

LEHMAN BROTHERS

MEMORANDUM

DATE: September 11, 2008

TO: John Akers
Marty Evans
Sir Christopher Gent
John Macomber

FROM: Tracy Binkley

SUBJECT: Material for Telephonic Compensation Committee Meeting -- September 12

We have scheduled a Compensation and Benefits Committee meeting to discuss separation arrangements related to the recent changes in management and also to review retention arrangements for two newer Executive Committee members.

Attached is material related to the separation arrangements for Jeremy Isaacs, Benoit Savoret, and Andy Morton. The attachment contains a summary of key terms of the separation agreements for all three individuals, detailed equity award summaries for each, and resolutions for the Committee's review and approval.

Additionally, we propose a compensation guarantee for the Global Head of Equities, Jerry Donini, for retention purposes. The terms of the guarantee and related resolutions are attached.

If you would like to review copies of the complete separation agreements (or the compensation guarantee for Jerry Donini) that are summarized in the attachments, please let me know, and I can fax the drafts of the full agreements to you.

Finally, we also have included a summary of the guarantee and compensation advance for Eric Felder who was recently named the co-Head of Global Fixed Income (replacing Andy Morton) and is now a member of the Firm's Executive Committee. We are including this summary for your reference only, since this agreement is not required to be approved by the Committee.

We are in the process of scheduling individual calls with each of you to review the material in advance of the Committee meeting. Meanwhile, if you have any questions, please feel free to call me at [REDACTED].

cc: R.S. Fuld, Jr.
H.H. McDade III



AGENDA

LEHMAN BROTHERS HOLDINGS INC.

COMPENSATION AND BENEFITS COMMITTEE TELEPHONIC MEETING

September 12, 2008
5:00 p.m. Eastern Time

1. Review and approval of the separation arrangements for Jeremy Isaacs, Benoit Savoret, and Andy Morton
2. Review and approval of compensation guarantee for Jerry Donini
3. Review of guarantee and compensation advance for Eric Felder

TERMINATION ARRANGEMENTS FOR EXECUTIVES

WHEREAS, Jeremy Isaacs, Benoit Savoret, and Andy Morton (the "Terminating Executives") are very experienced senior executives with valuable business skills and experience that the Corporation may wish to continue to leverage as a resource following their separation of employment, and the Corporation would face significant impact if the Terminating Executives should, following their separation of employment, fail to provide appropriate transition assistance, solicit clients or employees, or engage in other behavior that may be detrimental to the Corporation or its affiliates; and

WHEREAS, the Committee deems it appropriate for the Corporation to enter into separation arrangements with the Terminating Executives; now therefore be it

RESOLVED, that the Global Director of Human Resources is hereby authorized and directed to cause the Corporation to enter into separation agreements between the Corporation and the Terminating Executives on substantially the terms summarized on Exhibit A attached hereto, with such changes therein as the Global Director of Human Resources shall approve; and be it further

RESOLVED, that the proper officers of the Corporation are each hereby authorized and directed to take or do any and all actions or things which any such officer deems necessary, appropriate or desirable to carry out the purpose and intent of the foregoing resolutions, including, without limitation, preparing and distributing award agreements and/or statements and executing such further documents and taking such further action as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions; or to comply with law; and with respect to those awards which are subject to the laws of any foreign jurisdiction, the officers of the Corporation are each hereby authorized and directed to determine the form of awards to employees who are personally residing outside the United States and to take such actions and to make such amendments including, without limitation, preparing and executing such trust instruments or other documents as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions and to achieve tax efficiency (including by awarding discounted options or using deferrals) and to comply with the provisions of any relevant local law or regulations in those territories, provided such actions do not result in an incremental material cost to the Corporation.

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SUMMARY OF KEY TERMINATION PROVISIONS

ITEM	BENOIT SAVORET LOS: 11 years 2007 comp: \$18.0 mm 2006 comp: \$12.0 mm	ANDY MORTON LOS: 15 years 2007 comp: \$12.5 mm 2006 comp: \$14.0 mm	JEREMY ISAACS LOS: 12 years 2007 comp: \$22.0 mm 2006 comp: \$21.0 mm
Termination Description	Involuntary termination	Involuntary termination	Voluntary termination
Last Day Worked	Week of September 8	Week of September 8	December 2008 (working through year end)
Termination Date	December 1, 2008 (after 12 week notice period, per UK policy)	December 1, 2008 (after 12 week notice period, per UK policy)	March 2009 (after 12 week notice period, per UK policy)
Special Payment	\$16.2 mm (guaranteed) <ul style="list-style-type: none"> Remainder of guaranteed total comp of \$20mm, less salary and bonus advance of \$3.3mm Payable in advance in September 2008, but recoverable in the event of Detrimental Activity or breach of agreement through the Firm's regular bonus payment date 	\$2 mm Plus one year's base salary (\$200,000), as standard severance	\$5 mm payment Described as a minimum amount in his agreement letter. Any additional amount may be paid, as determined by year end 2008 at the discretion of the Firm and as approved by the Compensation Committee.
RSUs	Standard treatment for involuntary termination: Retains nearly all of his RSUs (over 90%), which convert to freely tradable shares over a period of years through 2012, assuming no Detrimental Activity	Standard treatment for involuntary termination: Forfeits 46% of his RSUs, primarily due to forfeiture of a special award from March 2008. He retains nearly all RSUs related to his annual pay, which convert to freely tradable shares over a period of years through 2012, assuming no Detrimental Activity	Standard treatment for resignation ("full career" for 2006 RSUs): Forfeits 30% of RSUs, if no Competitive Activity; 59%, if Competitive Activity. All subject to forfeiture for Detrimental Activity

EXHIBIT A

Item	Benoit Savoret	Andy Morton	Jeremy Isaacs
Stock Options	Standard treatment per plan: Options remain exercisable through the stated expiration date (6 months following separation for MD awards and the full term for his special award), assuming no Detrimental Activity	Standard treatment per plan: Options remain exercisable for 6 months following separation, assuming no Detrimental Activity.	Standard treatment per plan: Options remain exercisable for 6 months for his 2001 special award and until the 5-year expiration date for his Exec Committee awards, assuming no Competitive Activity or Detrimental Activity
Investment Partnerships	Standard treatment per applicable partnership agreements	Standard treatment per applicable partnership agreements	Standard treatment per applicable partnership agreements
Other benefits	Standard UK benefits per policy	Continued tax preparation assistance, per standard practice and standard benefits per policy	SERP benefits per plan and standard UK benefits per policy
Restrictive covenants/ continued cooperation	<p>Benoit releases the Firm of any claims and agrees to the following:</p> <ul style="list-style-type: none"> • Not to engage in Detrimental Activity (including employee solicitation) through January 2009 • Not to disparage the Firm (with limited mutuality) • Cooperate with the Firm • Keep information confidential, including the content of his agreement with the Firm <p>In addition, Detrimental Activity restrictions continue to apply to equity awards through 2012.</p>	<p>Andy releases the Firm of any claims and agrees to the following:</p> <ul style="list-style-type: none"> • Not to engage in Detrimental Activity (including employee solicitation) through January 2009 • Not to disparage the Firm • Cooperate with the Firm • Keep information confidential, including the content of his agreement with the Firm <p>In addition, Detrimental Activity restrictions continue to apply to equity awards through 2012.</p>	<p>Jeremy releases the Firm of any claims and agrees to the following:</p> <ul style="list-style-type: none"> • Not to engage in Detrimental Activity (including employee solicitation) through November 2009 • Not to work for a direct competitor through November 2009 • Not to disparage the Firm • Cooperate with the Firm • Keep information confidential, including the content of his agreement with the Firm <p>In addition, Detrimental Activity restrictions continue to apply to equity awards through 2012.</p>

Note: Specific details of each individual's equity awards are shown in the attached statements.

LEHMAN BROTHERS EQUITY AWARD SUMMARY

BENOIT C. SAVORET

Assumes Separation Date on 8 September 2008

EQUITY AWARDS

CSAs at \$16

Grant Year	Exercise Price	Shares Outstanding *		Involuntary Termination W/O Cause**		Share Entitlement		Share Issue Date/ Expiration Date
		Number	Value	Number	Value	Number	Value	
2003 MD	N/A	31,620	\$505,924	1,897	\$30,356	29,723	\$475,568	30-Nov-08
2004 MD	N/A	77,943	\$1,247,083	9,353	\$149,650	68,590	\$1,097,433	30-Nov-09
2005 MD	N/A	75,226	\$1,203,615	13,541	\$216,651	61,685	\$986,964	30-Nov-09
2006 MD	N/A	114,569	\$1,833,166	34,371	\$549,932	80,198	\$1,283,174	30-Nov-11
2007 MD	N/A	206,738	\$3,307,809	62,021	\$992,343	144,717	\$2,315,466	30-Nov-12
2007 MD Special	N/A	49,617	\$793,874	14,885	\$238,162	34,732	\$555,712	30-Nov-12
2008 Special	N/A	<u>1,052,127</u>	<u>\$16,834,031</u>	0	\$0	<u>1,052,127</u>	<u>\$16,834,031</u>	Various (a)
<i>Subtotal CSAs</i>		<i>1,607,840</i>	<i>\$25,725,442</i>	<i>136,068</i>	<i>\$2,177,094</i>	<i>1,471,772</i>	<i>\$23,548,348</i>	
OPTIONS at \$16								
2003 MD	\$35.6950	16,710	\$0	0	\$0	16,710	\$0	03-Mar-09
2008 Special	\$48.3500	<u>250,000</u>	<u>\$0</u>	0	<u>\$0</u>	<u>250,000</u>	<u>\$0</u>	04-Mar-13
<i>Subtotal Options</i>		<i>266,710</i>	<i>\$0</i>	<i>0</i>	<i>\$0</i>	<i>266,710</i>	<i>\$0</i>	
Total Equity		1,874,550	\$25,725,442	136,068	\$2,177,094	1,738,482	\$23,548,348	

* Includes CSA dividends accrued to date.

** Assumes no Detrimental Activity.

(a) 20% on March 4, 2009 - 2013

Note: All terms and conditions of the awards are subject to the applicable controlling plan documents, including but not limited to the respective Contingent Stock Award Letters, the Stock Option Award Agreements, the UK approved Stock Option Award Agreement, the 2001 Employee Incentive Plan; Sub-Plan for UK Employees, the Employee Incentive Plan, the Employee Incentive Plan Prospectus, the 2005 Stock Incentive Plan, and the 2005 Stock Incentive Plan Prospectus, including, where applicable, the execution of a Firm-standard release agreement.

Prepared on 05 September 2008



LEHMAN BROTHERS EQUITY AWARD SUMMARY

ANDREW MORTON

Assumes Separation Date on 8 September 2008

EQUITY AWARDS

CSAs at \$16

Grant Year	Exercise Price	Shares Outstanding *		INVOLUNTARY TERMINATION W/O CAUSE				Share Issue Date ^(a) Expiration Date
				Forfeitable Upon Termination		Share Entitlement		
				Number	Value	Number	Value	
2003 MD	N/A	75,888	\$1,214,203	4,553	\$72,852	71,334	\$1,141,350	30-Nov-08
2004 MD	N/A	93,949	\$1,503,181	11,274	\$180,382	82,675	\$1,322,799	30-Nov-09
2005 MD	N/A	112,839	\$1,805,423	20,311	\$324,977	92,528	\$1,480,446	30-Nov-09
** 2006 MD	N/A	133,664	\$2,138,625	0	\$0	133,664	\$2,138,625	30-Nov-11
** 2007 MD	N/A	143,568	\$2,297,089	0	\$0	143,568	\$2,297,089	30-Nov-12
2007 MD Special	N/A	34,456	\$551,301	10,337	\$165,390	24,119	\$385,911	30-Nov-12
2008 Special	N/A	424,965	\$6,799,445	424,965	\$6,799,445	0	\$0	N/A
<i>Subtotal CSAs</i>		<i>1,019,329</i>	<i>\$16,309,267</i>	<i>471,440</i>	<i>\$7,543,047</i>	<i>547,889</i>	<i>\$8,766,220</i>	
OPTIONS at \$16								
2002 MD	\$27,2100	170,958	\$0	0	\$0	170,958	\$0	08-Mar-09
2003 MD	\$35,6950	61,696	\$0	0	\$0	61,696	\$0	08-Mar-09
<i>Subtotal Options</i>		<i>232,654</i>	<i>\$0</i>	<i>0</i>	<i>\$0</i>	<i>232,654</i>	<i>\$0</i>	
Total Equity		1,251,983	\$16,309,267	471,440	\$7,543,047	780,543	\$8,766,220	

* Includes CSA dividends accrued to date.

** Full Career for relevant awards means a separation of employment with at least 20 years of service OR a minimum age of 45 and at least 10 years of service OR a minimum age of 50 and at least 5 years of service.

(a) CSAs granted through 2005 are issued at the earlier of 1) the end of the fiscal quarter one year following separation date or 2) 5th anniversary of grant date, provided no Detrimental Activity. CSAs granted after 2005 are issued on the 5th anniversary of grant date, provided no Detrimental Activity. Options, if unexercisable, become exercisable on separation date and remain exercisable through the later of 1) 6 months after separation date or 2) 5th anniversary of grant date, provided no Detrimental Activity.

Note: All terms and conditions of the awards are subject to the applicable controlling plan documents, including but not limited to your Contingent Stock Award Letter, the Stock Option Award Agreement, the UK approved Stock Option Award Agreement, the 2001 Employee Incentive Plan, Sub-Plan for UK Employees, the Employee Incentive Plan, and the Employee Incentive Plan Prospectus.

Prepared on 10 September 2008

LEHMAN BROTHERS EQUITY AWARD SUMMARY

JEREMY M. ISAACS

Assumes Separation Date on 03 March 2009

EQUITY AWARDS

CSAs at \$15

Grant Year	Exercise Price	Shares Outstanding *		VOLUNTARY TERMINATION TO NON-COMPETITOR					VOLUNTARY TERMINATION TO A COMPETITOR				
				Forfeitable Upon Termination:		Share Entitlement		Share Issue Date/Expiration Date	Forfeitable Upon Termination:		Share Entitlement		Share Issue Date/Expiration Date
				Number	Value	Number	Value		Number	Value	Number	Value	
2001 MD	N/A	0	\$0	0	\$0	0	\$0	09-Sep-08 (a)	0	\$0	0	\$0	09-Sep-08 (a)
2000-03 PSOs	N/A	131,539	\$1,973,087	0	\$0	131,539	\$1,973,087	30-Nov-08	0	\$0	131,539	\$1,973,087	30-Nov-08
2003 MD	N/A	120,479	\$1,897,186	0	\$0	120,479	\$1,897,186	30-Nov-08	0	\$0	120,479	\$1,897,186	30-Nov-08
2004 MD	N/A	111,346	\$1,670,197	6,681	\$100,212	104,665	\$1,569,985	30-Nov-09 (b)	72,375	\$1,085,628	38,971	\$584,570	30-Nov-09 (f)
2005 MD	N/A	96,060	\$1,440,903	11,527	\$172,909	84,533	\$1,267,994	28-Feb-10 (b)	62,439	\$936,587	33,621	\$504,316	28-Feb-10 (d)
** 2006 MD	N/A	168,035	\$2,520,521	0	\$0	168,035	\$2,520,521	30-Nov-11	168,035	\$2,520,521	0	\$0	N/A
2006 Performance	N/A	28,642	\$429,634	28,642	\$429,634	0	\$0	N/A	28,642	\$429,634	0	\$0	N/A
2007 EC	N/A	288,678	\$4,379,424	238,963	\$3,583,541	59,715	\$895,883	30-Nov-12 (c)	238,963	\$3,583,541	59,715	\$895,883	30-Nov-12 (e)
<i>Subtotal CSAs</i>		<i>960,750</i>	<i>\$14,410,951</i>	<i>285,753</i>	<i>\$4,286,296</i>	<i>674,977</i>	<i>\$10,124,655</i>		<i>570,394</i>	<i>\$8,535,909</i>	<i>290,336</i>	<i>\$5,855,043</i>	
OPTIONS at \$15													
2001 Special	\$31.7900	1,000,000	\$0	0	\$0	1,000,000	\$0	03-Sep-09 (d)	0	\$0	1,000,000	\$0	Upon Term (g)
2003 EC	\$35.6950	600,000	\$0	0	\$0	600,000	\$0	09-Dec-08	0	\$0	600,000	\$0	09-Dec-08
2004 EC	\$42.9000	600,000	\$0	0	\$0	600,000	\$0	08-Dec-09 (e)	600,000	\$0	0	\$0	N/A
2005 EC	\$63.8250	400,000	\$0	0	\$0	400,000	\$0	08-Dec-10 (e)	400,000	\$0	0	\$0	N/A
<i>Subtotal Options</i>		<i>2,600,000</i>	<i>\$0</i>	<i>0</i>	<i>\$0</i>	<i>2,600,000</i>	<i>\$0</i>		<i>1,000,000</i>	<i>\$0</i>	<i>1,600,000</i>	<i>\$0</i>	
Total Equity		3,560,750	\$14,410,951	285,753	\$4,286,296	3,274,977	\$10,124,655		1,570,394	\$8,535,909	1,990,336	\$5,855,043	

* Includes CSA dividends accrued to date

** Full Career for relevant awards means a separation of employment with at least 20 years of service OR a minimum age of 45 and at least 10 years of service OR a minimum age of 50 and at least 5 years of service

(a) CSAs are issued on the first day when individual is no longer a member of the Executive Committee, provided no Detrimental Activity.

(b) CSAs are issued at the earlier of 1) the end of the fiscal quarter one year following separation date or 2) 5th anniversary of grant date, provided no Competitive Activity or Detrimental Activity.

(c) Unvested CSAs are forfeited and cancelled. Vested CSAs are delivered on November 30, 2012, provided no Detrimental Activity.

(d) If termination occurs after December 2, 2006, options remain exercisable for 6 months following separation date, provided no Competitive Activity or Detrimental Activity.

(e) If termination occurs more than 18 months after the grant date, options will remain exercisable through the original expiration date, provided no Competitive Activity or Detrimental Activity.

(f) CSAs are issued at the earlier of 1) the end of the fiscal quarter one year following separation date or 2) 5th anniversary of grant date, provided no Detrimental Activity.

(g) Exercisable options must be exercised on or prior to separation date, provided no Detrimental Activity.

Note: All terms and conditions of the awards are subject to the applicable controlling plan documents, including but not limited to your Contingent Stock Award Letter, the Stock Option Award Agreement, the UK approved Stock Option Award Agreement, the 2001 Employee Incentive Plan / Sub-Plan for UK Employees, the Employee Incentive Plan, the Employee Incentive Plan Prospectus, the 2005 Stock Incentive Plan, and the 2005 Stock Incentive Plan Prospectus.

Prepared on 10 September 2008



COMPENSATION ARRANGEMENT FOR GERALD DONINI

Description:

- The Firm recommends providing a guaranteed minimum compensation level for Jerry Donini, the Global Head of Equities, to facilitate his retention with the Firm.
 - Jerry Donini was appointed Global Head of Equities in June and is one of the most respected and talented risk managers in the equities business. He has been pursued by competitors and has uncertainty about his compensation opportunity with the Firm.
- We therefore propose a compensation arrangement to guarantee a minimum of \$20 million in total compensation (including salary, cash bonus, equity awards, and other deferred or contingent compensation) for each of fiscal 2008 and 2009.
 - The Committee can determine components of compensation (i.e., cash, equity, or other deferrals) at year-end. For tax reasons, we will also need to determine the compensation components for 2009 by year end 2008.

Resolution:

WHEREAS the Committee in its discretion deems it appropriate to provide special compensation arrangements to facilitate the retention of key employees, now therefore be it

RESOLVED, that the Committee hereby approves and authorizes management to enter into a compensation arrangement with Mr. Gerald A. Donini, Global Head of Equities, to provide minimum compensation of \$20,000,000 for each of fiscal 2008 and 2009, provided that the Committee will retain the authority to determine and approve the annual salary, cash bonus, equity awards, other long-term incentives, and other benefits to be paid to Mr. Donini; and be it further

RESOLVED, that the proper officers of the Corporation are each hereby authorized and directed to take or do any and all actions or things which any such officer deems necessary, appropriate or desirable to carry out the purpose and intent of the foregoing resolutions, including, without limitation, preparing and distributing award agreements and/or statements and executing such further documents and taking such further action as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions, or to comply with law; and with respect to those awards which are subject to the laws of any foreign jurisdiction, the officers of the Corporation are each hereby authorized and directed to determine the form of awards to employees who are personally residing outside the United States and to take such actions and to make such amendments including, without limitation, preparing and executing such trust instruments or other documents as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions and to achieve tax efficiency (including by awarding discounted options or using deferrals) and to comply with the provisions of any relevant local law or regulations in those territories, provided such actions do not result in an incremental material cost to the Corporation.

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COMPENSATION ARRANGEMENT FOR ERIC FELDER

Description:

- Eric Felder, recently appointed Global Co-Head of Fixed Income, has a compensation guarantee for 2008 and a minimum compensation guarantee for 2009.
- He has also received cash advances against the guaranteed amounts that total \$25 million.
- The advances are repayable to the Firm in the event Eric resigns from the Firm or is terminated for cause before the end of the applicable fiscal year.
- The advance payment of \$25 million in cash is intended to facilitate retention and engagement in his new role.

<u>Fiscal Year</u>	<u>Guaranteed Total Compensation</u>	<u>2008 Cash Advance</u>	
2008	\$25,000,000	\$8,550,000	35%
2009	\$16,450,000 <i>(minimum)</i>	\$16,450,000	100%
Total		\$25,000,000	

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