

**LEHMAN BROTHERS HOLDINGS INC.****Minutes of the Board of Directors  
March 20, 2007**

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held in the Board Room, 745 Seventh Avenue, on March 20, 2007, at 10:30 a.m., pursuant to written notice.

**PRESENT - BOARD MEMBERS**

Mr. Michael L. Ainslie *(by telephone)*  
Mr. John F. Akers  
Mr. Roger S. Berlind  
Mr. Thomas H. Cruikshank  
Ms. Marsha Johnson Evans  
Mr. Richard S. Fuld, Jr.  
Sir Christopher Gent  
Mr. Roland A. Hernandez *(by telephone)*  
Mr. Henry Kaufman  
Mr. John D. Macomber

**ALSO PRESENT BY INVITATION**

Mr. Joseph M. Gregory  
Mr. Christopher M. O'Meara  
Mr. Thomas A. Russo  
Mr. Jeffrey A. Welikson

**APPROVAL OF MINUTES**

The first order of business was the approval of the Minutes of the Board of Directors meeting held on January 31, 2007. Upon motion duly made and seconded, it was unanimously

**RESOLVED**, that the Minutes of the meeting of the Board of Directors held on January 31, 2007 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

## REPORT OF THE AUDIT COMMITTEE

Mr. Cruikshank gave a report on the Audit Committee meeting held on February 8, 2007. He stated that the Corporation's Financial Controller, Mr. Ed Grieb, reviewed the financial statements and notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") to be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended November 30, 2006, as well as the procedures for collecting, processing and disclosing the information contained in the MD&A and the financial statements and notes.

Mr. Cruikshank reported that, at this meeting, Mr. O'Meara discussed a meeting that Mr. Fuld and he held earlier that morning to review the 10-K with certain senior members of Firm management, certain officers who had participated in the preparation of the 10-K and representatives of Ernst & Young and Simpson Thacher & Bartlett. Mr. Cruikshank reported that Mr. O'Meara stated that the 10-K, the Firm's internal controls, disclosure controls and procedures, and the CEO and CFO certifications in the 10-K were reviewed at that meeting. Mr. Cruikshank stated that the Committee adopted a resolution recommending to the Board that the audited consolidated financial statements be included in the Form 10-K. Mr. Cruikshank reported that the Committee reviewed and approved the draft of the Audit Committee Report to be included in the 2007 Proxy Statement, that the Committee reviewed and approved additional services of Ernst & Young requested to be pre-approved by the Committee relating to fiscal 2006, and that the Committee reviewed the summary of 2006 services that will appear in the Proxy Statement.

Mr. Cruikshank reported that at this meeting, Ms. Beth Rudofker, Global Head of Corporate Audit, presented Corporate Audit's review of management's assessment of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, contained in the Form 10-K. He noted that this assessment states that management completed an assessment of internal control over financial reporting as of November 30, 2006, and concluded that such internal control is effective 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, based on the criteria set forth in the Treadway Commission. Mr. Cruikshank reported that no material weakness in internal control over financial reporting had been identified at November 30, 2006.

Mr. Cruikshank reported that Ms. Rudofker gave an overview of the Firm's process to comply with Section 404 of the Sarbanes-Oxley Act, and that the process involved layered sub-certifications by 652 individuals. He reported that Ms. Rudofker stated that the majority of control concerns identified relate to themes previously reported to the Committee for 2004, 2005 or 2006, and that the remaining control concerns involve internal risk management controls or represent areas where evidence of management review and authorization is needed and where strengthened segregation of duties controls is required. Mr. Cruikshank stated that Ms. Rudofker reported that

management is in the process of developing and implementing action plans to address the findings.

He stated that Ms. Rudofker delivered the Corporate Audit Report on Consolidated Supervised Entity ("CSE") 2006 Year-End Results, and that she stated that under the terms of mutually accepted agreed upon procedures ("AUP"), the SEC will rely on the work of Corporate Audit for review and testing of the Firm's risk management controls. Mr. Cruikshank stated that Ms. Rudofker described that the AUP addresses regulatory requirements for independent verification of the operating effectiveness of controls supporting the capital calculation and other CSE activities, provides a testing framework that meets the SEC's expectations and replaces the need for a formal external auditor agreed upon procedures review. He stated that she described that the agreement requires that Corporate Audit conduct annual testing of CSE controls on a scope and frequency determined by its risk assessment methodology, report all important findings from CSE reviews to the Committee and meet quarterly with the SEC to review the scope of Audit activities, reviews, and results. Mr. Cruikshank stated that Ms. Rudofker discussed that that coverage areas subject to the AUP include corporate governance, functional risk management activities, business specific products, and capital calculation and reporting, and that in conducting reviews and testing, Corporate Audit considers the overall business environment, operating risks, control activities, automation and management information and monitoring activities. He reported that she stated that, based on reviews conducted, no material weaknesses were noted in internal risk management controls that would have an impact on the Firm's compliance with CSE requirements, as of November 30, 2006.

Mr. Cruikshank stated that Ms. Rudofker also reported that the Firm implemented a risk-based capital calculation, infrastructure control and reporting framework in accordance with the guidelines of CSE, and she described that this framework incorporated market risk (VaR), credit risk (potential exposure) and specific risk drivers of the Firm's capital requirement, stress-testing, back-testing and scenario risk analytics, and data and model controls. He also reported that, to support the more quantitative aspects of CSE testing, Corporate Audit entered into a co-sourcing arrangement with PriceWaterhouseCoopers ("PWC"), primarily to assist with evaluating models used in the calculation of VaR and Maximum Potential Exposure.

Mr. Cruikshank reported that, at the February 8<sup>th</sup> meeting, Mr. William Schlich of Ernst & Young presented an update on its report, that had been presented at the previous Committee meeting, on the results of its audit of the Firm's 2006 consolidated financial statements and of management's assessment of the Firm's internal control over financial reporting. He stated that Mr. Schlich confirmed that Ernst & Young would be issuing unqualified opinions (to be included in the Form 10-K) on the financial statements and on management's assessment of internal control over financial reporting, and that Ernst & Young had reviewed the MD&A and other

portions of the 10-K for consistency with the audited financial statements and had no disagreements with them.

Mr. Cruikshank also reported that the Committee held a telephonic meeting on March 13, 2007, with management and representatives of Ernst & Young to review and discuss in advance the Corporation's earnings press release for the first quarter of 2007.

#### **REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE**

Ms. Evans reported that at its meeting earlier that day, the Committee received a presentation from Ridgeway Partners regarding potential candidates to serve on the Board of Directors. She summarized the Committee's discussion of these candidates and distributed a list of prospective candidates. Ms. Evans updated the Board on the current leading candidates, and she reported to the Board and requested input on certain new potential candidates.

#### **FINANCIAL UPDATE**

Mr. O'Meara reviewed the Firm's financial results for the first quarter of 2007. As part of such review he discussed, among other things, market environment, net income, revenues, expenses, return on equity, earnings per share, capital position (including leverage ratios) and risk appetite usage, as well as the performance of the Firm by business unit and by region. He compared the results for the first quarter of 2007 to results for the fourth and first quarters of 2006 and to budget. Mr. O'Meara also provided an analysis of competitor information and discussed the results of members of the Firm's peer group. He concluded by discussing the quarterly and annual financial performance trend. The Board directed questions to Mr. O'Meara and senior management regarding divisional revenues, the current market environment, the subprime mortgage business and other matters.

#### **PRESENTATION ON ASIA**

Mr. Jesse Bhattal, Chief Executive Officer, Asia, gave a presentation on the Firm's Asia Strategy. He discussed the Asia market opportunity and described that the Asia region is leading economic and fee pool growth. As part of such discussion, he noted that Asia GDP growth continues to outperform other major global economies and that the global fee pool growth is highest in Asia. He also described that the region is characterized by massive shifts in liquidity underpinned by hedge funds and private equity, disintermediation of Asia's banks and increased market sophistication.

Mr. Bhattal then discussed the Firm's performance in the Asia region to date. He reported that the Firm has nearly quadrupled revenues since 2001, with four consecutive years of record performance. He presented the revenues and pre-tax income in the region for the period from 2003 to present, and described that the growth drivers included an expanded customer franchise, significant senior hires, substantial platform investment, ongoing footprint expansion, principal emphasis, decentralization of markets and effectively building the Firm's brand in the region.

He described the evolution of the Asia strategy since 2001, describing the evolution of the stages from best operator, to focused growth, to the state of full-scale investment which characterizes the present strategy. Mr. Bhattal stated that the full-scale investment stage is characterized by intensified distribution, expanded research, broad fixed income capabilities, an emphasis on performing assets, volatility excellence, a focus on structured products, an emphasis on Capital Markets Prime Services and hedge funds, a return to mainstream investment banking activities, local market penetration, increased principal focus and a focus on new businesses, including investment management. Mr. Bhattal presented a "scorecard" on Asia strategy, comparing the current state of the region to the strategic deliverables for the region identified by Mr. Bhattal in 2003.

Mr. Bhattal discussed key elements of the strategy in Asia, including growing the client franchise, penetrating local markets and completing the region's geographic footprint. He described that the region is continuing to grow the mainstream client franchise, while simultaneously leveraging its track record of client-driven principal opportunities. Mr. Bhattal then presented the growth strategy for each of the region's business segments, noting that there is a broad-based emphasis on customer revenues, local markets, and structured products across equity and fixed income with a principal mindset.

He discussed the Asia country strategy of penetrating local markets, stating that the goal was to continue to deliver global products and expertise to Asia clients, while participating in fast-growing domestic opportunities. He described that multiple trading hubs coupled with a strong local franchise are vital to deepening client penetration, noting that the Singapore build-out complements Hong Kong and Tokyo and that there are local currency and principal opportunities in the region. Mr. Bhattal stated that Japan and Korea, two of the largest regional markets, will continue to be core to the Asia blueprint and that these two regions share a similar strategy, characterized by enhanced local market distribution, leading fixed income capabilities, a focus on hedge funds, an emphasis on performing assets, a transition to mainstream investment banking activities and principal-driven client opportunities. Mr. Bhattal described China and India as two of Asia's most promising markets, and discussed the strategy for each of these countries. He also discussed the Firm's acquisition of Grange Securities, noting that it affords the Firm access to the largest market in Asia outside Japan, and then he described the strategy for Grange Securities.

Mr. Bhattal concluded by describing the progress and characteristics of the Asia region, noting that the region has laid the foundation for a scalable and diversified franchise, has intensified its focus on client revenues and is innovating new asset classes and products. He also described the region as one characterized by global leadership coupled with local penetration, enormous principal upside and a growing war for talent, and he stated that the Asia region is a critical driver of shareholder value to the Firm. The Board directed questions to Mr. Bhattal and senior management regarding the business and regulatory environments in China and India, the Firm's business and strategy in China and India, the Asia talent pool, the Firm's efforts to encourage overseas experience in its personnel and other matters.

### PRESENTATION ON SUBPRIME MORTGAGE BUSINESS

A presentation, "Update on Lehman Brothers' Subprime Mortgage Origination Business," was given by Mr. Ted Janulis, Global Head of Mortgage Capital, Mr. David Sherr, Managing Director in Fixed Income Mortgage Trading, and Ms. Lana Franks, Managing Director in Mortgage Capital. Mr. Janulis commenced the presentation by providing an executive summary of the subprime mortgage business. He noted that it has been an attractive market for the Firm, with 30% plus industry growth with attractive margins for the period from 2001-2006 and a vertically integrated business model which enables the Firm to achieve a high level of cross-cycle profitability. Mr. Janulis stated that, over the past year, difficult markets have led to declining profitability among all industry participants and described that overcapacity had led to reduced pricing and increased risk taking, lowering overall profitability. He also noted that virtually all independent subprime originators have cut back on their operations or have gone out of business. He then described that the Firm has taken aggressive steps to enhance performance during this down-cycle and to position the business for the long term, including: reducing headcount and significantly enhancing the operating model; modifying the product offering to reduce risk; and aggressively pursuing best-in-class operators from other firms to strengthen the franchise. Mr. Janulis concluded this summary by stating that he expects this business to be fundamentally better positioned for profitable growth when the industry cycle turns.

Mr. Janulis then described the types and characteristics of residential mortgages, including prime, Alt-A and subprime mortgages, and provided a history of acquisitions of residential mortgage originators by the Firm and its competitors. Ms. Franks provided a P&L analysis of the Firm's subprime mortgage business and discussed the drivers of the decrease in profitability since 2005, including a significant decrease in run rate origination volume, a decline in gain on sale and securitization margins and an increase in loan loss reserves due to loan performance. She discussed changes in the subprime industry landscape and provided a summary of the top 20 subprime originators of 2006, noting which were currently in play and which were sold or bankrupt.

Ms. Franks discussed changes to the operating model of BNC Mortgage, a subsidiary of the Firm in the subprime business. These changes include a new leadership team, reductions in headcount and changes to the operating model. Mr. Sherr then described improvements since 2006 to the BNC risk and credit profile arising from a tightening of the lending criteria. He discussed the run rate economics of BNC on a per loan basis, analyzing the impact on pre-tax income and revenue of recent market conditions, including low gain on sale and securitization, higher costs arising from lower origination volume and a high level of defaults. Mr. Sherr also discussed expected results in a transitional market and in a normalized environment.

Mr. Sherr next discussed the limited contagion to other markets from the subprime business. He described that, for the prime and Alt-A mortgage markets, there is a significant migration to higher quality credits by investors. He stated that delinquencies are within the expected range for prime and Alt-A mortgages. Mr. Sherr then discussed the limited contagion to the UK non-conforming market, specifically that: this market is less mature than the US market; loan terms and pricing are currently less aggressive, although competition is intensifying; the loan to value, delinquency and default rates are lower than the US; and house price appreciation is higher and more evenly distributed in the UK non-conforming market, supported by a fundamental housing shortage. Speaking of the broader credit markets, he stated that there has been only limited widening of spreads, that the structural integrity of facilities should withstand asset underperformance and that existing market losses are manageable.

Mr. Janulis concluded the presentation by summarizing the current subprime environment and describing next steps. He noted that most of the large subprime independents have gone out of business, have been sold or are selling; however, he stated that a substantial part of the subprime market will remain, due to the need from households and the fact that profitability will return when the environment improves, following a tightening of lending standards, improvement in pricing and removal of excess capacity. He summarized the corrective measures that have been put in place in the Firm's subprime business to address current conditions and stated that the current distressed environment provides substantial opportunities, as in the late 1990's. The Board directed questions to the presenters and to senior management regarding the Firm's U.S. residential mortgage originations market share, acquisitions of residential mortgage originators by the Firm's competitors, the prospects for the size of the subprime mortgage business, the Firm's business model and anticipated recovery time for this business, the impact of market dislocation on the value of inventory in the process of origination and other matters.

Mr. Hernandez left the meeting during this presentation.

#### LEGAL UPDATE

Mr. Russo provided the Board with an update on matters discussed at the

September 2006 joint meeting of the Audit Committee and the Compensation and Benefits Committee, and on the Enron commercial paper case. The Board directed a question to Mr. Russo regarding the 2007 Annual Meeting of Stockholders.

**PRIVATE SESSION**

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

**EXECUTIVE SESSION**

Mr. Fuld was excused, and the non-management Directors other than Mr. Hernandez then met in executive session.

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

Respectfully submitted,

*Jeffrey A. Welikson*  
Jeffrey A. Welikson  
Secretary of the Meeting