

LEHMAN BROTHERS HOLDINGS INC.

COMPENSATION AND BENEFITS

COMMITTEE OF THE BOARD OF DIRECTORS

CHARTER

I. PURPOSE

The purpose of the Compensation and Benefits Committee (the “Compensation Committee”) shall be to:

- A. Oversee evaluation of the Corporation’s management;
- B. Discharge the responsibilities of the Board of Directors with respect to the Corporation’s compensation and benefits programs and compensation of the Corporation’s executives; and
- C. Produce an annual report on executive compensation for inclusion in the Corporation’s annual proxy statement, in accordance with applicable rules and regulations of the New York Stock Exchange, Inc. (“NYSE”), Securities and Exchange Commission (“SEC”) and other regulatory bodies.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

The Compensation Committee shall be comprised of three or more members of the Board of Directors and shall comply with the “independent director” requirements of the rules of the NYSE. Additionally, no director may serve unless he or she (i) is a “Non-employee Director” for purposes of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and (ii) satisfies the requirements of an “outside director” for purposes of Section 162(m) of the Internal Revenue Code, including the requirement that she or he not receive remuneration from the Corporation, either directly or indirectly, in any capacity other than as a director.

B. Appointment and Removal

Members of the Compensation Committee shall be appointed by the Board of Directors, and each member shall serve until a successor is duly elected and qualified or until earlier resignation or removal. The members of the Compensation Committee may be removed, with or without cause, by a majority vote of the Board of Directors.

C. Chairman

Unless a Chairman is elected by the Board of Directors, the members of the Compensation Committee shall designate a Chairman by the majority vote of the

Compensation Committee. The Chairman will chair all regular sessions of the Compensation Committee.

D. Delegation

In fulfilling its responsibilities, the Compensation Committee shall be entitled to delegate any or all of its responsibilities to a subcommittee of the Compensation Committee. In addition, the Compensation Committee shall be entitled to make any other delegations permissible under applicable law.

III. MEETINGS

- A. The Compensation Committee shall meet at least two times annually, or more frequently as circumstances dictate. The Chairman of the Board or any member of the Compensation Committee may call meetings of the Committee.
- B. As part of its review and establishment of the performance criteria and compensation of designated key executives, the Compensation Committee should meet separately at least on an annual basis with the CEO, the Corporation's principal human resources executive, and any other corporate officers, as it deems appropriate. All meetings of the Compensation Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.
- C. All non-employee directors that are not members of the Compensation Committee may attend meetings of the Compensation Committee but may not vote. Additionally, the Compensation Committee may invite to its meetings any other directors or members of management of the Corporation and other persons as it deems appropriate in order to carry out its responsibilities, provided that such members of management shall not be present at meetings when their specific performance and compensation are being discussed and determined. The Compensation Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

The following functions shall be the ordinary recurring activities of the Compensation Committee in carrying out its responsibilities outlined in Section I of this Charter. These functions should serve as a guide with the understanding that the Compensation Committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The Compensation Committee shall also carry out any other responsibilities and duties delegated to it by the Board of Directors from time to time related to the purposes of the Compensation Committee outlined in Section I of this Charter.

The Compensation Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Compensation Committee deems appropriate. In this regard, the Compensation Committee shall have the authority to select, retain and terminate outside counsel or other experts for this purpose, including the authority to approve the fees payable to and expenses of such counsel or experts and any other terms of retention. If a compensation consultant is to assist in the evaluation of director, CEO or

senior management compensation, the Compensation Committee shall have the sole authority to select, retain and terminate the consulting firm, including sole authority to approve the firm's fees and other retention terms.

A. Compensation Policy

1. Establish and review the overall compensation philosophy of the Corporation.
2. Review and approve corporate goals and objectives relevant to compensation of the CEO and such other members of senior management as the Board of Directors or the Compensation Committee shall deem appropriate from time to time (collectively, the "Designated Executives"), including annual and any longer-term performance objectives.
3. Periodically review other matters of interest to the Compensation Committee pertaining to compensation, including the Corporation's practices in the areas of perquisites and expense accounts for Designated Executives.
4. Review and approve, on at least an annual basis, the compensation process for lead research analysts engaged in the equity research business conducted by the Corporation or its subsidiaries.

B. Compensation Payments

1. Evaluate the performance of the Designated Executives in light of the relevant criteria and, based on such evaluation, determine and approve, either as a committee or in conjunction with the other independent directors, the annual salary, bonus, share and option awards, other long-term incentives, perquisites and other benefits to be paid to them.
2. Review and make recommendations to the full Board of Directors with respect to compensation of directors as well as director and officer indemnification and insurance matters.
3. Approve, or review and make recommendations to the full Board of Directors with respect to, any compensatory contracts or transactions (other than those pursuant to a plan, contract or other arrangement previously approved by the Compensation Committee or the Board of Directors) with current or former Designated Executives, including consulting arrangements, employment contracts, severance or termination arrangements and loans to Designated Executives made or guaranteed by the Corporation.

C. Compensation Plans

1. Approve, or review and make recommendations to the full Board of Directors with respect to, the Corporation's executive compensation programs, including incentive compensation plans and equity compensation plans, as well as any amendments, revisions or supplements thereto, and oversee the activities of the individuals responsible for administering those plans. Notwithstanding the foregoing, all equity

compensation plans of the Corporation shall be subject to the approval of the Compensation Committee, including those also subject to the approval of the Corporation's shareholders.

2. Review the participation of the Designated Executives in the Corporation's employee pension plans.

D. Reports

1. Prepare an annual report on executive compensation for inclusion in the Corporation's proxy statement, in accordance with applicable rules and regulations of the NYSE, the SEC and other applicable regulatory bodies.
2. Report regularly to the Board of Directors (i) with respect to meetings of the Compensation Committee, (ii) with respect to such other matters as are relevant to the Compensation Committee's discharge of its responsibilities and (iii) with respect to such recommendations as the Compensation Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Compensation Committee designated by the Committee to make such report.
3. Maintain minutes or other records of meetings and activities of the Compensation Committee.

V. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

- A. The Compensation Committee shall perform a review and evaluation, at least annually, of the performance of the Compensation Committee and its members. Furthermore, the Compensation Committee shall review, at least annually, the compliance of the Compensation Committee with this Charter.
- B. In addition, the Compensation Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Compensation Committee considers necessary or valuable.
- C. The Compensation Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.