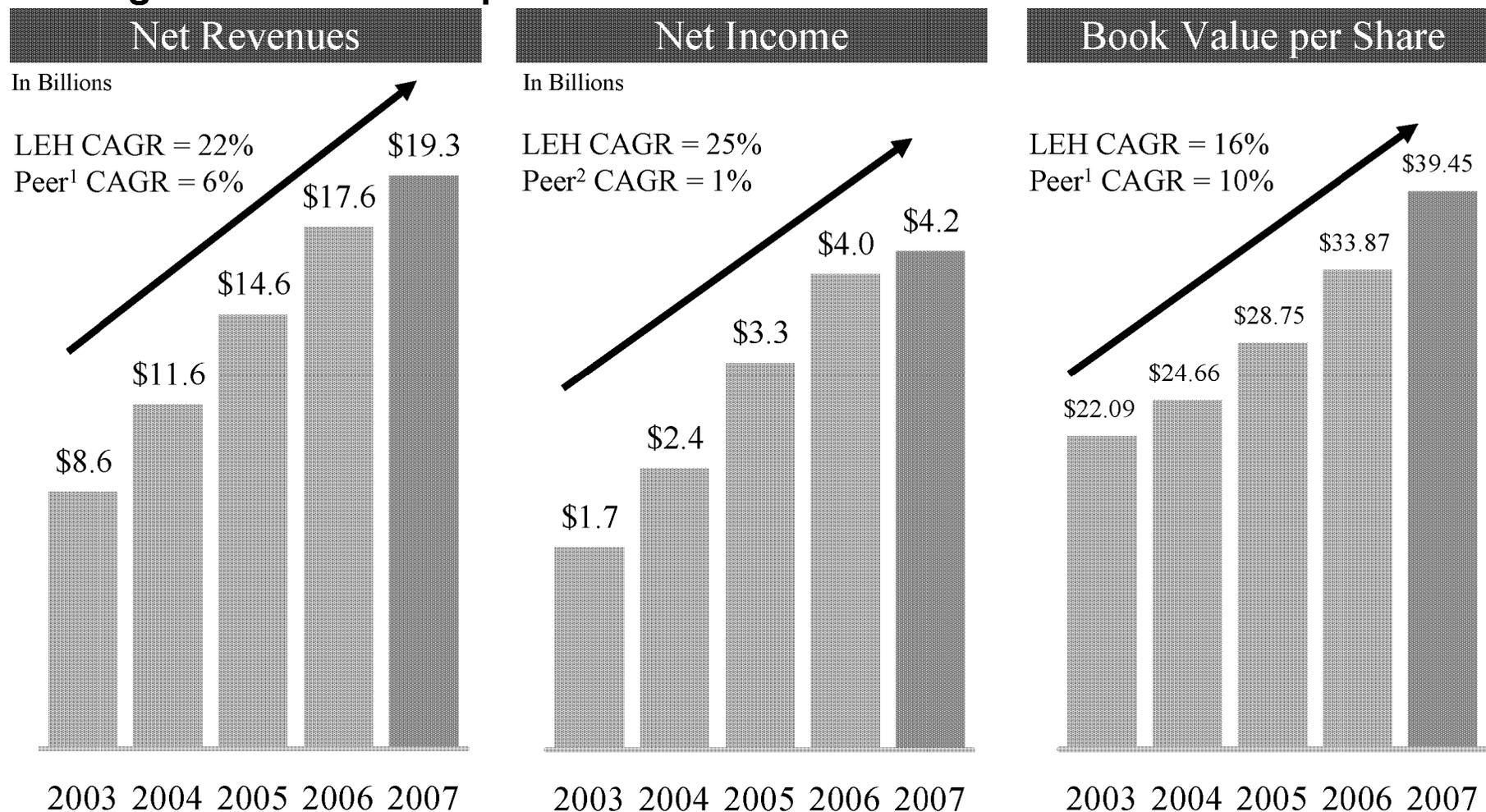
Successful Execution of Our Strategy

We have been able to significantly grow the Firm and deliver against our objectives

- ◆ Improved business diversification
- ◆ Improved geographic diversification
- ◆ Expanding our global client base
- ◆ Increasing market / wallet share
- ◆ Growing annuitized revenues
- ◆ Maintain discipline around core competencies – Risk, Capital Liquidity and Expenses

Record Performance 2007

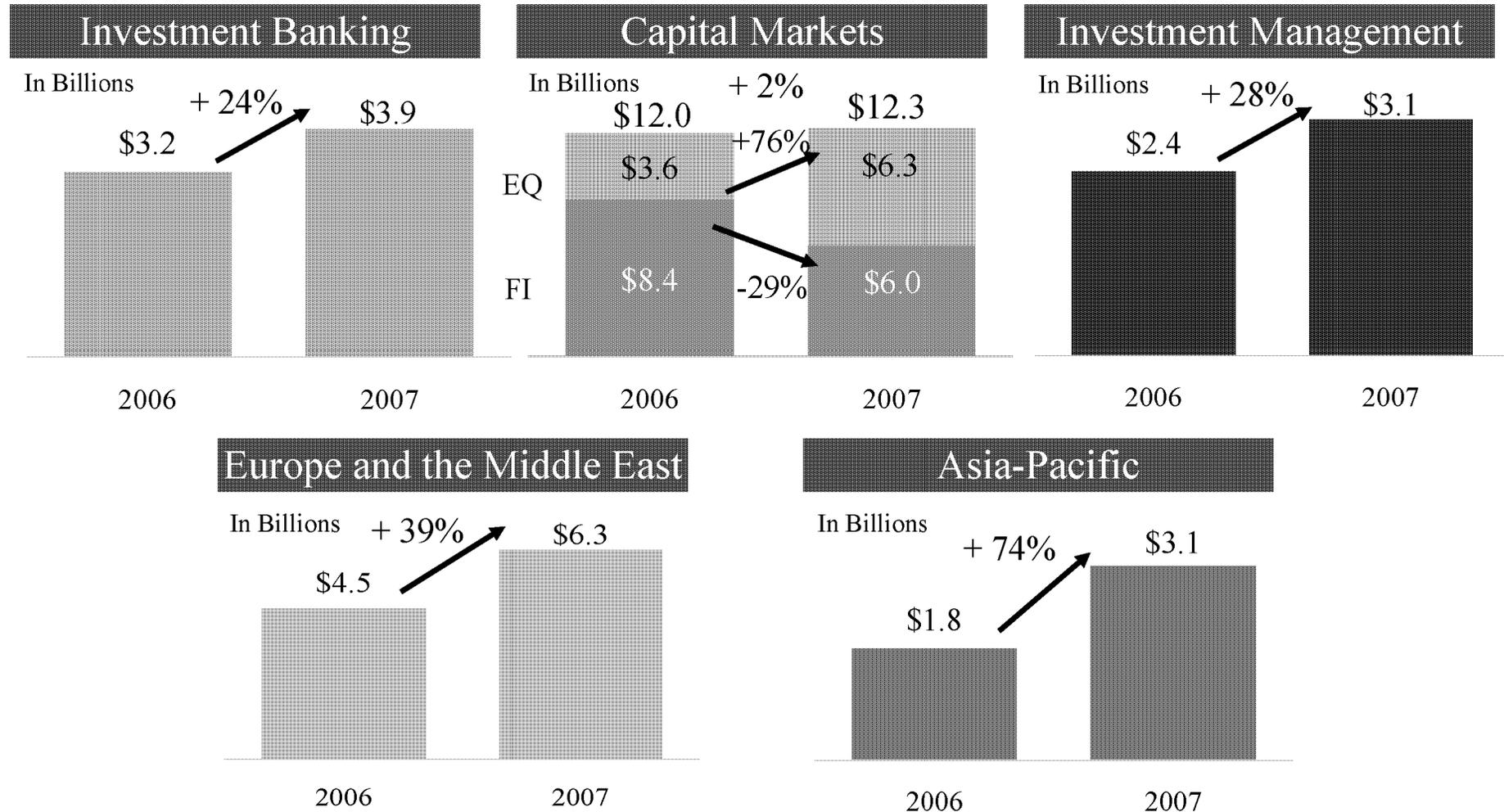
Despite a difficult market environment, we posted record net revenues and net income in 2007. This was our fifth consecutive year of record net revenues, earnings and book value per share



1. Peer is an average of Bear Stearns, Goldman Sachs, Merrill Lynch and Morgan Stanley
2. Peer is an average of Bear Stearns, Goldman Sachs and Morgan Stanley. Excludes Merrill Lynch due to loss in 2007

Record Performance 2007

In 2007, we also achieved record net revenues across all three business segments and reported record non-U.S. net revenues, which now account for 50% of overall Firm net revenues

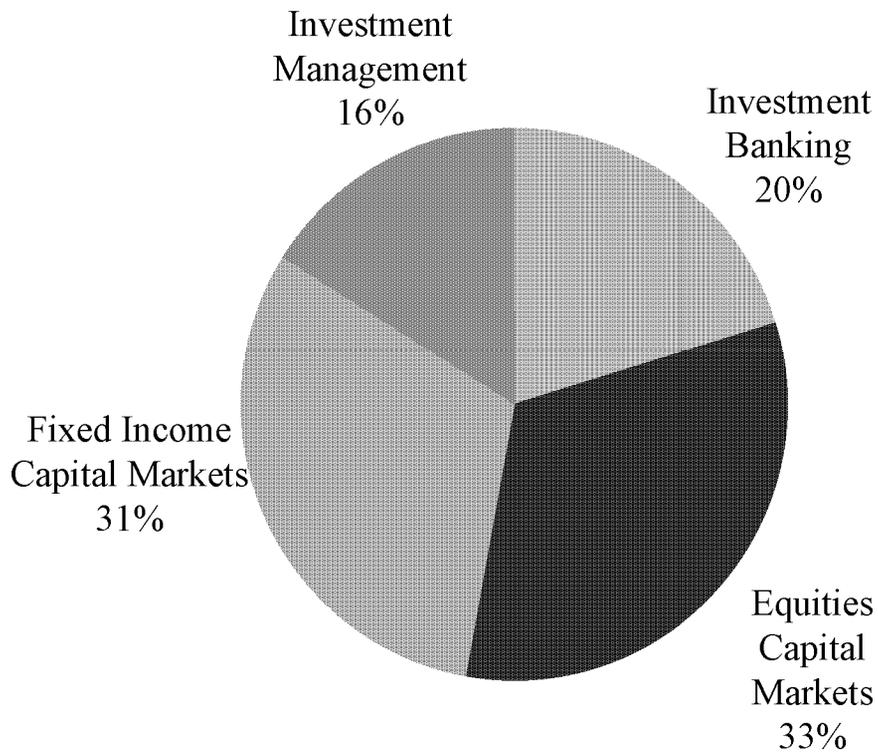


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Improved Diversification

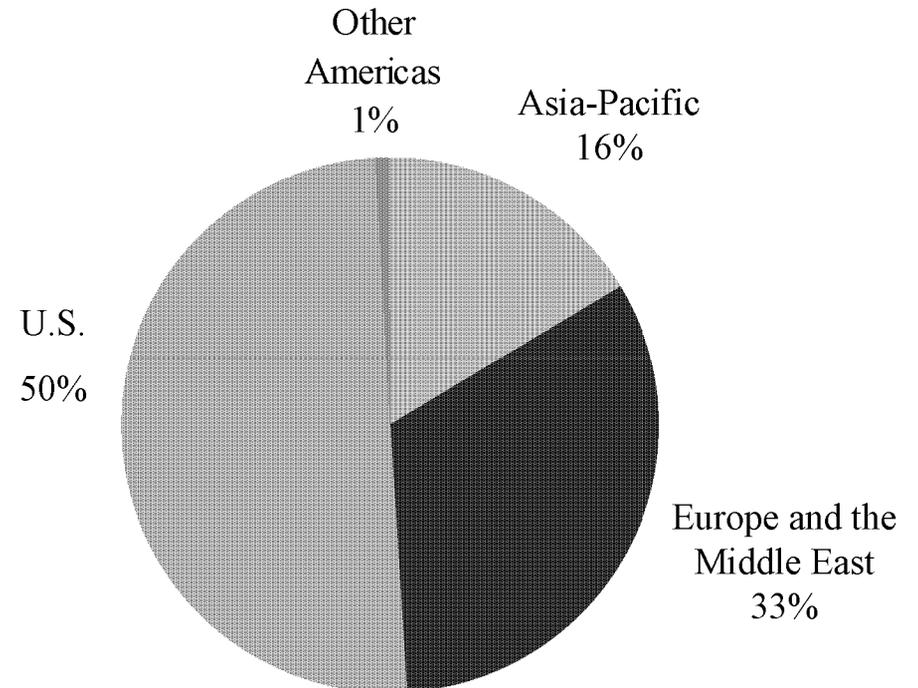
The Firm's 2007 results demonstrate the significant progress we have achieved in diversifying our businesses, which helped us to post solid results despite the difficult markets

2007 Revenues by Business



Non-Fixed Income Capital Markets revenues represented **69%** of the Firm's revenues in 2007, compared to **52%** in 2006

2007 Revenues by Region



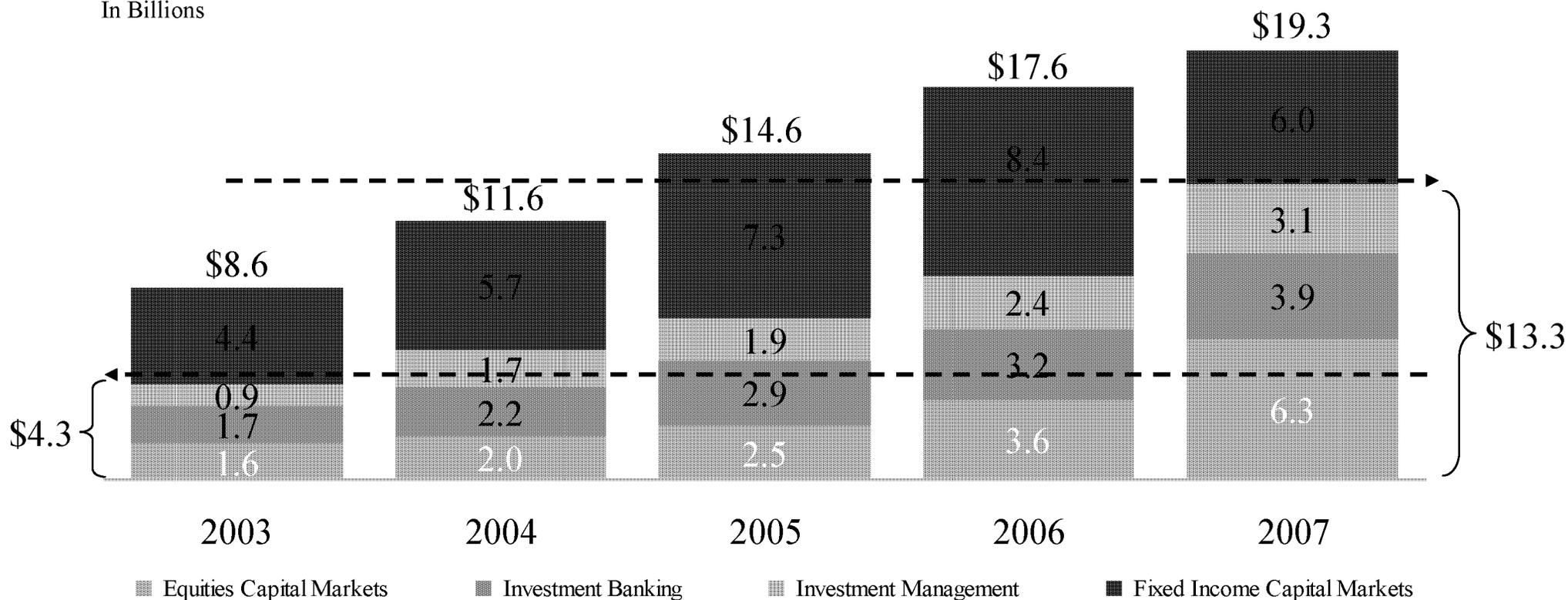
Non-U.S. net revenues represented **50%** of the Firm's revenues in 2007, compared with **37%** in 2006

Improved Diversification

While Fixed Income remains an important revenue source and has grown rapidly, our other businesses have also grown significantly. Currently, our combined non-Fixed Income revenues are larger than the entire Firm in 2004

Revenue Composition

In Billions



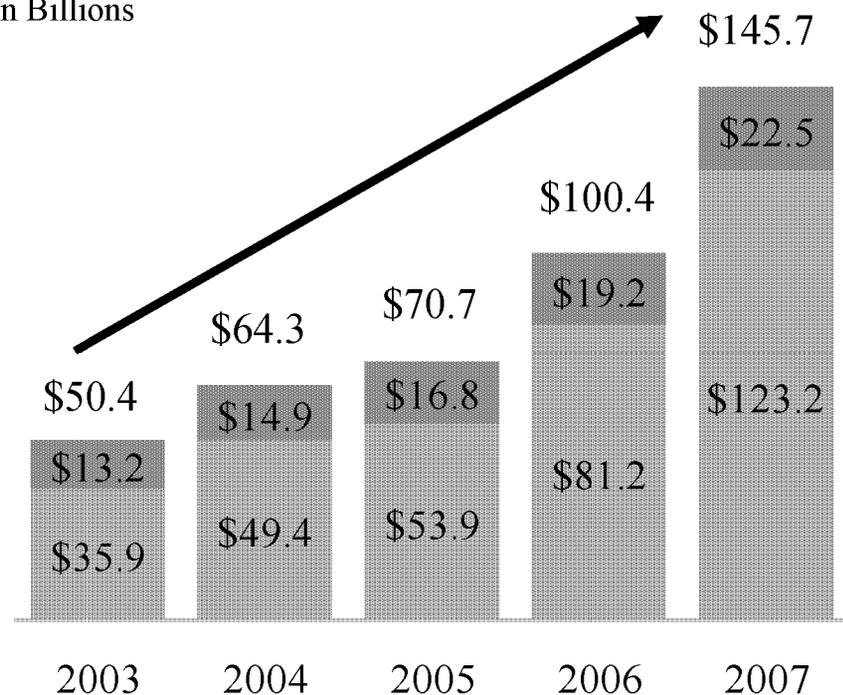
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Strong Capital and Liquidity Position

The Firm has continued to strengthen its capital position, nearly tripling its total long-term capital since 2003. We ended 2007 with a very strong liquidity position, which has enabled us to be well-positioned going into 2008

Total Long-Term Capital¹

In Billions



■ Long-term borrowings ■ Total stockholders' equity

1. Total long-term capital includes long-term borrowings (excluding any borrowings with remaining contractual maturities within twelve months of the financial statement date) and total stockholders' equity and, at November 30, 2003, preferred securities subject to mandatory redemption. We believe total long-term capital is useful to investors as a measure of our financial strength
2. Unencumbered assets in regulated entities are generally restricted from transfer to other affiliates and therefore considered not available to support liquidity needs of Holdings' or other unregulated entities

Liquidity Position

In Billions

At November 30

	2007	2006
<i>Unregulated Entities</i>		
Holding Co. liquidity pool	\$34.9	\$31.4
Other unencumbered assets	63.2	39.0
	98.1	70.4
<i>Regulated Entities Unencumbered assets</i>		
Held by bank entities	33.2	22.3
Held by non-bank entities	62.3	50.8
	95.5	73.1
Total²	\$193.6	\$143.5

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Recent Financial Performance Relative to Peers

In a difficult credit environment, we have been able to outperform the bulk of our peers

Relative Performance

\$ in millions

	LEH	BSC	GS	MER	MS
Net Revenues					
2006	\$17,583	\$9,227	\$37,665	\$33,781	\$29,839
2007	\$19,257	\$5,945	\$45,987	\$11,250	\$28,026
Δ	9.5%	-35.6%	22.1%	-66.7%	-6.1%
LEH Rank	2				
Net Income					
2006	\$4,007	\$2,054	\$9,537	\$7,499	\$7,472
2007	\$4,192	\$233	\$11,599	-\$7,777	\$3,209
Δ	4.6%	-88.7%	21.6%	-203.7%	-57.1%
LEH Rank	2				
Pre-tax Margin					
2006	33.6%	34.1%	38.7%	29.0%	31%
2007	31.2%	3.2%	38.3%	n.m. ¹	12%
LEH Rank	2				
ROE					
2006	23.4%	19.1%	32.8%	21.3%	23.5%
2007	20.8%	1.8%	32.7%	n.m. ¹	8.9%
LEH Rank	2				

1. Not meaningful due to loss in 2007

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Risk Management and Selected Key Exposures

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Conservative Risk Culture

- ◆ Successful risk management, in our view, requires a deep risk culture throughout the Firm
 - Everyone in the Firm is expected to think of themselves as a risk manager
 - This augments the sophisticated risk tracking and reporting functions
- ◆ Our history of lower earnings volatility and fewer trading loss days evidences our conservative approach
- ◆ We also mitigate risk by operating on a “moving” rather than a “storage” model
 - Originate to distribute all tranches
 - Generate preponderance of revenues through servicing client activity via transaction flow and structuring / securitization vs. outright positioning
 - Hedge our exposure to the extent possible, looking to generate returns from structuring / securitization
- ◆ Our performance in 2007 in mortgages and ABS CDOs demonstrates how we have remained true to these operating models

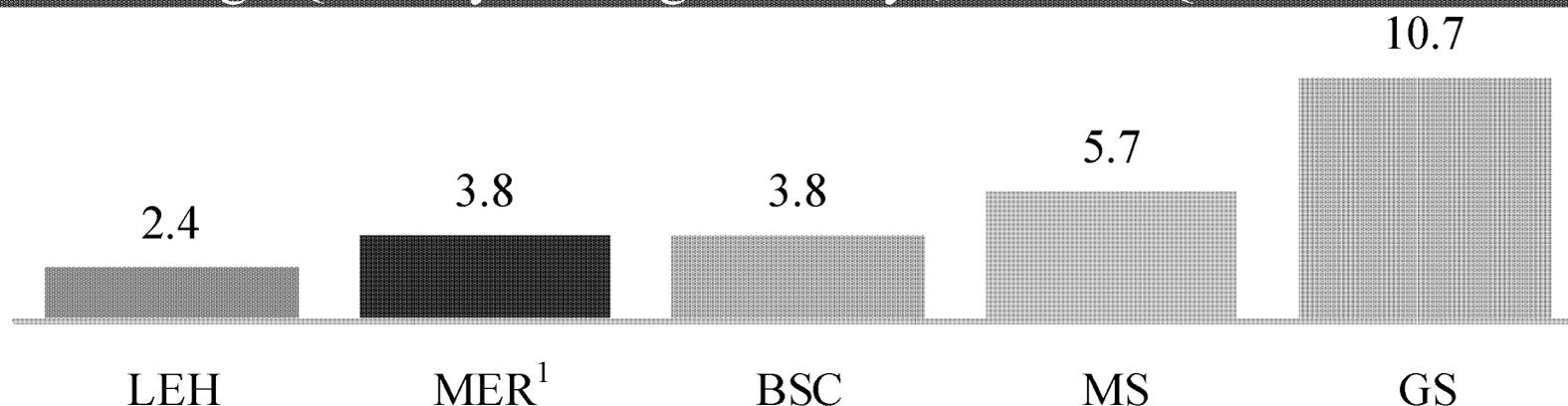
Risk Appetite

- ◆ Our risk appetite represents what the Firm is “prepared to lose” from market, event and counterparty credit risk
 - One year time horizon
 - 95% level of confidence
- ◆ The risk appetite framework begins with the Firm’s financial targets and is designed to balance risk and return
 - Our aim is to deploy enough risk in our businesses to maximize returns
 - While limiting risk to ensure we meet our financial targets
- ◆ Significant factors driving risk appetite include
 - Base revenue assumptions
 - An estimate of the loss of revenues from non-risk taking activities (customer flow and banking activities [origination / advisory])
 - A minimum acceptable annual ROE
 - Compensation adequacy

Fewer Trading Loss Days

Lehman Brothers has ≈ 2.4 trading loss days per quarter on average, far fewer than peers. In 2007, there were four days, all occurring in the second half of the year where our daily net trading loss exceeded our historical simulation VaR

Average Quarterly Trading Loss Days, 2004 – 3Q 2007



Number of Trading Loss Days

	<u>LEH</u>	<u>MER</u> ¹	<u>BSC</u>	<u>MS</u>	<u>GS</u>
2004	7	10	7	25	35
2005	8	18	9	24	40
2006	5	18	12	22	56
3Q07 YTD	16	n/a	29	14	29

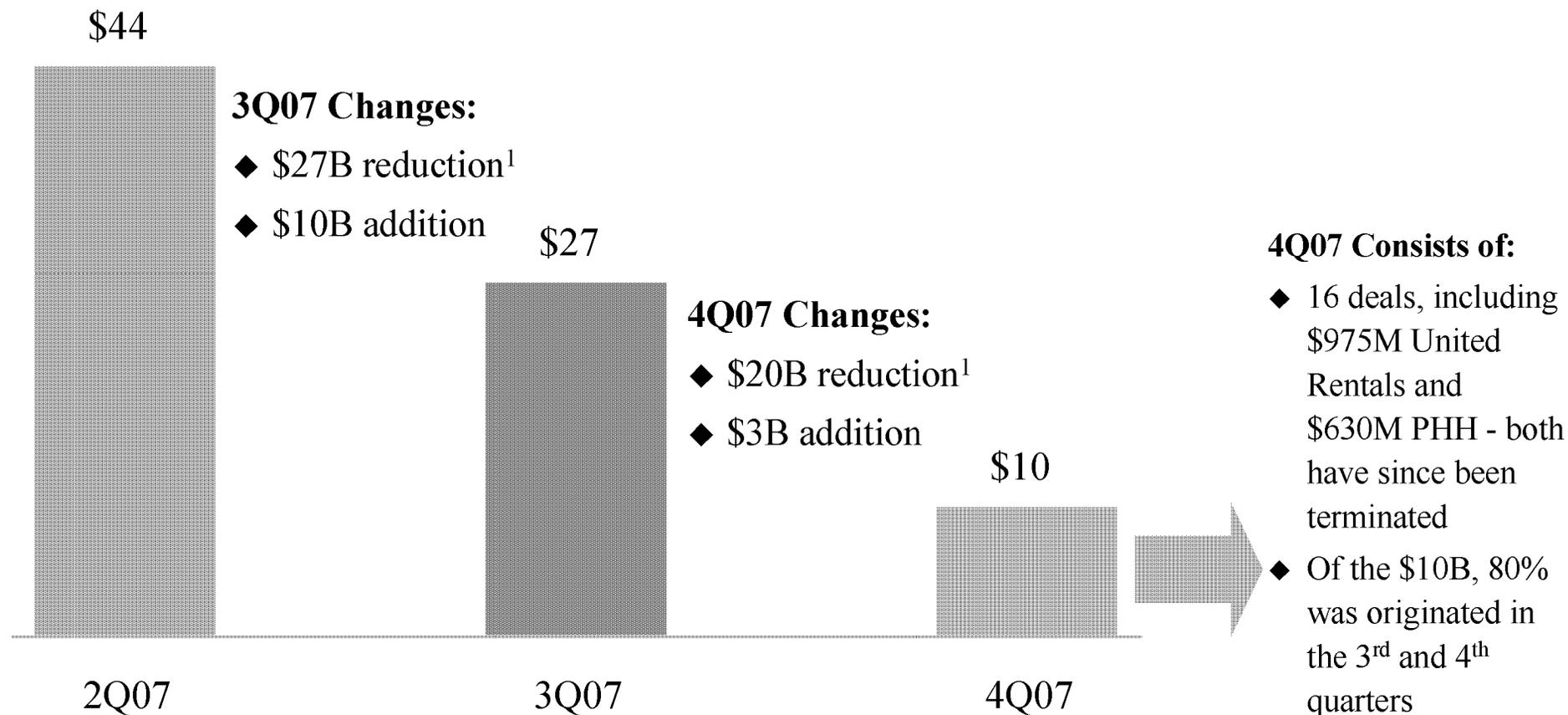
1. Merrill Lynch 2007 information not included, data is provided on an annual basis

Risk Exposure: Leveraged Finance

The Firm has significantly reduced its acquisition lending commitments

Non-Investment Grade Contingent Acquisition Facilities

In Billions

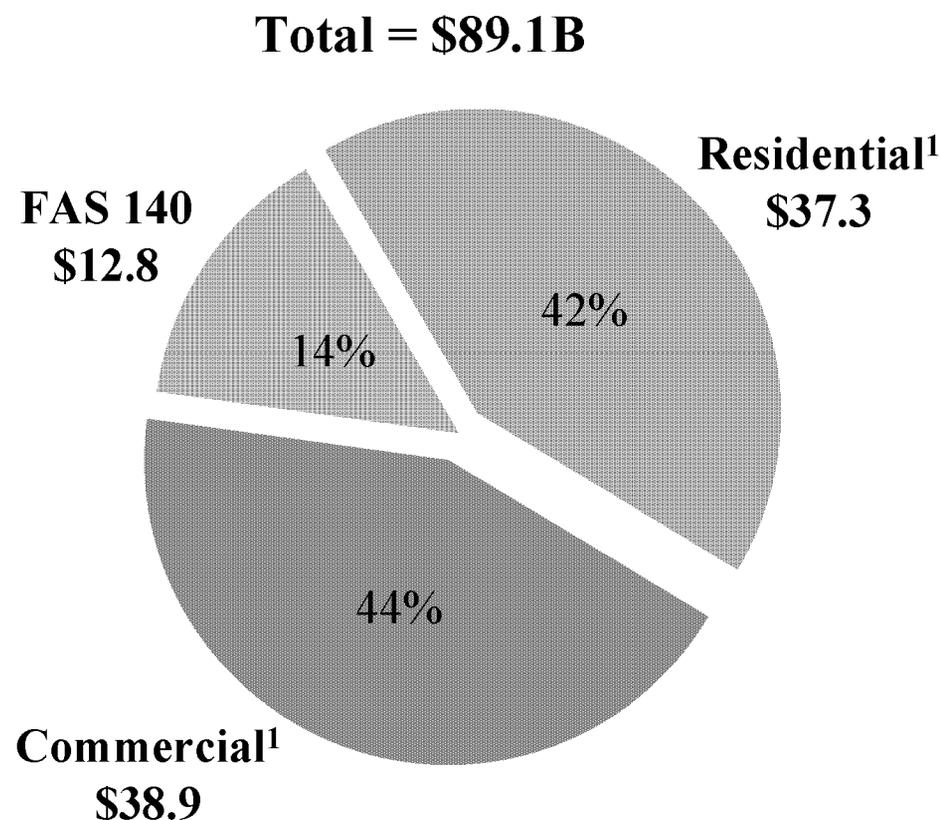


1. Includes third party sales / syndications, commitments paired down, deals completed and deals done away

Risk Exposure: Mortgages

Excluding FAS 140, the Firm's mortgage inventory is roughly equally split between residential and commercial mortgages

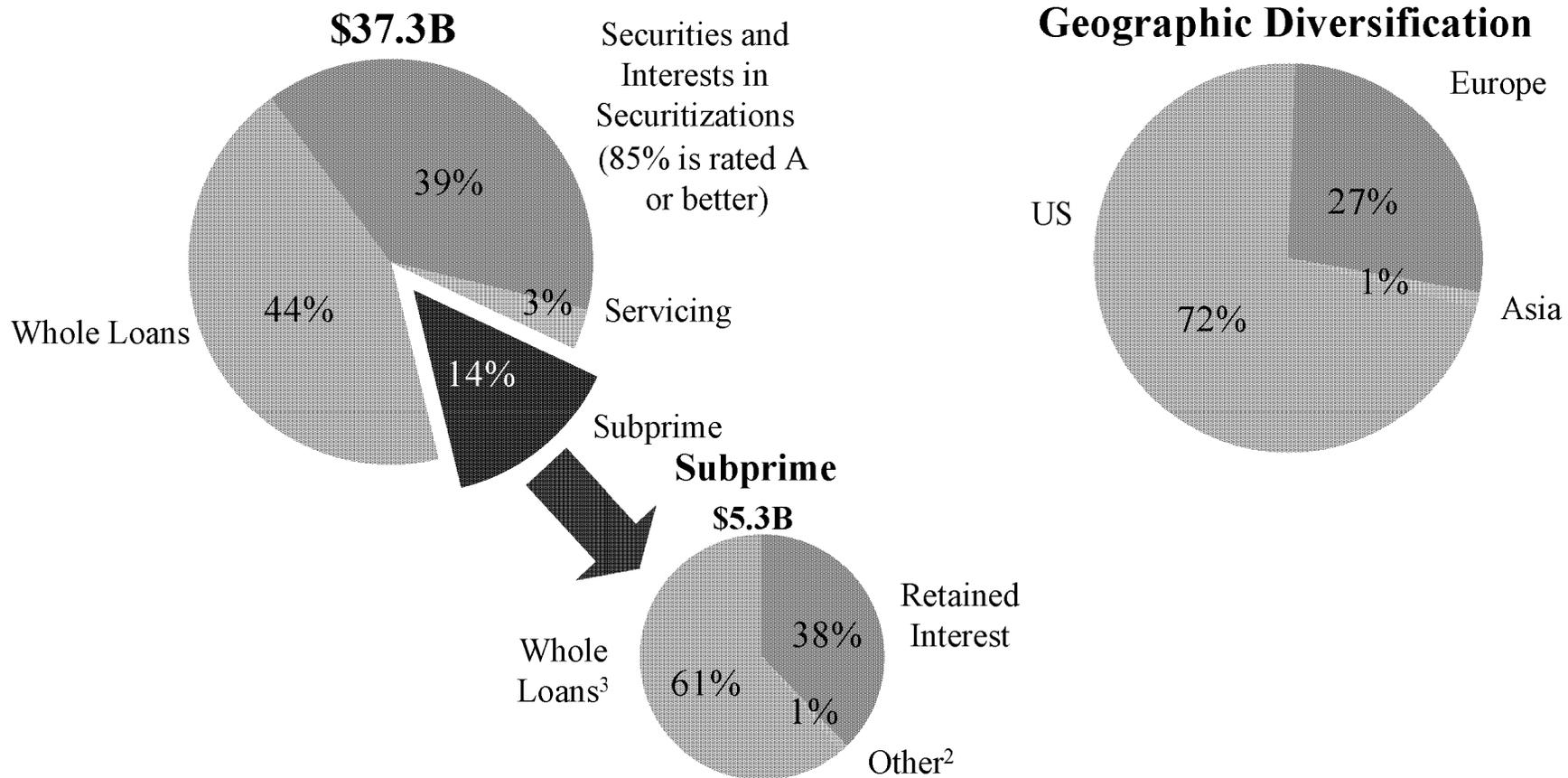
Mortgage & Asset-Backed Positions, as of November 30, 2007



1. Excludes FAS 140 "Gross-Up"

Risk Exposure: Residential Mortgages

Residential Mortgage & Mortgage-Backed Positions¹, as of November 30, 2007



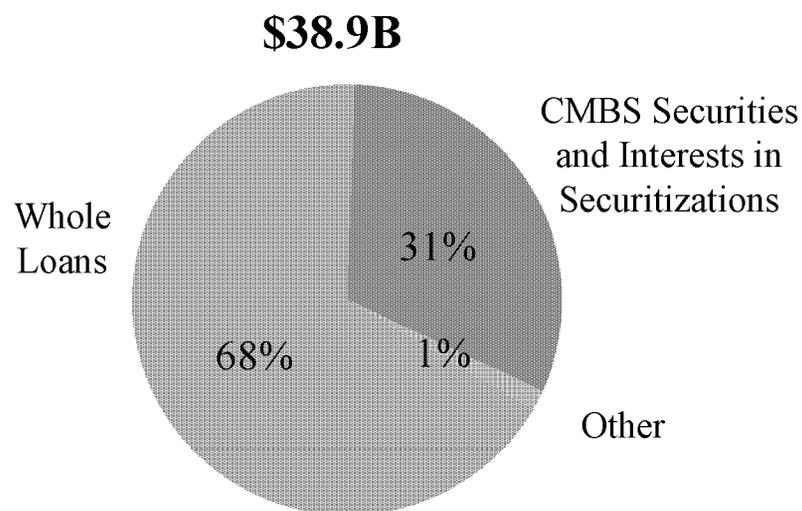
1. Excludes FAS 140 "Gross-Up"

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

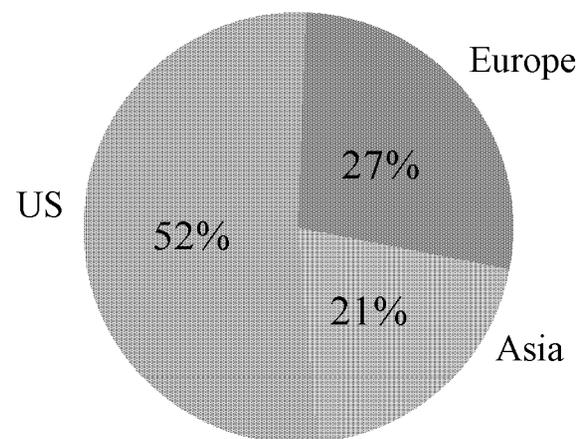
3. Excludes loans which were accounted for as financings rather than sales under SFAS 140 which were approximately \$2.9 billion at November 30, 2007

Risk Exposure: Commercial Mortgages

Commercial Mortgage & Mortgage-Backed Positions¹, as of November 30, 2007



Geographic Diversification



- ◆ Whole loan portfolio is very diversified
 - Non-U.S. accounts for 41% of the total
 - Offices, hotels and multi-family (in rank order) account for 56%
 - Average life of whole loans are 2 years
 - Weighted average LTV is \approx 70%
 - 75% of loans represent first lien mortgages

- ◆ Portfolio is very high quality
 - 79% of CMBS is rated AA or better
 - Over 70% of the portfolio is floating rate

1. Excludes FAS 140 "Gross-Up"

Risk Exposure: Miscellaneous

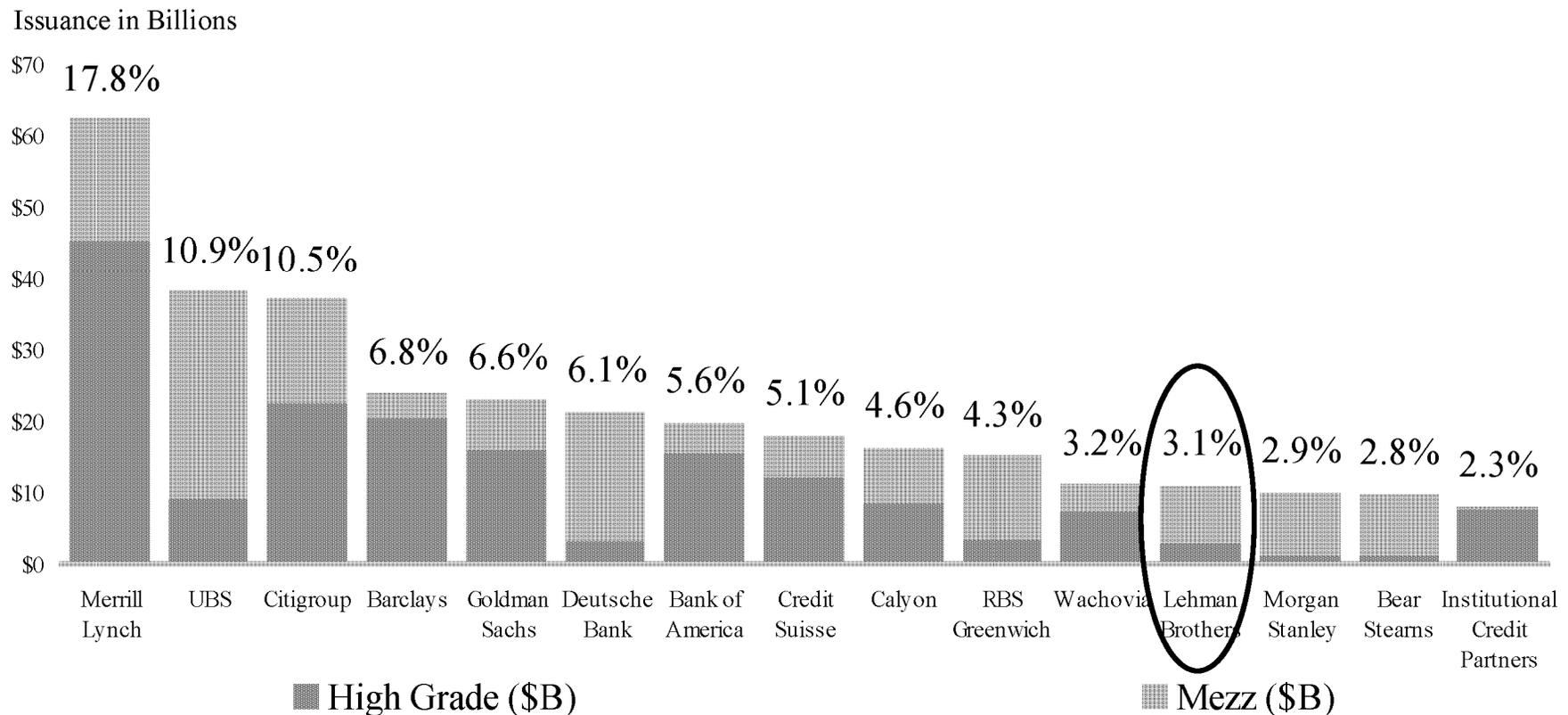
Our participation in other “troubled” asset classes has remained limited

- ◆ In the ABCP market, we generally participate as an agent only
 - We also provide, to a very limited extent, liquidity backstops for programs, where our commitment as of August 31, 2007 was approximately \$1.8 billion
- ◆ We do not own or sponsor any SIVs
- ◆ 94% of our derivative counterparty exposure is to investment grade-rated entities
- ◆ Our net exposure to monolines, after hedges and credit reserves is not significant
- ◆ Due to the maintenance of stringent collateral and margining requirements, we have seen a favorable resolution to a number of troubled exposures in 2007, where we avoided losses
 - Bear Stearns Asset Management
 - Basis Capital Management
 - Sowood Capital Management
 - Highland Financial
 - United Capital Asset Management / Horizon Funds
 - ACA Capital

Risk Exposure: ABS CDO Market Share

We have consciously been a smaller player in the ABS CDO market, with an explicit intention to distribute – and therefore not retain – all parts of the capital structure. We continue to have minimal exposure to this asset class

2006 – 2007 ABS CDO Issuance Volumes & Market Share by Underwriter



Source: IFR Market Data

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Risk Exposure: Level III Asset Breakdown

At the end of the fourth quarter, approximately 13% of our inventory was classified as Level III under FAS 157 GAAP hierarchy. The increase in Level III assets resulted largely from the reclassification 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, reflecting the reduction of liquidity in the capital markets that resulted in a decrease in the observability of market prices

Level III Asset Breakdown

<i>\$ Billions</i>	Mortgage and asset-backed	Corporate debt and other	Corporate equities	Derivative assets, net	Total	% of Inventory
5/31/07	13.5	2.4	3.7	1.3	20.8	7%
8/31/07	24.6	1.9	4.4	1.6	32.4	11%
11/30/07	25.4	3.0	7.6	2.5	38.6	13%
	↓	↓	↓	↓		
	Subprime Inventory; Principal Investments and NPLs in Commercial Real Estate; and Retained Interests (subprime, prime and CMBS)	NPLs / Distressed	Firm's Private Equity Investments	Exotics including inflation and municipal-related		

Risk Exposure: 2007 Net Writedowns

\$ Billions	<u>3Q07</u>	<u>4Q07</u>	<u>2H07</u>
Lehman Brothers*	(0.7)	(0.8)	(1.5)
Goldman Sachs	(1.2)	(0.1)	(1.3)
Bear Stearns	(0.3)	(1.7)	(2.0)
Morgan Stanley	(0.8)	(9.0)	(9.8)
Merrill Lynch	(7.8)	(16.7)	(24.5)
Citigroup	(3.1)	(18.2)	(21.3)
Deutsche Bank	(3.1)	N/A	N/A
JP Morgan	(1.2)	(1.0)	(2.2)
Bank of America	(1.8)	(3.3)**	(5.1)
UBS	(4.8)	(10.0)**	(14.8)
Wachovia	(1.4)	(1.3)**	(2.7)
Credit Suisse	(2.2)	N/A	N/A

Notes: * Lehman Brothers charges are net of hedges and favorable marks on liabilities. Gross charge for the 3rd and 4th quarters was approximately \$5.7B, respectively
 ** Estimates – not yet reported

Outlook

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Outlook: Macro-Environment

Growth looks set to slow as the U.S. housing recession hits the consumer and tighter financial conditions crimp activity. We expect a U.S. and global recession to be averted as central banks cut rates

Lehman GDP Growth Forecasts¹ (In Percentages)

	<u>U.S.</u>	<u>Euro area</u>	<u>U.K.</u>	<u>Japan</u>	<u>Asia ex-Japan</u>	<u>Global</u>
2007	2.3	2.7	3.1	1.8	8.7	3.4
2008	2.1	1.5	1.7	1.4	7.6	2.7
2009	2.0	1.4	2.0	1.8	8.0	2.7

Lehman Brothers Official Interest Rate Forecasts¹ (In Percentages)

	<u>Current</u>	<u>2008</u>	<u>2009</u>	
U.S.	4.25	3.00	3.00	◆ Fed looks likely to ease aggressively
Euro area	4.00	3.50	3.50	◆ ECB should cut rates twice by 25 bp in June and Sept.
U.K.	5.50	5.00	5.00	◆ Expect the BOE to cut rates by 25 bp in Feb. and May
Japan	0.50	0.50	1.00	◆ Expect the BOJ to stay on hold throughout 2008

Corporate Outlook²

- ◆ Assuming slower growth in the U.S., but no recession:
 - Expect global equities to return 20% in 2008 from current levels
 - Expect global earnings growth of 2% in 2008, with negative growth in the U.S. and U.K.

1. *Lehman Brothers Global Weekly Economic Monitor – January 11, 2008*

2. *Lehman Brothers Global Strategy Weekly – January 11, 2008*

Future Growth Potential

Although the market environment remains challenging, we have successfully navigated the recent cyclical pressure on our businesses and are focused on longer-term secular trends in terms of how we think about our future growth potential. There are geographic, product and client components to these future drivers of growth

Cyclical Pressures

- ◆ Significant increase in loss assumptions in subprime underlying and second and third order products
- ◆ Wider credit spreads; increased volatility
- ◆ Flight to quality / risk aversion
- ◆ Less liquidity available for structured products
- ◆ Increased risk mitigation
- ◆ Less leverage employed
 - Hedge funds
 - Sponsor-driven M&A transactions

Secular Trends

- ◆ Disintermediation and evolution / expansion of global capital markets
- ◆ Growth and increasing diversification in the Fixed Income markets
 - 40% increase in outstandings¹ from \$27.6 trillion in 2005 to \$38.5 trillion in Nov. 2007
 - Expected to increase to ≈ \$48 trillion in outstandings¹ by the end of 2009
- ◆ Increased strategic M&A
- ◆ Companies seeking to unlock value for shareholders (spin-off, etc.) Growth in financial sponsor uninvested capital
- ◆ Growth in assets managed by hedge funds and sovereign wealth funds; demand for absolute returns
- ◆ Early stages in markets with large potential fee pools (China, India)

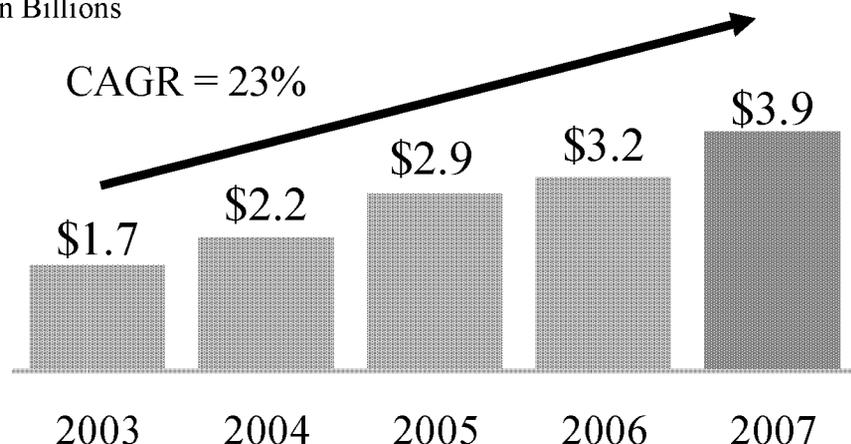
1. Source: Lehman Brothers Fixed Income Research

Investment Banking

Greater coverage of the global fee-paying clients has produced revenue and market share gains in Investment Banking

Revenues

In Billions



Industry Opportunities

- ◆ Higher margin products (i.e., hybrid capital, strategic M&A) should help offset lower volumes of M&A and leveraged finance debt origination
- ◆ Expect cross-border M&A and international activity to continue to increase
- ◆ Increased use of derivative and structured finance solutions by corporations to mitigate risks

Market Share¹

	2003		2007
Worldwide M&A Announced	11.0%	➔	17.1%
Worldwide M&A Completed	9.1%	➔	19.7%
U.S. M&A Completed ²	11.5%	➔	24.6%
U.S. IPO	3.9%	➔	11.9%
U.S. Equity & Equity Related	5.7%	➔	9.2%

Lehman Opportunities

- ◆ Industry leader in assisting financial companies in raising hybrid capital
- ◆ Stability in strategic M&A; significant YoY share gains
- ◆ Expansion of global footprint; cross-border announced M&A over 40% of 2007 firmwide volume

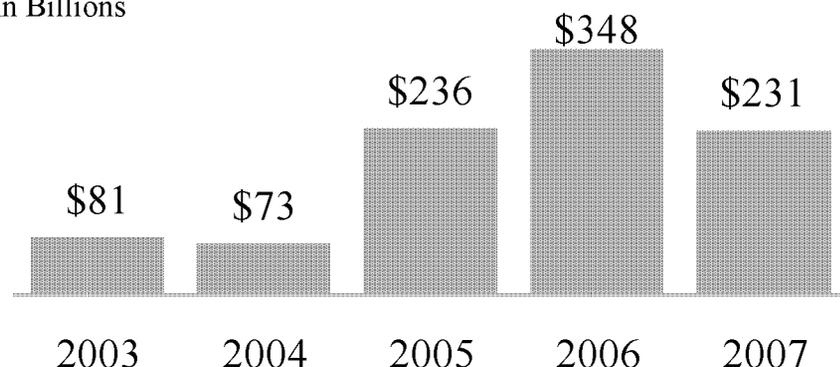
1. Source: Thomson Financial, as of January 11, 2008; based on calendar year
 2. U.S. any involvement

Investment Banking Pipelines

At the end of fiscal 2007, our volume pipeline across all products was \$315 billion. Our aggregate fee backlog was \$831 million, well above the level at the beginning of the year

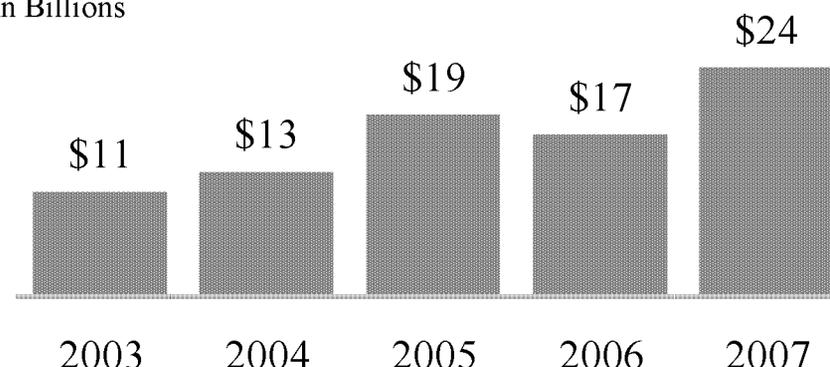
M&A Volume Pipeline

In Billions



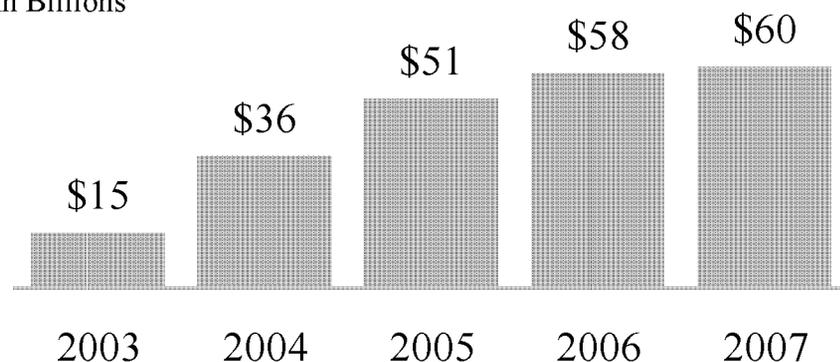
Equity Volume Pipeline

In Billions



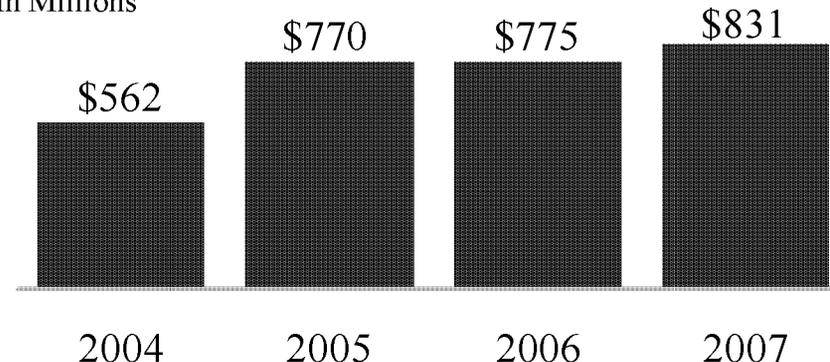
Debt Volume Pipeline

In Billions



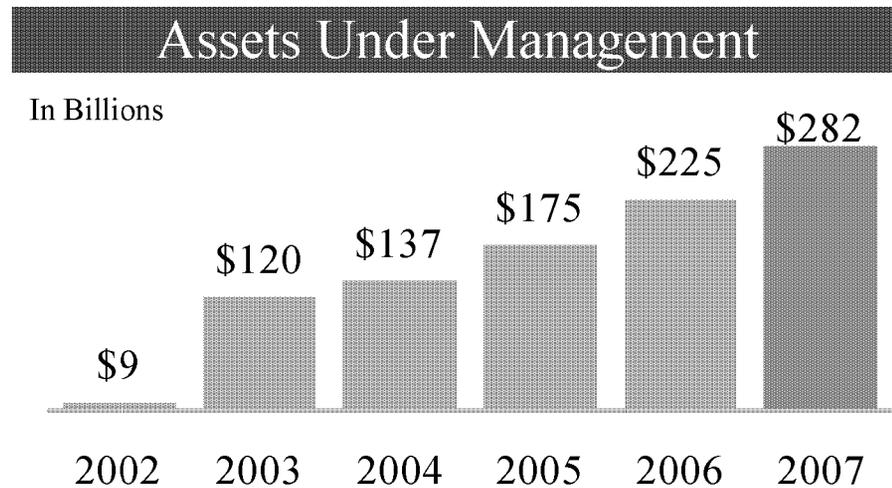
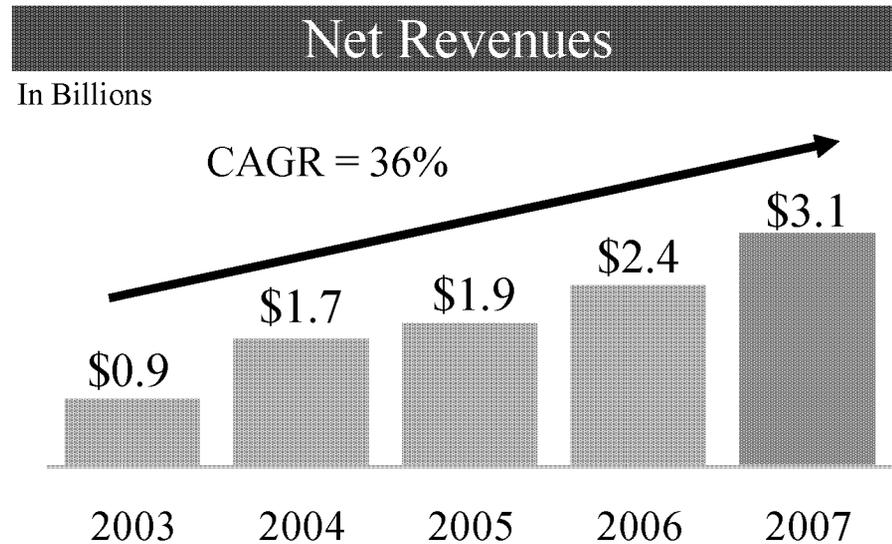
Aggregate Fee Backlog

In Millions



Investment Management

Strong performance has led to continued growth in assets under management and a Firmwide increase in fee-based revenues



1. Per McKinsey study dated December 2007, assuming "Plateau" scenario

- ### Industry Opportunities
- ◆ Increasing asset allocation into Alternatives
 - ◆ Increased demand for money management capabilities
 - ◆ Growth of the Global High Net Worth client base
 - ◆ Hedge fund assets expected to grow to \$3.5 trillion by 2012¹

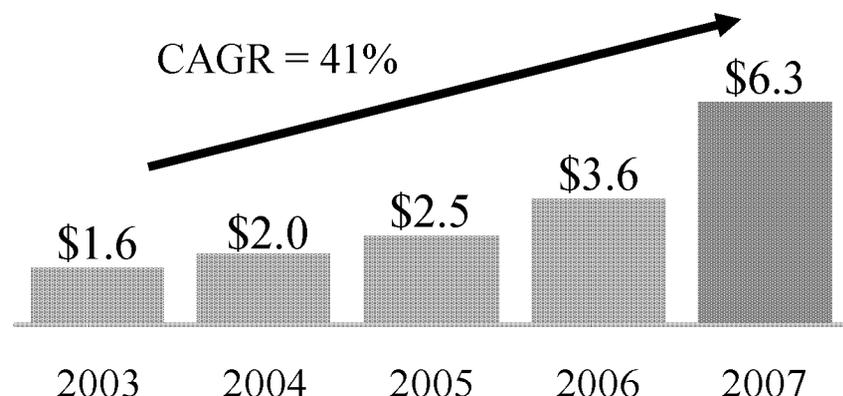
- ### Lehman Opportunities
- ◆ Focus on becoming a truly global business
 - ◆ Continue to invest in our alternatives business
 - Alternative AUM growth of 59% YoY
 - ◆ Strategic alignment with top tier hedge fund managers (DE Shaw, Ospraie, Spinnaker)
 - ◆ Focus on continuing to deliver industry leading fund performance
 - 86% of our Private Asset Management funds performed at or above benchmark in 2007
 - ◆ Other areas of focus: strengthening emerging markets, fixed income and quant teams; increasing broker productivity; focusing on higher margin businesses; making the business an integrated part of the Firm

Equities Capital Markets

In Equities, our growth is underpinned by a growing client base, expanding business platforms and increased wallet share with our clients

Net Revenues

In Billions



Industry Opportunities

- ◆ Competitive market-making
- ◆ Electronic trading execution
- ◆ Expansion of hedge fund AUM
- ◆ 130/30 client opportunities
- ◆ Risk mitigation strategies

Market Share and Accolades

- ◆ Ranked #4 on the NYSE with an equity trading volume market share¹ of 6.0%, compared to 2.2% in 2003
- ◆ Ranked #1 on the LSE with 14.6% equity trading volume market share², compared with 7.4% in 2003
- ◆ Ranked #1 on the Euronext with a trading volume market share³ of 8.6%, compared to 3.6% in 2003
- ◆ Ranked #1 “All American Research Team” by the *Institutional Investor Survey* for 5 consecutive years⁴

1. Source: NYSE, LSE; based on calendar year, as of December

2. Source: Londonstockexchange.com, based on calendar year, as of December

3. Source: Euronext.com, monthly average, based on calendar year, as of December

4.

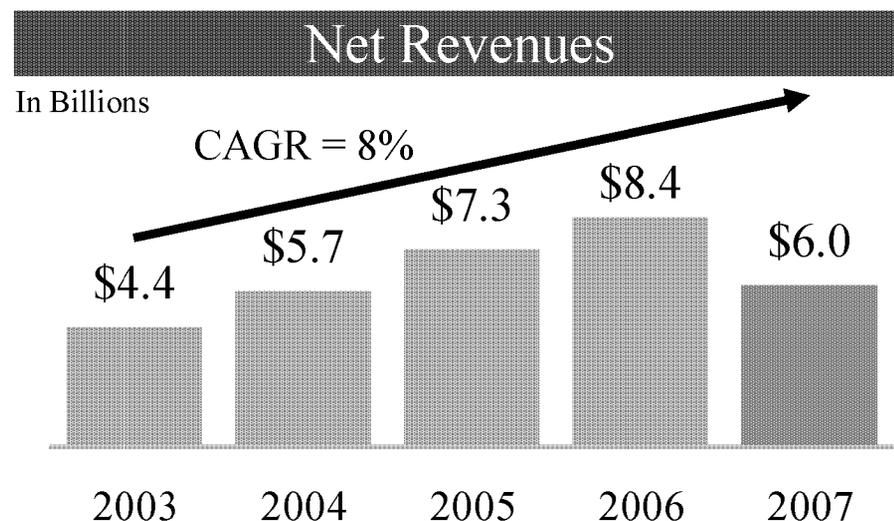
Survey is based on responses from 2,600 investors and portfolio managers and more than 810 buy-side firms managing an estimated \$13.4 trillion in U.S. equities

Lehman Opportunities

- ◆ Expansion of electronic trading platforms (BATS, BIDS, LLX, OPTIONS Work, Pounce and RealTick)
- ◆ Acquisition of Van der Moolen’s specialist book and BRICS Securities (India)
- ◆ YoY doubling of equity derivatives revenues, and gains in all regions
- ◆ 20% increase in Prime Brokerage clients (to 630) and 30% increase in balances YoY
- ◆ Investments in Asia and Developing Markets to further diversify and expand

Fixed Income Capital Markets

Our Fixed Income business remains highly diversified. Growth has been driven by the expansion of our global client base into a broader product set and new markets



- ### Industry Opportunities
- ◆ Higher volatility and wider bid/ask spreads
 - ◆ Distressed investment pools (leveraged loan, asset-backed)
 - ◆ Commodities trading
 - ◆ Growing capital markets in developing countries

- ### Market Share and Accolades
- ◆ U.S. Fixed Income Trading volume market share¹ in 2007 of 12.1%, compared to 10.8% in 2003
 - ◆ Ranked #1 “All American Fixed Income Research Team” by the *Institutional Investor Survey* for 8 consecutive years²
 - ◆ Received 6 “Best” U.S. *Credit Awards* in 2007
 - ◆ Ranked #1 in overall market share in U.S. Fixed Income Survey³ in 2007 by *Greenwich Associates*

- ### Lehman Opportunities
- ◆ Secondary trading: 40% + YoY increase in customer flow sales credits as turbulent markets prompted asset reallocations and risk mitigation strategies
 - ◆ Continued expansion of commodities business, including acquisition of Eagle Energy Partners (increased presence in physical commodities)
 - ◆ Record revenues in rates and foreign exchange
 - ◆ Continued geographic expansion, including Brazil, Singapore, India, Australia and Eastern Europe
 - ◆ Expansion of principal investing and distressed

1. Source: Federal Reserve; based on calendar year; through December 31, 2007

2. Survey is based on responses from 2,600 investors and portfolio managers and more than 810 buy-side firms managing an estimated \$13.4 trillion in U.S. equities

3. Client rank based on approximately 1,350 investors interviewed, which varies annually, by Greenwich Associates 2007

Fixed Income Diversification

Fixed Income Capital Markets consists of a number of different businesses that are not strongly correlated to one another. Some of our larger businesses have declined, while some of our other businesses have grown significantly

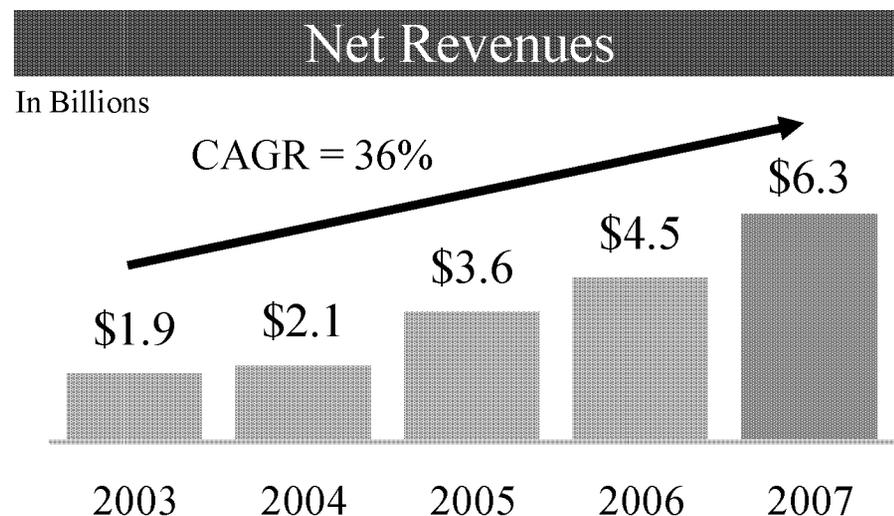
Fastest Growing Fixed Income Businesses (sorted by % change in 2007)

The Firm has benefited from the growth in certain businesses, as they have helped to offset the significant decline in securitized products

	Year over Year Revenue Growth	
	2007	2006
Energy Trading	878%	n.m.
Foreign Exchange	42%	3%
FID Prime Services	31%	25%
Interest Rate Products	16%	-6%
High Grade Credit	-14%	41%
	2007	2006
<i>Fastest growing businesses as a % of Total Fixed Income</i>	<i>54%</i>	<i>31%</i>

Europe and the Middle East

Revenues in Europe and the Middle East have grown steadily at 36% per year. Growth has been primarily in Western Europe, but we are building in new geographies



- Industry Opportunities**
- ◆ European emerging markets (Russia, Turkey)
 - ◆ Strong economies in the Middle East (Qatar, Dubai)
 - ◆ Sovereign wealth funds with significant capital to invest; active and growing hedge fund community
 - ◆ European and Cross-Border M&A

- Market Share¹ and Accolades**
- ◆ Announced M&A market share of 15.1%, compared to 6.8% in 2003
 - ◆ Completed M&A market share of 24.6%, compared to 6.5% in 2003
 - ◆ *Institutional Investor* “European Fixed Income Research” Survey ranked Lehman #4 based on weighted rankings
 - ◆ *2007 European Credit Awards*: Best index provider - U.K. and Europe
 - ◆ Leading market-maker in equity cash and derivatives

1. Source: Thomson Financial, based on calendar year, as of January 11, 2008

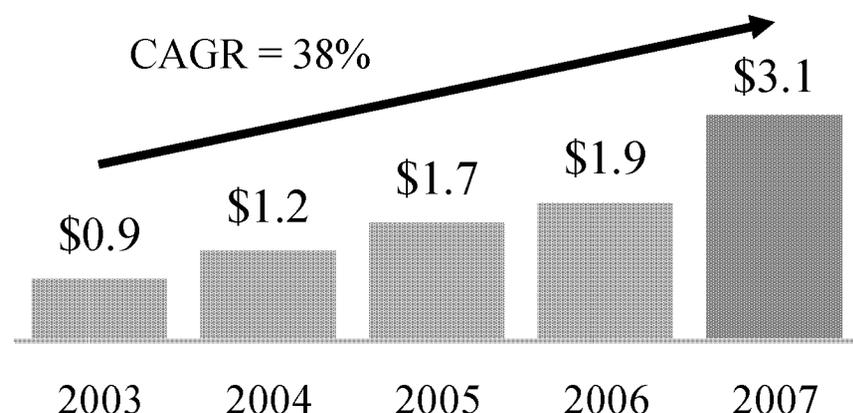
- Lehman Opportunities**
- ◆ Significant upticks in equity cash and derivatives volume
 - ◆ Growing interest rate derivatives and foreign exchange businesses
 - ◆ Restructuring, capital raising and distressed opportunities
 - ◆ 38% increase in European prime brokerage balances YoY
 - ◆ Europe accounts for 61% of the Firm’s M&A volume pipeline

Asia-Pacific

Our Fixed Income business remains highly diversified. Growth has been driven by the expansion of our global client base into a broader product set and new markets

Net Revenues

In Billions



Industry Opportunities

- ◆ Fast growing Asian economies (India, China)
- ◆ Australia (2nd largest fee pool in the region)
- ◆ Growing hedge fund community

Market Share¹ and Accolades

- ◆ Announced M&A market share of 7.1% in Japan
- ◆ Ranked #1 Prime Broker in Japan by *Global Custodian* in 2007
- ◆ “Momentum House of the Year” – *FinanceAsia* awards for achievement 2007

Lehman Opportunities

- ◆ Landmark transactions for CITIC (2nd largest IPO), Sinopec (largest convert) and DLF (largest IPO in India)
- ◆ Capital markets and banking expansion in Japan, Shanghai, Hong Kong, India and Singapore
- ◆ Acquisition / expansion of Grange Securities in Australia
- ◆ Most rapid regional growth for interest rate products and prime brokerage

Note: Data for 2003 and 2004 for Asia-Pacific includes revenues for Other Americas (e.g., Canada, Latin America)

1. Source: Thomson Financial, based on calendar year, as of January 11, 2008

LEHMAN BROTHERS

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Selected Transactions in New Markets

We have been expanding our relationships and footprint in a number of new markets

The Middle East

- 
◆ Mubadala's investments in The Related Companies and Advanced Micro Devices
- 
◆ \$1.1 billion consent solicitation agent for RasGas
- 
◆ AED 940 million portfolio restructuring for Oman Insurance Company
- 
◆ AED 7.5 billion Sukuk issue for Jebel Ali Free Zone
- 
◆ \$12 billion ⁽¹⁾ merger of Emirates Bank and National Bank of Dubai

China

- 
◆ \$259 million IPO for AirMedia Group
- 
◆ \$306 million ADS for JA Solar
- 
◆ HK\$768 million IPO for Kingsoft Corporation
- 
◆ RMB 2.31 billion Convertible Bond offering for Greentown China Holdings
- 
◆ \$5.4 billion IPO for China CITIC Bank
- 
◆ HK\$11.7 billion convertible offering for Sinopec

India

- 
◆ \$2.25 billion IPO for DLF Limited
- 
◆ \$1 billion follow-on offering for GMR Infrastructure
- 
◆ \$175 million IPO for Edelweiss Capital Limited
- 
◆ \$400 million GDR for Larsen & Toubro

1. Value based on combined market capitalization at the time of the transaction.

Eastern Europe

- 
◆ €1.8 billion sale of 65% stake in Bulgarian Telecommunications Company to AIG
- 
◆ \$735 million acquisition of TAS-Kommerzbank (Ukraine) by Swedbank
- 
◆ €1.25 billion Eurobond issue for the Republic of Turkey
- 
◆ €150 million Notes issue for Central European Media Enterprises

2008 New Initiatives

We remain positive about our prospects for growth in 2008 and beyond, and see the current environment as one in which we should aggressively invest. Consequently, we continue to allocate investment dollars for new initiatives intended to support our growth objectives, while being opportunistic on senior-level hires

Key Initiatives

Asia

Investment Banking expansion; Build Fixed Income and Equity client capacity

Investment Banking

Planned expansion in Japan, China, India; Build out of corporate derivatives

Equities Capital Markets

Further expansion of Prime Brokerage and Derivatives capacity; Build out in Asia and in developing countries

Fixed Income Capital Markets

Expansion of commodities, including energy trading; Emerging market presence

Investment Management

Build out in Europe; Private Equity and alternative products expansion

Support and Control

Risk, finance and technology to appropriately support our growing global footprint

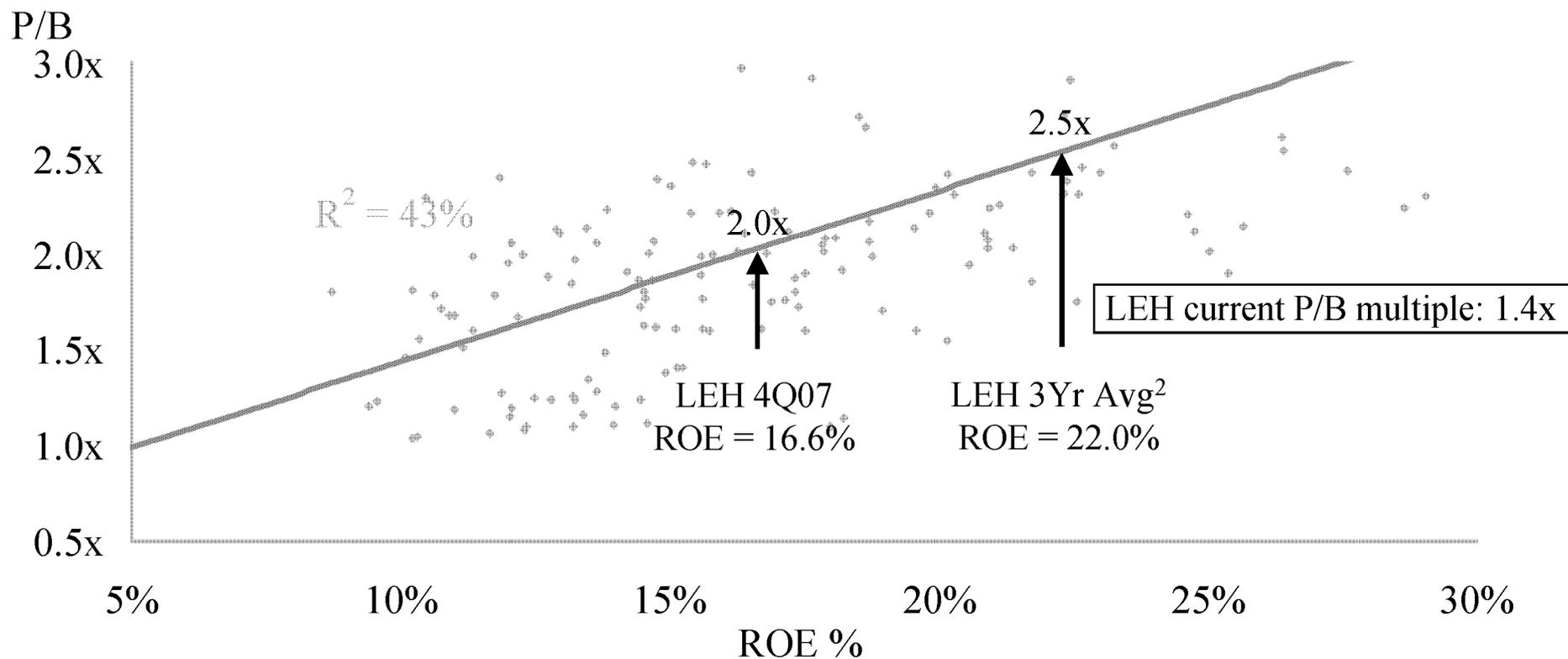
Valuation is Compelling

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Valuation: ROEs Imply Valuation Upside

For the brokerage sector, there is a high level of correlation between ROE and price to book. Regression analysis suggests that the brokers current P/B multiples are relatively low given the ROEs being generated

Brokers¹ Quarterly ROE vs. P/B 2000 – 2007



Source: FactSet, Compustat

1. Brokers include Bear Stearns, Goldman Sachs, Lehman Brothers, Merrill Lynch and Morgan Stanley
2. Average quarterly ROE 1Q05 – 4Q07

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LEH Historical P/B

Lehman Brothers is currently trading at a P/B multiple of 1.4x, extremely low relative to historical trading

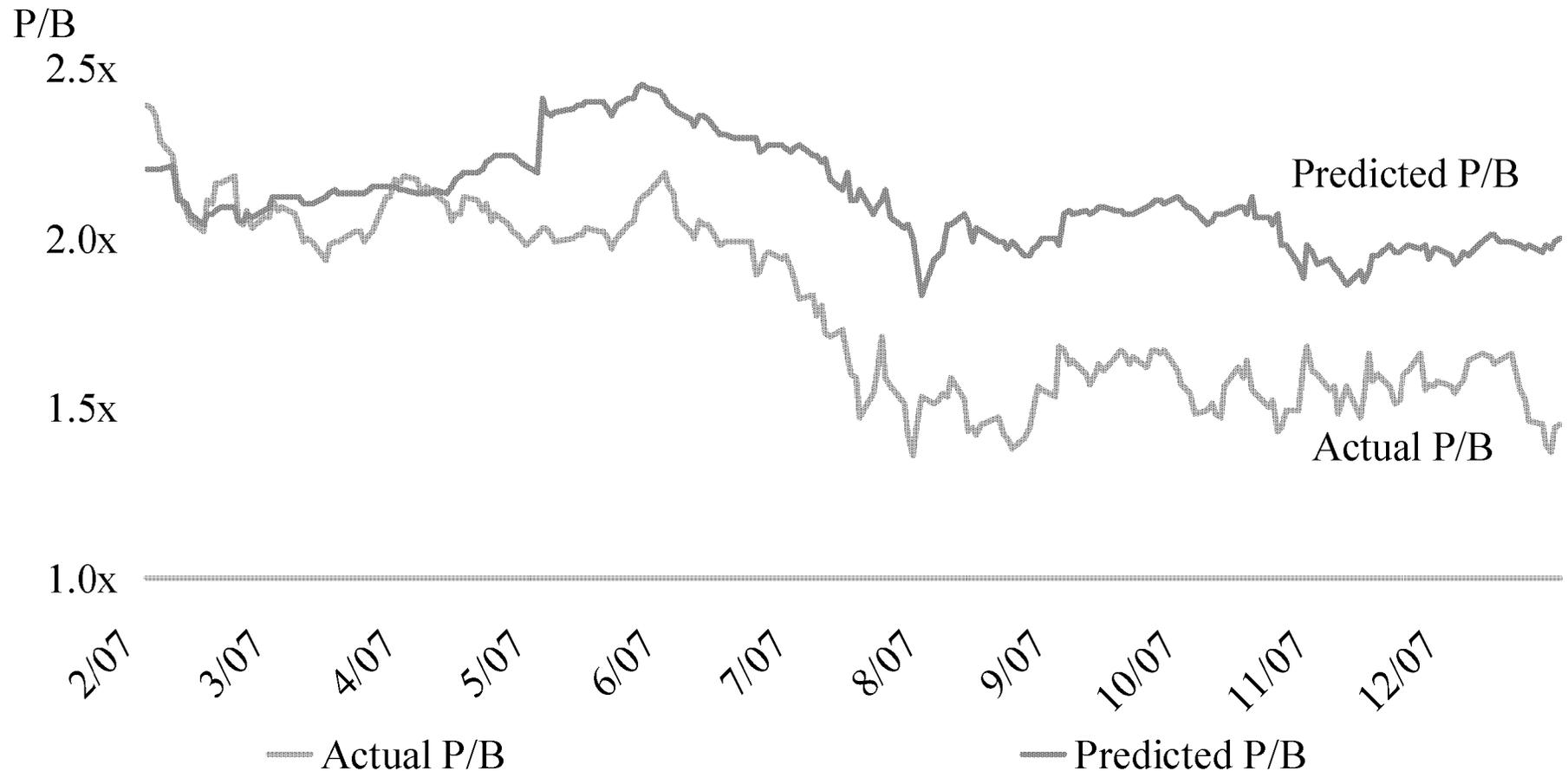
Lehman Brothers P/B 2003 – Present



Actual P/B vs. Regression Predicted P/B

Using this methodology, regression predicted P/B implies that LEH is currently 28% undervalued

Lehman Brothers' Actual vs. Predicted Price to Book Ratio



Methodology: Regression analysis uses three factors: 1. ROE (historically, analysis uses a monthly rolling ROE, however, beginning in 4Q07, 2008 consensus expected ROE is used); 2. MARS (Lehman Brothers Long-Run Market Risk Sentiment) used as a "pure" risk appetite measure; 3. S&P 500 Forward P/E Ratio used to capture the market's willingness to pay more for the same level of earnings. Analysis as of January 11, 2008

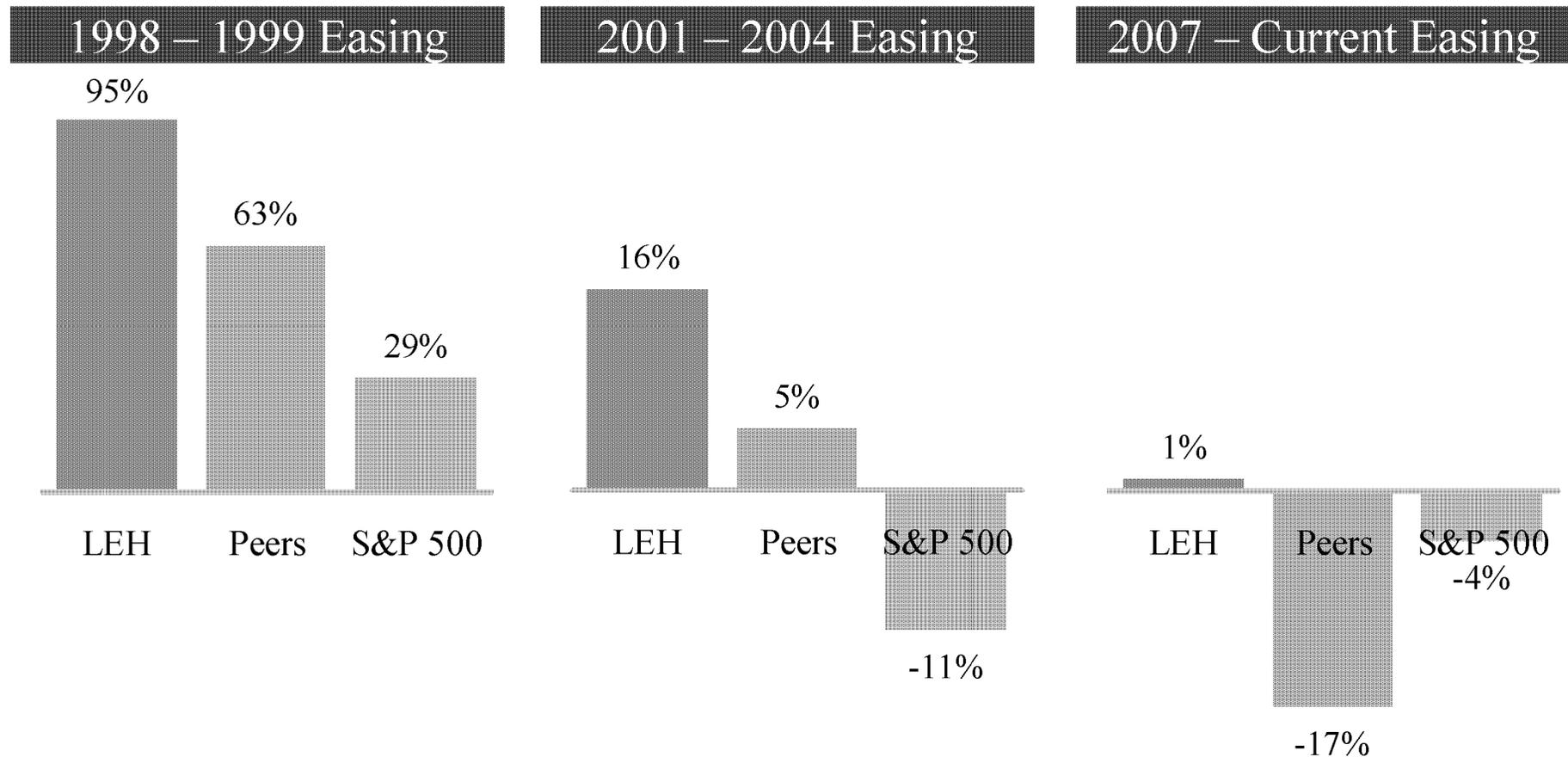
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Valuation: Brokerage Stocks During Periods of Fed Easing

During recent Fed easing periods, brokerage stocks have outperformed the broader market, and Lehman Brothers has outperformed the sector

Stock Performance During Fed Easing Periods



Note: For the 1998 – 1999 period, peers is an average of Bear Stearns, Merrill Lynch and Morgan Stanley; for the periods 2001 – 2004 and 2007 – Current, peers is an average of Bear Stearns, Goldman Sachs, Merrill Lynch and Morgan Stanley; current is as of January 14, 2008

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Strong Performance vs. Our Financial Objectives

We continue to achieve our previously stated objectives

Strategic Objectives		Results
◆ Minimum double-digit revenue growth over time	➔	◆ 22% revenue CAGR for 2003-2007
◆ Net income growth higher than revenue growth, due to disciplined expense management	➔	◆ 25% net income CAGR for 2003-2007
◆ Non-U.S. revenues comprise a significant portion of total revenues	➔	◆ 50% of revenues outside of the U.S. in 2007
◆ Focus on growing fee-based revenues	➔	◆ M&A revenues more than tripled since 2003 ◆ Investment Management revenues more than tripled since 2003
◆ Cross-cycle ROE targets <ul style="list-style-type: none">– Top of cycle > 30%– Middle of cycle ~ 20%– Bottom of cycle – very low double digits	➔	◆ Since 1999, we have missed these targets in only two quarters ¹ ◆ Book value per share CAGR of 15.6% for 2003-2007

1. Excludes 4Q 2001, which disproportionately impacted Lehman Brothers due to the relocation of the entire NY workforce

Appendices

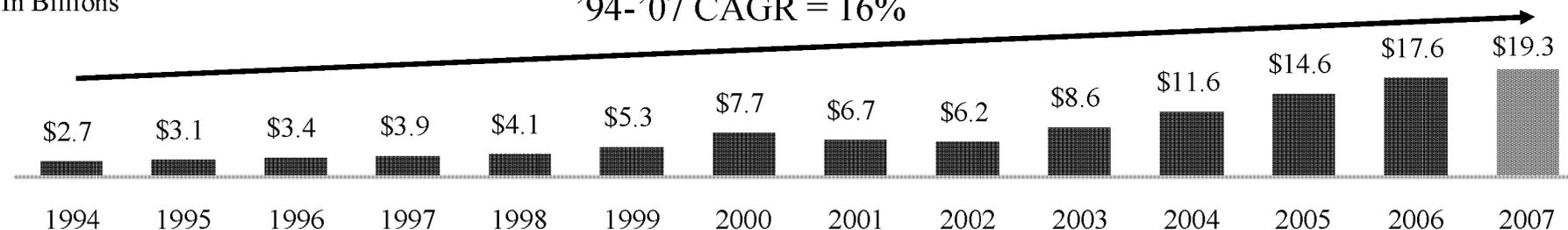
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A Consistent Track Record of Growth

Net Revenues

In Billions

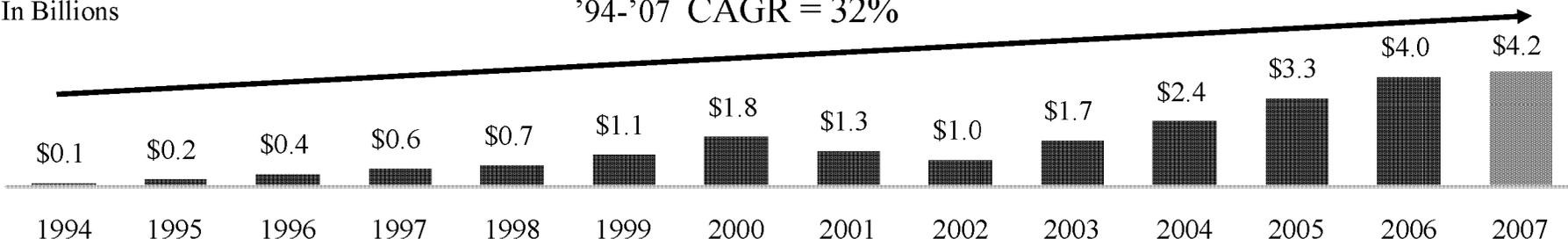
'94-'07 CAGR = 16%



Net Income

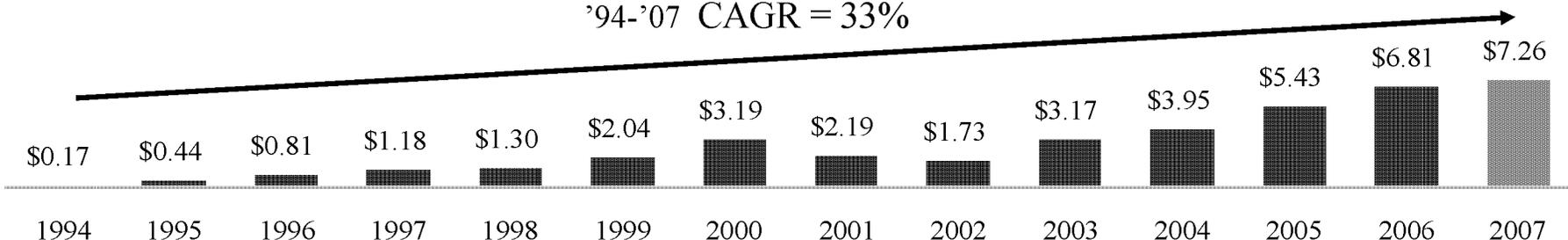
In Billions

'94-'07 CAGR = 32%



Earnings Per Common Share (diluted)¹

'94-'07 CAGR = 33%



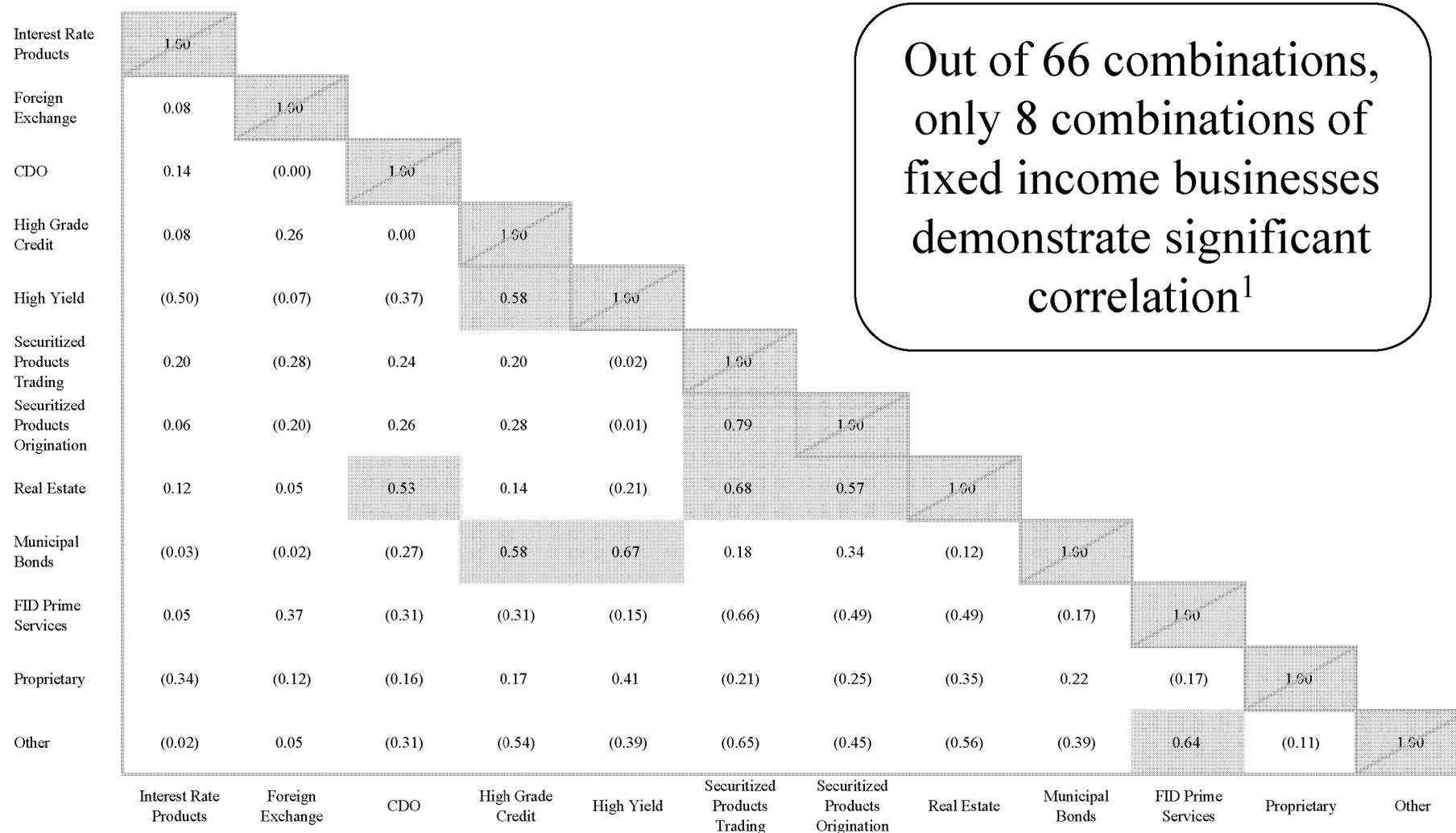
Note: 1994 data is for the eleven months ended November 30; CAGRs have been adjusted to account for the eleven month period in 1994

1. EPS has been restated for 2 two-for-one stock splits effective October 2000 and April 2006

LEHMAN BROTHERS

Correlation of Fixed Income Businesses

Detrended Correlation of Major Fixed Income Business Quarterly Revenues, 2002 – 2007



Out of 66 combinations, only 8 combinations of fixed income businesses demonstrate significant correlation¹

1. Shaded region indicates a correlation greater than 0.5 and is statistically significant at a 95% confidence interval. Unshaded regions show correlation less than 0.5

Quarterly Results

In Millions, except per share data	2007				2006				2005				2004				2003			
	Q1	Q2	Q3 ⁵	Q4 ⁵	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1 ¹	Q2	Q3	Q4	Q1	Q2 ²	Q3	Q4
Net revenues	\$5,047	\$5,512	\$4,308	\$4,390	\$4,461	\$4,411	\$4,178	\$4,533	\$3,810	\$3,278	\$3,852	\$3,690	\$3,144	\$2,926	\$2,623	\$2,883	\$1,711	\$2,291	\$2,347	\$2,298
Expenses																				
Personnel	2,488	2,718	2,124	2,164	2,199	2,175	2,060	2,235	1,886	1,623	1,906	1,798	1,566	1,457	1,306	1,401	873	1,168	1,174	1,103
Non-personnel	860	915	979	996	711	738	751	809	618	642	653	675	527	585	594	603	401	418	424	473
Subtotal expenses	3,348	3,633	3,103	3,160	2,910	2,913	2,811	3,044	2,504	2,265	2,559	2,473	2,093	2,042	1,900	2,004	1,274	1,586	1,598	1,576
Real estate related charges													19					77		
Total non-interest expenses	3,348	3,633	3,103	3,160	2,910	2,913	2,811	3,044	2,504	2,265	2,559	2,473	2,112	2,042	1,900	2,004	1,274	1,663	1,598	1,576
Income before taxes and cumulative effect of accounting change	1,699	1,879	1,205	1,230	1,551	1,498	1,367	1,489	1,306	1,013	1,293	1,217	1,032	884	723	879	437	628	749	722
Provision for Income Taxes	553	606	318	344	513	496	451	485	431	330	414	394	338	275	218	294	122	173	250	220
Dividends on trust preferred securities ³													24				14	18	19	21
Cumulative effect of accounting change					47															
Net income	\$1,146	\$1,273	\$887	\$886	\$1,085	\$1,002	\$916	\$1,004	\$875	\$683	\$879	\$823	\$670	\$609	\$505	\$585	\$301	\$437	\$480	\$481
Net income applicable to common stock	\$1,129	\$1,256	\$870	\$870	\$1,069	\$986	\$899	\$987	\$856	\$664	\$864	\$807	\$653	\$592	\$487	\$566	\$290	\$426	\$469	\$464
Earnings per basic common share ⁴ :																				
Income before taxes and cumulative effect of accounting change	\$2.09	\$2.33	\$1.61	\$1.60	\$1.87	\$1.81	\$1.66	\$1.83	\$1.54	\$1.19	\$1.55	\$1.46	\$1.18	\$1.07	\$0.89	\$1.04	\$0.60	\$0.88	\$0.96	\$0.91
Cumulative effect of accounting change					0.09															
Earnings per basic common share	\$2.09	\$2.33	\$1.61	\$1.60	\$1.96	\$1.81	\$1.66	\$1.83	\$1.54	\$1.19	\$1.55	\$1.46	\$1.18	\$1.07	\$0.89	\$1.04	\$0.60	\$0.88	\$0.96	\$0.91
Earnings per diluted common share ⁴ :																				
Income before taxes and cumulative effect of accounting change	\$1.96	\$2.21	\$1.54	\$1.54	\$1.75	\$1.69	\$1.57	\$1.72	\$1.46	\$1.13	\$1.47	\$1.38	\$1.11	\$1.01	\$0.85	\$0.98	\$0.57	\$0.83	\$0.90	\$0.86
Cumulative effect of accounting change					0.08															
Earnings per diluted common share	\$1.96	\$2.21	\$1.54	\$1.54	\$1.83	\$1.69	\$1.57	\$1.72	\$1.46	\$1.13	\$1.47	\$1.38	\$1.11	\$1.01	\$0.85	\$0.98	\$0.57	\$0.83	\$0.90	\$0.86

- 1Q04 net income includes a \$19 million (\$11 million after-tax) charge related to certain of the Firm's real estate. Basic and diluted EPS were reduced by \$0.02
- 2Q03 net income includes a \$77 million (\$45 million after-tax) charge related to certain of the Firm's real estate. Basic and diluted EPS were reduced by \$0.09
- At February 29, 2004, preferred securities subject to mandatory redemption were reclassified to junior subordinated debt (a component of long-term debt) pursuant to the adoption of FIN 46. In periods subsequent to February 29, 2004, dividends on trust preferred securities are included in interest expense
- Earnings per basic common share and earnings per diluted common share were restated for the two-for-one common stock split effective April 28, 2006
- For the quarters ended November 30, 2007 and August 31, 2007, respectively, approximately \$18 million and \$44 million, respectively, of costs associated with the restructuring of the Firm's global residential mortgage origination business have been included in other expenses

Consolidated Statement of Income

In Millions, except per share data	Quarters Ended		
	Nov 30, 2007 ¹	Aug 31, 2007 ¹	Nov 30, 2006
Revenues:			
Principal transactions	\$1,698	\$1,612	\$2,504
Investment banking	831	1,071	858
Commissions	688	674	521
Interest and dividends	11,136	10,910	8,898
Asset management and other	459	472	379
Total revenues	14,812	14,739	13,160
Interest expense	10,422	10,431	8,627
Net revenues	4,390	4,308	4,523
Non-interest expenses			
Compensation and benefits	2,164	2,124	2,235
Technology and communications	311	282	261
Brokerage, clearance and distribution fees	240	224	167
Occupancy	173	170	131
Professional fees	120	128	118
Business development	103	91	90
Other ²	49	84	42
Total non-interest expenses	3,160	3,103	3,044
Income before provision for income taxes	1,230	1,205	1,489
Provision for income taxes	344	318	485
Net income	\$886	\$887	\$1,004
Net income applicable to common stock	\$870	\$870	\$987
Earnings per common share:			
Basic	\$1.60	\$1.61	\$1.83
Diluted	\$1.54	\$1.54	\$1.72
Weighted Average Diluted Shares (in millions)	563.7	565.8	573.1

1. For the quarters ended November 30, 2007 and August 31, 2007, respectively, approximately \$18 million and \$44 million, respectively, of costs associated with the restructuring of the Firm's global residential mortgage origination business have been included in other expenses

Business Segment Revenues

In Millions	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05	2007	2006	2005	2004	2003
Capital Markets														
Fixed Income	\$860	\$1,063	\$1,891	\$2,164	\$2,135	\$2,010	\$2,200	\$2,102	\$1,624	\$5,977	\$8,447	\$7,334	\$5,739	\$4,391
Equities	1,867	1,372	1,703	1,338	900	837	878	944	740	6,280	3,559	2,473	1,955	1,627
	2,727	2,435	3,594	3,502	3,035	2,847	3,078	3,046	2,364	12,257	12,006	9,807	7,694	6,018
Investment Banking														
Global Finance - Debt	233	350	540	428	378	348	289	410	332	1,551	1,424	1,304	1,002	980
Global Finance - Equity	210	296	333	175	224	183	208	199	209	1,015	815	824	560	363
Advisory Services	388	425	277	247	256	195	244	226	276	1,337	921	766	626	379
	831	1,071	1,150	850	858	726	741	835	817	3,903	3,160	2,894	2,188	1,722
Investment Management														
Asset Management	533	468	460	416	368	349	347	368	265	1,877	1,432	1,026	840	141
Private Investment Management	299	334	308	279	272	256	245	212	244	1,220	985	903	854	766
	832	802	768	695	640	605	592	580	509	3,097	2,417	1,929	1,694	907
Total Net Revenues	\$4,390	\$4,308	\$5,512	\$5,047	\$4,533	\$4,178	\$4,411	\$4,461	\$3,690	\$19,257	\$17,583	\$14,630	\$11,576	\$8,647
% of Net Revenues														
Capital Markets														
Fixed Income	20%	25%	34%	43%	47%	48%	50%	47%	44%	31%	48%	50%	50%	51%
Equities	43%	32%	31%	27%	20%	20%	20%	21%	20%	33%	20%	17%	17%	19%
	62%	57%	65%	69%	67%	68%	70%	68%	64%	64%	68%	67%	66%	70%
Investment Banking														
Global Finance - Debt	5%	8%	10%	8%	8%	8%	7%	9%	9%	8%	8%	9%	9%	11%
Global Finance - Equity	5%	7%	6%	3%	5%	4%	5%	4%	6%	5%	5%	6%	5%	4%
Advisory Services	9%	10%	5%	5%	6%	5%	6%	5%	7%	7%	5%	5%	5%	4%
	19%	25%	21%	17%	19%	17%	17%	19%	22%	20%	18%	20%	19%	20%
Investment Management														
Asset Management	12%	11%	8%	8%	8%	8%	8%	8%	7%	10%	8%	7%	7%	2%
Private Investment Management	7%	8%	6%	6%	6%	6%	6%	5%	7%	6%	6%	6%	7%	9%
	19%	19%	14%	14%	14%	14%	13%	13%	14%	16%	14%	13%	15%	10%

Business Segment Pre-tax Earnings

In Millions

	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05	2007	2006	2005	2004	2003
Capital Markets														
Pre-tax earnings ¹	\$761	\$715	\$1,353	\$1,369	\$1,191	\$1,114	\$1,213	\$1,202	\$940	\$4,199	\$4,720	\$3,572	\$2,526	\$2,007
Pre-tax margin	28%	29%	38%	39%	39%	39%	39%	39%	40%	34%	39%	36%	33%	33%
Investment Banking														
Pre-tax earnings ¹	\$207	\$288	\$338	\$190	\$135	\$131	\$164	\$230	\$187	\$1,022	\$660	\$855	\$587	\$401
Pre-tax margin	25%	27%	29%	22%	16%	18%	22%	28%	23%	26%	21%	30%	27%	23%
Investment Management														
Pre-tax earnings ¹	\$261	\$202	\$188	\$140	\$163	\$122	\$121	\$119	\$90	\$792	\$525	\$402	\$424	\$205
Pre-tax margin	31%	25%	24%	20%	25%	20%	20%	21%	18%	26%	22%	21%	25%	23%

1. Before dividends on preferred securities. 2003 excludes the real estate reconfiguration charge of \$77 million. 2004 excludes the real estate reconfiguration charge of \$19 million

Revenue by Region

In Millions

	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05	2007	2006	2005	2004	2003
U.S.	\$1,680	\$2,038	\$2,888	\$3,028	\$2,987	\$2,588	\$2,808	\$2,734	\$2,243	\$9,634	\$11,116	\$9,270	\$8,225	\$5,908
Other Americas	46	46	33			\$22	46			\$182	\$122	\$109		
Europe and the Middle East	1,603	1,496	1,829	1,368	1,166	1,161	1,088	1,121	914	6,296	4,536	3,601	2,104	1,864
Asia Pacific	1,061	728	762			407	469			3,145	1,809	1,650		
Asia Pacific and Other				651	381			606	533				1,247	875
Total Net Revenues	\$4,390	\$4,308	\$5,512	\$5,047	\$4,533	\$4,178	\$4,411	\$4,461	\$3,690	\$19,257	\$17,583	\$14,630	\$11,576	\$8,647

	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05	2007	2006	2005	2004	2003
U.S.	38%	47%	52%	60%	66%	62%	64%	61%	61%	50%	63%	63%	71%	68%
Other Americas	1%	1%	1%			1%	1%							
Europe and the Middle East	37%	35%	33%	27%	26%	28%	25%	25%	25%	33%	26%	25%	18%	22%
Asia Pacific	24%	17%	14%			10%	11%							
Asia Pacific and Other				13%	8%			14%	14%	0%	0%	12%	11%	10%

Note: In the period ended May 31, 2007, Other Americas was reclassified from Asia Pacific and Other to Other Americas; prior periods do not reflect this adjustment

LEHMAN BROTHERS

Selected Financial Ratios

In Percentages, except book value per share data and headcount

	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05
Book Value Per Common Share¹	\$39.45	\$38.29	\$37.15	\$35.15	\$33.87	\$32.16	\$31.08	\$30.01	\$28.75
Return on Common Equity (annualized)²	16.6	17.1	25.8	24.4	22.3	21.0	23.7	26.7	20.9
Return on Tangible Common Equity (annualized)³	20.6	21.1	31.6	29.9	27.6	26.1	29.5	33.5	26.5
Pre-tax Margin	28.0	28.0	34.1	33.7	32.8	32.7	34.0	34.8	33.0
Compensation & Benefits/Net Revenues	49.3	49.3	49.3	49.3	49.3	49.3	49.3	49.3	48.7
Non-Personnel Expenses/Net Revenues	22.7	22.7	16.6	17.0	17.8	18.0	16.7	15.9	18.3
Effective Tax Rate	27.9	26.4	32.3	32.5	32.5	33.0	33.1	33.1	32.4
Employees	28,556	28,783	28,323	27,090	25,936	24,775	23,387	22,919	22,919

1. The book value per common share calculation includes amortized restricted stock units granted under stock award programs

2. Return on average common stockholders' equity is computed by dividing annualized net income applicable to common stock for the period by average common stockholders' equity

3. Return on average tangible common stockholders' equity is computed by dividing annualized net income applicable to common stock for the period by average tangible common stockholders' equity. Average tangible common stockholders' equity equals average common stockholders' equity less average identifiable intangible assets and goodwill. See the reconciliation of tangible common stockholders' equity. Management believes tangible common stockholders' equity is a meaningful measure because it reflects the common stockholders' equity deployed in our businesses

Summary Changes in Common Stockholders' Equity

At or for the year ended November 30

<i>In \$ millions</i>	2007	2006	2005	2004	2003
Beginning common stockholders' equity	\$18,096	\$15,699	\$13,575	\$12,129	\$8,242
Net income	4,192	4,007	3,260	2,369	1,699
Dividends on common stock	(351)	(276)	(233)	(186)	(128)
Dividends on preferred stock	(67)	(66)	(69)	(72)	(50)
Equity-based award plans	2,829	2,396	3,305	1,892	1,466
Treasury stock purchases ¹	(3,178)	(3,681)	(4,157)	(2,267)	(1,508)
Other ²	(118)	17	18	(290)	2,408
Ending common stockholders' equity	\$21,403	\$18,096	\$15,699	\$13,575	\$12,129

5 Year common stockholders' equity CAGR 21%

<i>Shares in millions</i>	2007	2006	2005	2004	2003
Common shares repurchased ¹	43.0	52.9	80.6	58.0	46.2

1. Certain years include repurchases above employee stock award dilution; for all years includes common stock open-market repurchases and common stock withheld from employees, which 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. Other for 2003 primarily consists of share issuances in connection with Neuberger Berman acquisition and for 2004 primarily consists of Neuberger Berman final purchase price adjustment

Reconciliation of Tangible Common Stockholders' Equity

In Millions

	Quarter Ended								
	11/30/07	8/31/07	5/31/07	2/28/07	11/30/06	8/31/06	5/31/06	2/28/06	11/30/05
Average stockholders' equity	\$22,114	\$21,431	\$20,567	\$19,632	\$18,794	\$18,189	\$17,738	\$17,144	\$16,564
Less: average preferred stock	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)
Average common stockholders' equity	\$21,019	\$20,336	\$19,472	\$18,537	\$17,699	\$17,094	\$16,643	\$16,049	\$15,469
Less: average identifiable intangible assets and goodwill	(4,118)	(3,880)	(3,592)	(3,447)	(3,363)	(3,331)	(3,290)	(3,269)	(3,259)
Average tangible common stockholders' equity	\$16,901	\$16,456	\$15,880	\$15,090	\$14,336	\$13,763	\$13,353	\$12,780	\$12,210

	Year Ended	
	11/30/07	11/30/06
Average stockholders' equity	\$20,910	\$17,971
Less: average preferred stock	(1,095)	(1,095)
Average common stockholders' equity	\$19,815	\$16,876
Less: average identifiable intangible assets and goodwill	(3,756)	(3,312)
Average tangible common stockholders' equity	\$16,059	\$13,564

Reconciliation of Net Leverage

In Millions

	<u>11/30/07</u>	<u>8/31/07</u>	<u>5/31/07</u>	<u>2/28/07</u>	<u>11/30/06</u>	<u>8/31/06</u>	<u>5/31/06</u>	<u>2/28/06</u>	<u>11/30/05</u>
Net assets:									
Total assets	\$691,000	\$659,216	\$605,861	\$562,283	\$503,545	\$473,737	\$456,202	\$439,796	\$410,063
Less:									
Cash and securities segregated and on deposit for regulatory and other purposes	(13,000)	(10,579)	(7,154)	(6,293)	(6,091)	(5,736)	(6,810)	(5,569)	(5,744)
Collateralized Lending	(301,000)	(287,427)	(257,388)	(251,662)	(225,156)	(225,213)	(205,376)	(203,897)	(189,639)
Identifiable intangible assets and goodwill	(4,127)	(4,108)	(3,652)	(3,531)	(3,362)	(3,364)	(3,297)	(3,282)	(3,256)
Net assets	<u>\$372,873</u>	<u>\$357,102</u>	<u>\$337,667</u>	<u>\$300,797</u>	<u>\$268,936</u>	<u>\$239,424</u>	<u>\$240,719</u>	<u>\$227,048</u>	<u>\$211,424</u>
Tangible equity capital:									
Total stockholders' equity	22,494	21,733	21,129	20,005	19,191	18,396	17,982	17,493	16,794
Junior subordinated notes ¹	4,740	4,539	4,404	3,013	2,738	2,692	2,717	2,623	2,026
Less: Identifiable intangible assets and goodwill	(4,127)	(4,108)	(3,652)	(3,531)	(3,362)	(3,364)	(3,297)	(3,282)	(3,256)
Tangible equity capital ¹	<u>\$23,107</u>	<u>\$22,164</u>	<u>\$21,881</u>	<u>\$19,487</u>	<u>\$18,567</u>	<u>\$17,724</u>	<u>\$17,402</u>	<u>\$16,834</u>	<u>\$15,564</u>
Leverage (total assets / total stockholders' equity)	30.7x	30.3x	28.7x	28.1x	26.2x	25.8x	25.4x	25.1x	24.4x
Net leverage (net assets / tangible equity capital)	16.1x	16.1x	15.4x	15.4x	14.5x	13.5x	13.8x	13.5x	13.6x

1. Our definition for tangible equity capital limits the amount of junior subordinated notes and preferred stock included in the calculation to 25% of aggregate tangible equity capital. The amounts excluded were approximately \$237 million, \$375 million and \$117 million in the fourth, third and second quarters of 2007, respectively; no amounts were excluded in prior periods

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