

*Confidential Presentation to:*

# Lehman Brothers Board of Directors

## Financial Information

December 2007

LEHMAN BROTHERS

CONFIDENTIAL

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LB 010421

LBHL\_SEC07940\_027331

# Table of Contents

---

◆ Executive Summary	1
◆ December 2007 Financial Results	2
◆ Capital Markets	3
◆ Investment Banking	4
◆ Investment Management / Principal Investments / Regional	5
◆ Balance Sheet, Capital and Risk	6
◆ Competitor Information	7
◆ Monthly Financial Performance Trend	8
◆ Quarterly and Annual Financial Performance Trend	9

---

LEHMAN BROTHERS

# Executive Summary

## Market Environment

- ◆ Global equity market valuations fell slightly in the month, amid a decline in most indices. U.S. markets overall were down 1%, while Europe remained relatively flat and Asia declined 2%.
  - Global average trading volumes were down 23% versus the averages in Q4 2007, and were 20% lower than average month 2007.
- ◆ Fixed Income credit spreads mostly widened in the month. The Lehman Global High Yield Index widened 6 bps and the Global Investment Grade Index widened by 5 bps. Most tranches of the ABX index widened significantly during the month.
- ◆ Treasury yields increased amid thin trading around the December holidays. The yield on the 2 year Treasury note increased 5 bps and the yield on the 10 year note increased by 9 bps.

## Revenues / Expenses

- ◆ Monthly net revenues of \$1,491 million fell below both December 2006 and average month 2007 by 11% and 2%, respectively.
  - Fixed Income Division revenues of \$952 million surpassed December 2006 by 13% and almost doubled relative to average month 2007, amid a record performance in Prime Services and very strong revenues within Credit Products (2nd highest ever).
  - Equities Division revenues of \$509 million surpassed both December 2006 and average month 2007 by 25% and 6%, respectively, led by strong results in Execution Services amid successful trading strategies, especially out of Asia.
  - Banking Division revenues of \$268 million surpassed December 2006 by 19%, amid solid revenues across most products.
  - Investment Management Division revenues of \$196 million were 5% lower than December 2006 and 14% behind average month 2007, amid lower incentive fees in Private Equity.
  - Principal Investments revenues of \$(48) million fell significantly below both December 2006 and average month 2007, due to weak performances within Global Trading Strategies and Private Equity Principal.
  - Non-U.S. revenues of \$625 million were 16% ahead of December 2006, but 6% behind average month 2007, as strong revenues in Asia were partially offset by a slightly lower performance in Europe.
- ◆ Personnel expenses were accrued at 49.3% of net revenues, consistent with prior periods.
- ◆ Non-personnel expenses of \$320 million were higher than the December 2006 and average month 2007 levels.

## Profitability

- ◆ Net income of \$300 million and EPS of \$0.51 were both 10% below average month 2007.
- ◆ Pretax margin was 29.2% and ROE was 16.3%

# December 2007 Financial Results

## Monthly Performance

*\$ millions, except per share data*

	December 2007	December 2006	% Δ	Avg. Month 2007	% Δ
<b>Segment Revenues</b>					
Investment Banking	296	291	2%	310	(4)%
Capital Markets	928	1,184	(22)%	973	(5)%
Investment Management	267	209	28%	246	9%
<b>Total Revenues</b>	<b>1,491</b>	<b>1,683</b>	<b>(11)%</b>	<b>1,528</b>	<b>(2)%</b>
<b>Expenses</b>					
Personnel	735	830	(11)%	753	(2)%
Non Personnel	320	275	16%	298	8%
<b>Pre Tax Income</b>	<b>435</b>	<b>578</b>	<b>(25)%</b>	<b>477</b>	<b>(9)%</b>
Income Taxes	135	191	(29)%	144	(7)%
<b>Net Income</b>	<b>300</b>	<b>387</b>	<b>(22)%</b>	<b>333</b>	<b>(10)%</b>

### Additional Data

Earnings per Common Share	\$0.51	\$0.66	(23)%	\$0.58	(11)%
Return on Common Equity	16.3%	24.6%	-8.3pp	20.8%	-4.5pp
Pre Tax Margin	29.2%	34.3%	-5.1pp	31.2%	-2.0pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	-
Effective Tax Rate	31.0%	33.0%	-2.0pp	30.3%	+0.7pp

### Divisional Revenues

Fixed Income	952	840	13%	477	99%
Equities	509	407	25%	482	6%
Banking	268	224	19%	284	(6)%
Investment Management	196	206	(5)%	227	(14)%
Principal Investments	(48)	173	n/m	136	n/m
Banking & PIM Eliminations / Other	(387)	(167)	n/m	(78)	nm
<b>Total Revenues</b>	<b>1,491</b>	<b>1,683</b>	<b>(11)%</b>	<b>1,528</b>	<b>(2)%</b>

### Regional Revenues

Europe	333	345	(3)%	434	(23)%
Asia	292	194	51%	232	26%

LEHMAN BROTHERS

# Capital Markets

## Fixed Income

- ◆ Revenues of \$952 million surpassed both December 2006 and average month 2007.
- ◆ High Grade Credit recorded their second highest month ever, almost triple the average month 2007 level, on strong customer flow.
- ◆ Interest Rate Products also recorded their second highest month ever, more than double December 2006 and ahead of average month 2007 by 96%, on profitable trading strategies, primarily in derivative trading.
- ◆ Real Estate recorded a loss for the month, led by valuation adjustments across all regions, most notably Americas.
- ◆ Record Prime Services revenues, led by a record performance in Firm Financing due to a strong performance in our matched book.

### Fixed Income Market Conditions

- ◆ Yields on the U.S. and European government 10 year notes rose during the month, while the U.K. and Japanese government 10 year notes both declined.
- ◆ Central Banks (Federal Reserve, ECB, Swiss National Bank, and Bank of England) held auctions of short term funds to alleviate a large liquidity crunch in credit markets at year-end.
- ◆ Global investment grade spreads widened by 5 bps and high yield spreads widened by 6 bps. Most tranches of the ABX index widened in the month.
- ◆ Brent crude oil futures increased 6% to \$93.89 in the month.
- ◆ The Dollar strengthened against the British Pound (\$2.06/£ to \$1.98/£) and the Japanese Yen (¥111.2/\$ to ¥111.7/\$), and remained flat against the Euro (\$1.46/€).

## Equities

- ◆ Revenues of \$509 million surpassed December 2006 by 25% and average month 2007 by 6%.
- ◆ Client activity was up 29% versus December 2006 and 5% versus average month 2007.
- ◆ Execution Services revenues were solid, outperforming December 2006 by 60% and average month 2007 by 37%.
- ◆ Derivatives revenues were solid, amid strong customer flow and profitable trading strategies.
- ◆ Convertible revenues declined versus both benchmark periods, as record customer flow was offset by unprofitable trading strategies, mainly in Americas.
- ◆ Equities Strategies recorded a loss for the month, led by a decline in Asia revenues, amid non-Japanese exposure.

### Equity Market Conditions

- ◆ Global equity markets declined 1% in December, amid declines in most indices during the month.
  - Asia fell 2% as the Hang Seng index declined by 4%. The U.S. markets were down 1% and Europe markets remained flat.
  - Global average trading volumes were down 23% versus the averages in Q4 2007, and were 20% lower than average month 2007.
- ◆ The VIX index, which measures U.S. market volatility, decreased slightly from 22.9% to 22.5%.

# Investment Banking

CONFIDENTIAL  
 FOIA CONFIDENTIAL TREATMENT REQUESTED  
 BY LEHMAN BROTHERS HOLDINGS INC.

## Revenue Summary

- ◆ Revenues of \$268 million surpassed December 2006 by 19%.
- ◆ M&A revenues were strong, driven by large deals such as Firth Rixson, Houghton Mifflin, and ITC Corporation.
- ◆ Debt Origination surpassed both December 2006 and average month 2007, driven by fees from the \$7 billion preferred issuance for Fannie Mae.
- ◆ Equity Origination revenues were solid, led by fees from the \$3 billion convertible preferred issuance for Washington Mutual.
- ◆ We finished the quarter as the #1 underwriter of securities for U.S. Financial Institutions.
- ◆ Fee pipeline of \$803 million was down 3% from November, but was up 5% versus the same month last year.

## Market Environment

- ◆ Announced M&A volume declined 24% in the month of December, but was in line with average month 2007. Full Year announced volume surpassed 2006 level by 24%.
- ◆ Completed M&A volume in December fell below the prior month by 53% and average month 2007 by 27%. Full Year completed volume is 24% higher than last year.
- ◆ Equity Origination volume declined 11% in December, but increased 10% versus average month 2007. Full Year volume increased 22%, led by a significant increase in Convertibles.
- ◆ Fixed Income Origination fell 41% in December, amid a decline in all products, and was down 60% versus average month 2007. Full Year fixed income volume declined 7% versus 2006, led by a 26% decline in ABS, including sub-prime related issuance.

## Significant Deals in Pipeline

	Value \$Bn	Description	Gross Fees (Estimated)
<b>Advisory:</b>			
Cognos Inc	\$4.5	• Sale to IBM	\$26mm
MGI Pharma Inc.	3.7	• Sale to Eisai Co.	25mm
Imperial Tobacco Group	21.5	• Acquisition of Altadis SA	21mm
Hagemeyer NV	5.0	• Sale to Rexel	17mm
<b>Equity Origination:</b>			
Project Genesis	\$ -	• Private Placement, joint books	\$45mm
Liberty Acquisition Holdings	1.0	• IPO, co-managed	11mm
Erickson Retirement Communities	-	• Private Placement, lead books	10mm
MF Global	0.6	• Convertible Offering, joint books	10mm
Caja De Ahorros Del Mediterraneo	1.3	• IPO, joint books	10mm
<b>Fixed Income Origination:</b>			
Dana Corp	\$2.0	• Bank loan, lead	\$12mm
Imperial Tobacco Group PLC	-	• Bridge loan, lead	8mm
Genworth Financial - River Lake 5	1.0	• ABS, lead	7mm
Las Vegas Sands	3.6	• Senior note, lead	6mm

## Global Market Share

	Rank		Lehman Share (%)		Mkt Volume (\$ billion)		
	YTD	CY	YTD	CY	CY	CY	Ynr.
	2007*	2006	2007*	2006	2007	2006	
<b>Fee Share**</b>	9	9	4.4	4.6			
Announced M&A	9	8	17.1	15.4	4,482	3,610	24%
Completed M&A	7	7	19.7	15.8	3,785	3,055	24%
Equity	9	9	3.4	3.8	876	720	22%
IPO	9	11	2.9	2.8	309	269	15%
Secondary	11	10	2.6	3.8	386	327	18%
Convertible	8	8	6.0	6.2	178	123	45%
Fixed Income	5	4	5.5	6.2	6,634	7,123	-7%
Investment Grade	9	7	3.9	4.5	2,562	2,641	-3%
High Yield	8	9	6.6	5.2	166	185	-10%
ABS	5	5	5.9	6.2	1,145	1,545	-26%
MBS	1	2	8.9	8.9	1,300	1,452	-10%

\* 2007 is calendar year-to-date through 12/31/2007

\*\* T through December 2007

# Investment Management / Principal Investments / Regional

## Investment Management

- ◆ Revenues of \$196 million were 14% below December 2006 and 5% lower than average month 2007, amid lower incentive fees in Private Equity and losses on seed investments in Lehman managed funds.
- ◆ AUM of \$281 billion was down slightly (\$1.3 billion) from November month end, as market appreciation of \$0.6 billion was offset by net outflows of \$1.9 billion.
- ◆ PIM revenues of \$116 million surpassed December 2006, but fell slightly below average month 2007, as an increase in Fixed Income was offset by declines in both Equities and Asset Management products.

## Principal Investments

- ◆ Revenues of \$(48) million fell significantly below both December 2006 and average month 2007.
- ◆ Global Trading Strategies recorded a loss for the month, as investment gains in India were offset by unprofitable trading strategies in Americas and Europe.
- ◆ Revenues in Private Equity Principal were weak in December, due to poor performances within the MLP Prop Fund, Private Fund Investments Group, and Venture Capital.
- ◆ Also included in December's results was a \$28 million gain from the minority investment in DE Shaw.

## Europe

- ◆ Europe revenues of \$333 million were 3% lower than December 2006 and 23% lower than average month 2007, led by a weak performance in Principal Investments.
- ◆ Fixed Income results were slightly ahead of both December 2006 and average month 2007, on strong Prime Services and Interest Rate Products revenues.
- ◆ Equities results trailed average month 2007, led by declines in Convertibles and Prime Services.
- ◆ Banking surpassed December 2006 by 10%, driven by a solid performance in Debt Origination.
- ◆ Principal Investments revenues were weak across all products.

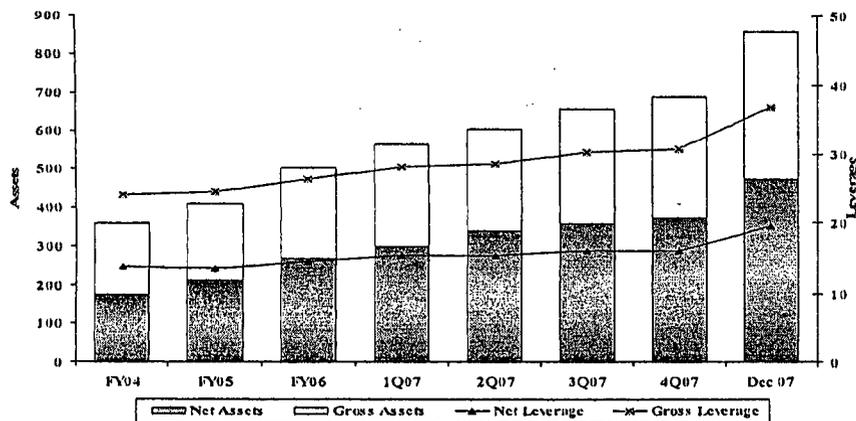
## Asia

- ◆ Asia revenues of \$292 million surpassed both December 2006 and average month 2007.
- ◆ Fixed Income results were 40% ahead of average month 2007, amid strong results in Credit Products and Foreign Exchange.
- ◆ Equities revenues were strong, outperforming December 2006 and average month 2007, driven by gains in Execution Services and Derivatives.
- ◆ Banking easily surpassed December 2006 results, mainly due to strong performances in Equity Origination and Advisory.

# Balance Sheet, Capital and Risk

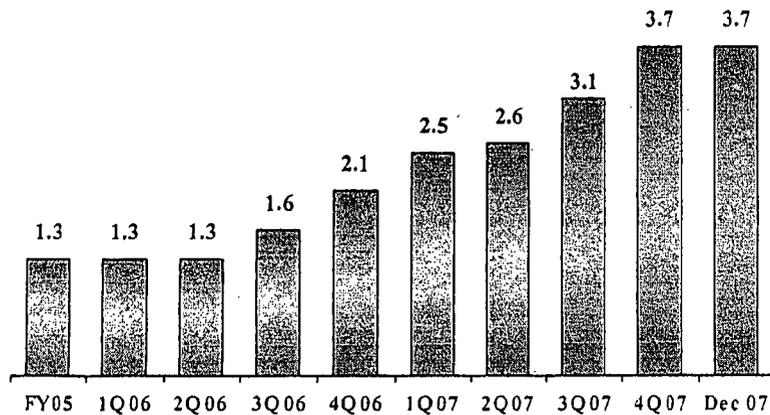
CONFIDENTIAL  
 FOIA CONFIDENTIAL TREATMENT REQUESTED  
 BY LEHMAN BROTHERS HOLDINGS INC.

## Balance Sheet (\$ billions) / Leverage



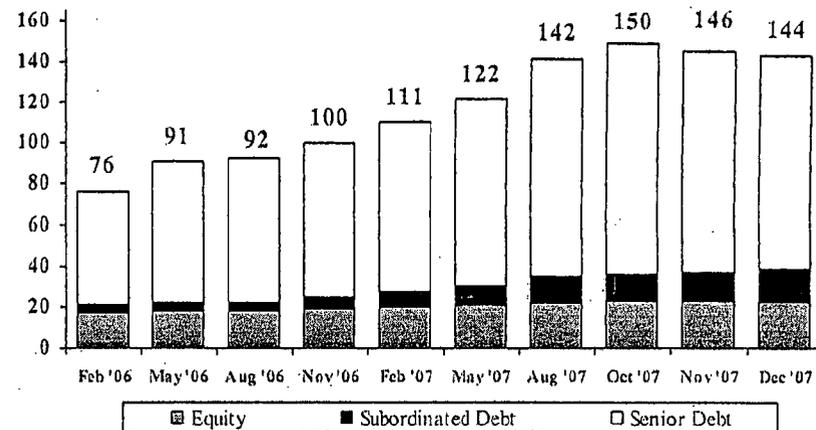
Figures represent period end amounts.

## Average Risk Appetite Usage (\$ billions)



Figures represent average daily usage.

## Long Term Capital (\$ billions)



## Long Term Capital Roll Forward (\$ billions)

	Nov '07	December '07 Activity			Estimated Dec '07
		Issuances	Maturities	Other / Earnings	
Senior Notes	108.9	2.3	(5.6)	(0.2)	105.5
Subordinated Debt	14.2	1.5		(0.1)	15.6
<b>Total Long Term Borrowings</b>	<b>123.2</b>	<b>3.8</b>	<b>(5.6)</b>	<b>(0.3)</b>	<b>121.1</b>
Preferred Stock	1.1				1.1
Common Equity	21.4			0.7	22.1
<b>Total Long Term Capital</b>	<b>145.7</b>	<b>3.8</b>	<b>(5.6)</b>	<b>0.4</b>	<b>144.3</b>

# Competitor Information

	LEH	GS	MS	MER	BSC	C	BAC	JPM
<i>Financial Statistics</i>								
Price to Book <sup>1,2</sup>	1.4x	2.1x	1.6x	1.7x	0.9x	1.1x	1.2x	1.1x
Price to Earnings <sup>1,3</sup>	8.1x	8.7x	7.6x	10.4x	8.4x	8.0x	8.5x	9.9x
Dividend Yield	1.0%	0.6%	2.0%	2.6%	1.3%	7.3%	5.8%	3.4%
Book Value per Share <sup>2</sup>	\$39.44	\$90.43	\$30.31	\$32.80	\$86.16	\$22.74	\$32.09	\$36.59
Market Cap (billions)	\$29	\$81	\$52	\$47	\$11	\$122	\$166	\$138
<i>Share Price Performance</i>								
2008 Calendar Year to Date <sup>1</sup>	-16%	-11%	-9%	1%	-12%	-17%	-9%	-6%
Calendar Year 2007	-16%	8%	-21%	-42%	-46%	-47%	-23%	-10%
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
2007 Full Year ROE <sup>4</sup>	21%	33%	8%	n/m	3%	3%	11%	13%
<i>Ten Year Debt Spreads (Basis Points)</i>								
Spread vs. 1 Month Libor (12/31/07)	171	121	136	186	261	121	116	121
Spread vs. 1 Month Libor (11/30/07)	187	137	162	187	237	127	122	137
Spread vs. 10 Year UST (12/31/07)	235	185	200	250	325	185	180	185
Spread vs. 10 Year UST (11/30/07)	250	200	225	250	300	190	185	200
<i>Long Term Debt Credit Ratings</i>								
Standard & Poors	A+	AA-	AA-	A+	A	AA-	AA	AA-
Moody's	A1	Aa3	Aa3	A1	A2	Aa3	Aa1	Aa2
Fitch	AA-	AA-	AA-	A+	A+	AA	AA	AA-

## Notes

- 1 - Share price as of January 22, 2008.
- 2 - Book values are per latest externally reported quarter. Book value per share is reflected on a pro-forma basis for BSC, MS and MER to include the conversion of the mandatory convertible issuances. Excluding adjustments, book value per share was 84.09, 28.56 and 29.37, respectively.
- 3 - Based on full year 2008 First Call estimates, updated on January 22, 2008.
- 4 - Excludes the effect of a non-cash charge related to the write-down of Bear Wagner Specialists in 2Q07 for Bear Stearns.

# Monthly Financial Performance Trend

<i>\$ millions, except per share data</i>	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007
<b>Segment Revenues</b>													
Investment Banking	291	294	265	278	413	459	373	394	304	168	316	347	296
Capital Markets	1,184	1,139	1,179	1,117	1,075	1,401	1,329	953	154	961	1,485	282	928
Investment Management	209	283	203	235	259	274	277	314	211	215	298	319	267
<b>Total Revenues</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>	<b>2,134</b>	<b>1,978</b>	<b>1,661</b>	<b>669</b>	<b>1,343</b>	<b>2,099</b>	<b>948</b>	<b>1,491</b>
<b>Expenses</b>													
Personnel	830	846	812	804	861	1,052	975	819	330	662	1,035	467	735
Non Personnel	275	287	297	307	306	302	313	318	348	322	351	324	320
<b>Pre Tax Income</b>	<b>578</b>	<b>583</b>	<b>538</b>	<b>520</b>	<b>580</b>	<b>779</b>	<b>690</b>	<b>524</b>	<b>(9)</b>	<b>359</b>	<b>713</b>	<b>157</b>	<b>435</b>
Income Taxes	191	192	170	166	186	254	221	157	(59)	106	210	28	135
<b>Net Income</b>	<b>387</b>	<b>391</b>	<b>368</b>	<b>353</b>	<b>395</b>	<b>525</b>	<b>469</b>	<b>367</b>	<b>51</b>	<b>254</b>	<b>503</b>	<b>129</b>	<b>300</b>

## Additional Data

Earnings per Common Share	\$0.66	\$0.67	\$0.63	\$0.61	\$0.68	\$0.91	\$0.81	\$0.64	\$0.09	\$0.44	\$0.88	\$0.22	\$0.51
Return on Common Equity	24.6%	24.3%	22.9%	21.9%	24.1%	31.5%	27.4%	21.0%	2.6%	14.3%	28.0%	6.9%	16.3%
Pre Tax Margin	34.3%	34.0%	32.6%	31.9%	33.2%	36.5%	34.9%	31.6%	-1.3%	26.7%	34.0%	16.6%	29.2%
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	33.0%	33.0%	31.5%	32.0%	32.0%	32.6%	32.0%	30.0%	NM	29.4%	29.4%	17.7%	31.0%

## Divisional Revenues

Fixed Income	840	650	694	593	655	960	935	481	(169)	668	441	(732)	952
Equities	407	469	422	610	526	642	545	533	459	529	734	197	509
Banking	224	319	319	286	532	496	471	(113)	(111)	214	683	260	268
Investment Management	206	265	218	233	245	264	236	226	202	210	294	259	196
Principal Investments	173	208	130	62	126	257	78	(34)	(123)	171	249	415	(48)
Banking & PIM Eliminations / Other	(167)	(195)	(137)	(153)	(337)	(485)	(286)	568	411	(448)	(303)	550	(387)
<b>Total Revenues</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>	<b>2,134</b>	<b>1,978</b>	<b>1,661</b>	<b>669</b>	<b>1,343</b>	<b>2,099</b>	<b>948</b>	<b>1,491</b>

## Regional Revenues

Europe	345	442	436	525	511	657	569	353	243	269	409	711	333
Asia	194	168	179	181	257	305	264	315	40	282	468	267	292

LEHMAN BROTHERS

# Quarterly and Annual Financial Performance Trend

<i>\$ millions, except per share data</i>	2006				2007				2006	2007
	Q1 '06	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q2 '07	Q3 '07	Q4 '07		
<b>Segment Revenues</b>										
Investment Banking	835	741	726	858	850	1,150	1,071	831	3,160	3,903
Capital Markets	3,046	3,078	2,847	3,035	3,502	3,594	2,435	2,727	12,006	12,257
Investment Management	580	592	605	640	695	768	802	832	2,417	3,097
<b>Total Revenues</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>	<b>5,512</b>	<b>4,308</b>	<b>4,390</b>	<b>17,583</b>	<b>19,257</b>
<b>Segment Revenues</b>										
Personnel	2,199	2,175	2,060	2,235	2,488	2,718	2,124	2,164	8,669	9,494
Non Personnel	711	738	751	809	860	915	979	996	3,009	3,750
<b>Pre Tax Income</b>	<b>1,551</b>	<b>1,498</b>	<b>1,367</b>	<b>1,489</b>	<b>1,699</b>	<b>1,879</b>	<b>1,205</b>	<b>1,230</b>	<b>5,905</b>	<b>6,013</b>
Income Taxes	513	496	451	485	553	606	318	344	1,945	1,821
<b>Net Income Before Accounting Change</b>	<b>1,038</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>	<b>1,273</b>	<b>887</b>	<b>886</b>	<b>3,960</b>	<b>4,192</b>
Cumulative Effect of Accounting Change	47	-	-	-	-	-	-	-	47	-
<b>Net Income After Accounting Change</b>	<b>1,085</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>	<b>1,273</b>	<b>887</b>	<b>886</b>	<b>4,007</b>	<b>4,192</b>

## Additional Data

Earnings per Common Share	\$1.83	\$1.69	\$1.57	\$1.72	\$1.96	\$2.21	\$1.54	\$1.54	\$6.81	\$7.26
Return on Common Equity	26.7%	23.7%	21.0%	22.3%	24.4%	25.8%	17.1%	16.6%	23.4%	20.8%
Pre Tax Margin	34.8%	34.0%	32.7%	32.8%	33.7%	34.1%	28.0%	28.0%	33.6%	31.2%
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	33.1%	33.1%	33.0%	32.5%	32.5%	32.3%	26.4%	27.9%	32.9%	30.3%

## Divisional Revenues

Fixed Income	2,365	2,497	2,081	2,086	2,184	2,207	1,247	377	9,029	6,015
Equities	1,000	1,103	914	1,015	1,297	1,778	1,537	1,460	4,031	6,073
Banking	808	740	711	1,079	862	1,314	247	1,157	3,338	3,581
Investment Management	563	583	609	638	690	742	664	762	2,393	2,858
Principal Investments	231	80	210	366	512	446	(80)	834	888	1,712
Banking & PIM Eliminations / Other	(506)	(593)	(346)	(652)	(499)	(975)	692	(201)	(2,096)	(982)
<b>Total Revenues</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>	<b>5,512</b>	<b>4,308</b>	<b>4,390</b>	<b>17,583</b>	<b>19,257</b>

## Regional Revenues

Europe	1,007	949	1,025	1,084	1,222	1,693	1,165	1,389	4,065	5,469
Asia	557	413	361	328	541	744	619	1,017	1,659	2,921

LEHMAN BROTHERS