LEHMAN BROTHERS HOLDINGS INC.

Report of Independent Registered Public Accounting Firm

To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited Lehman Brothers Holdings Inc.'s (the "Company") internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2007 of the Company and our report dated January 28, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
January 28, 2008

LEHMAN BROTHERS HOLDINGS INC.

Consolidated Statement of Income

In millions, except per share data	Year Ended November 30, 2007	2006	2005
Revenues			
Principal transactions	$ 9,197	$ 9,802	$ 7,811
Investment banking	3,903	3,160	2,894
Commissions	2,471	2,050	1,728
Interest and dividends	41,693	30,284	19,043
Asset management and other	1,739	1,413	944
Total revenues	59,003	46,709	32,420
Interest expense	39,746	29,126	17,790
Net revenues	19,257	17,583	14,630
Non-Interest Expenses			
Compensation and benefits	9,494	8,669	7,213
Technology and communications	1,145	974	834
Brokerage, clearance and distribution fees	859	629	548
Occupancy	641	539	490
Professional fees	466	364	282
Business development	378	301	234
Other	261	202	200
Total non-personnel expenses	3,750	3,009	2,588
Total non-interest expenses	13,244	11,678	9,801
Income before taxes and cumulative effect of accounting change	6,013	5,905	4,829
Provision for income taxes	1,821	1,945	1,569
Income before cumulative effect of accounting change	4,192	3,960	3,260
Cumulative effect of accounting change	—	47	—
Net income	$ 4,192	$ 4,007	$ 3,260
Net income applicable to common stock	$ 4,125	$ 3,941	$ 3,191
Earnings per basic common share:			
Before cumulative effect of accounting change	$ 7.63	$ 7.17	$ 5.74
Cumulative effect of accounting change	—	0.09	—
Earnings per basic common share	$ 7.63	$ 7.26	$ 5.74
Earnings per diluted common share:			
Before cumulative effect of accounting change	$ 7.26	$ 6.73	$ 5.43
Cumulative effect of accounting change	—	0.08	—
Earnings per diluted common share	$ 7.26	$ 6.81	$ 5.43
Dividends paid per common share	$ 0.60	$ 0.48	$ 0.40

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition

	November 30,	
In millions	**2007**	**2006**
Assets		
Cash and cash equivalents	$ 7,286	$ 5,987
Cash and securities segregated and on deposit for regulatory and other purposes	12,743	6,091
Financial instruments and other inventory positions owned (includes $63,499 in 2007 and $42,600 in 2006 pledged as collateral)	313,129	226,596
Collateralized agreements:		
Securities purchased under agreements to resell	162,635	117,490
Securities borrowed	138,599	107,666
Receivables:		
Brokers, dealers and clearing organizations	11,005	7,449
Customers	29,622	18,470
Others	2,650	2,052
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $2,438 in 2007 and $1,925 in 2006)	3,861	3,269
Other assets	5,406	5,113
Identifiable intangible assets and goodwill (net of accumulated amortization of $340 in 2007 and $293 in 2006)	4,127	3,362
Total assets	$ 691,063	$ 503,545

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Financial Condition—(Continued)

In millions, except share data	**November 30, 2007**	**2006**
Liabilities and Stockholders' Equity		
Short-term borrowings and current portion of long-term borrowings (including $9,035 in 2007 and $6,064 in 2006 at fair value)	$ 28,066	$ 20,638
Financial instruments and other inventory positions sold but not yet purchased	149,617	125,960
Collateralized financings:		
Securities sold under agreements to repurchase	181,732	133,547
Securities loaned	53,307	23,982
Other secured borrowings (including $9,149 in 2007 and $0 in 2006 at fair value)	22,992	19,028
Payables:		
Brokers, dealers and clearing organizations	3,101	2,217
Customers	61,206	41,695
Accrued liabilities and other payables	16,039	14,697
Deposit liabilities at banks (including $15,986 in 2007 and $14,708 in 2006 at fair value)	29,363	21,412
Long-term borrowings (including $27,204 in 2007 and $11,025 in 2006 at fair value)	123,150	81,178
Total liabilities	668,573	484,354
Commitments and contingencies		
Stockholders' Equity		
Preferred stock	1,095	1,095
Common stock, $0.10 par value:		
Shares authorized: 1,200,000,000 in 2007 and 2006;		
Shares issued: 612,882,506 in 2007 and 609,832,302 in 2006;		
Shares outstanding: 531,887,419 in 2007 and 533,368,195 in 2006	61	61
Additional paid-in capital [(1)]	9,733	8,727
Accumulated other comprehensive loss, net of tax	(310)	(15)
Retained earnings	19,698	15,857
Other stockholders' equity, net	(2,263)	(1,712)
Common stock in treasury, at cost [(1)] (80,995,087 shares in 2007 and 76,464,107 shares in 2006)	(5,524)	(4,822)
Total common stockholders' equity	21,395	18,096
Total stockholders' equity	22,490	19,191
Total liabilities and stockholders' equity	$ 691,063	$ 503,545

(1) Balances and share amounts at November 30, 2006 reflect the April 28, 2006 2-for-1 common stock split, effected in the form of a 100% stock dividend.

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Consolidated Statement of Cash Flows

In millions	**Year Ended November 30, 2007**	**2006**	**2005**
Cash Flows From Operating Activities			
Net income	$ 4,192	$ 4,007	$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	577	514	426
Non-cash compensation	1,791	1,706	1,055
Cumulative effect of accounting change	—	(47)	—
Deferred tax provision/(benefit)	418	(60)	(502)
Tax benefit from the issuance of stock-based awards	—	—	1,005
Other adjustments	(114)	3	173
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(6,652)	(347)	(1,659)
Financial instruments and other inventory positions owned	(78,903)	(46,102)	(36,652)
Resale agreements, net of repurchase agreements	3,039	6,111	(475)
Securities borrowed, net of securities loaned	(1,608)	(18,383)	(5,165)
Other secured borrowings	3,964	(4,088)	11,495
Receivables from brokers, dealers and clearing organizations	(3,556)	5	(4,054)
Receivables from customers	(11,152)	(5,583)	354
Financial instruments and other inventory positions sold but not yet purchased	23,415	15,224	14,156
Payables to brokers, dealers and clearing organizations	884	347	165
Payables to customers	19,511	9,552	4,669
Accrued liabilities and other payables	302	2,032	(801)
Other receivables and assets and minority interests	(1,703)	(1,267)	345
Net cash used in operating activities	(45,595)	(36,376)	(12,205)
Cash Flows From Investing Activities			
Purchase of property, equipment and leasehold improvements, net	(966)	(586)	(409)
Business acquisitions, net of cash acquired	(965)	(206)	(38)
Proceeds from sale of business	233	—	—
Net cash used in investing activities	(1,698)	(792)	(447)
Cash Flows From Financing Activities			
Derivative contracts with a financing element	242	159	140
Tax benefit from the issuance of stock-based awards	434	836	—
Issuance of short-term borrowings, net	3,381	4,819	84
Deposit liabilities at banks	7,068	6,345	4,717
Issuance of long-term borrowings	86,302	48,115	23,705
Principal payments of long-term borrowings, including the current portion of long term borrowings	(46,255)	(19,636)	(14,233)
Issuance of common stock	84	119	230
Issuance of treasury stock	359	518	1,015
Purchase of treasury stock	(2,605)	(2,678)	(2,994)
Retirement of preferred stock	—	—	(250)
Dividends paid	(418)	(342)	(302)

Net cash provided by financing activities	48,592	38,255	12,112
Net change in cash and cash equivalents	1,299	1,087	(540)
Cash and cash equivalents, beginning of period	5,987	4,900	5,440
Cash and cash equivalents, end of period	$ 7,286	$ 5,987	$ 4,900
Supplemental Disclosure of Cash Flow Information (in millions):			
Interest paid totaled $39,454, $28,684 and $17,893 in 2007, 2006 and 2005, respectively.			
Income taxes paid totaled $1,476, $1,037 and $789 in 2007, 2006 and 2005, respectively.			

See Notes to Consolidated Financial Statements.

LEHMAN BROTHERS HOLDINGS INC.
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Description of Business

Lehman Brothers Holdings Inc. (“Holdings”) and subsidiaries (collectively, the “Company,” the “Firm,” “Lehman Brothers,” “we,” “us” or “our”) serves the financial needs of corporations, governments and municipalities, institutional clients and high net worth individuals worldwide with business activities organized in three segments, Capital Markets, Investment Banking and Investment Management. Founded in 1850, Lehman Brothers maintains market presence in equity and fixed income sales, trading and research, investment banking, asset management, private investment management and private equity. The Firm is headquartered in New York, with regional headquarters in London and Tokyo, and operates in a network of offices in North America, Europe, the Middle East, Latin America and the Asia-Pacific region. We are a member of all principal securities and commodities exchanges in the U.S., and we hold memberships or associate memberships on several principal international securities and commodities exchanges, including the London, Tokyo, Hong Kong, Frankfurt, Paris, Milan and Australian stock exchanges.

Basis of Presentation

The Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles and include the accounts of Holdings, our subsidiaries, and all other entities in which we have a controlling financial interest or are considered to be the primary beneficiary. All material inter-company accounts and transactions have been eliminated upon consolidation. Certain prior-period amounts reflect reclassifications to conform to the current year’s presentation.

On April 5, 2006, the stockholders of Holdings approved an increase of its authorized shares of common stock to 1.2 billion from 600 million, and the Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend, that was effected on April 28, 2006. All share and per share amounts have been retrospectively adjusted for the increase in authorized shares and the stock split. For additional information about the stock split, see Note 11, “Earnings per Common Share,” and Note 12, “Share-Based Employee Incentive Plans,” to the Consolidated Financial Statements.

Use of Estimates

In preparing our Consolidated Financial Statements and accompanying notes, management makes various estimates that affect reported amounts and disclosures. Broadly, those estimates are used in:

- measuring fair value of certain financial instruments;

- accounting for identifiable intangible assets and goodwill;
- establishing provisions for potential losses that may arise from litigation, regulatory proceedings and tax examinations;
- assessing our ability to realize deferred taxes; and
- valuing equity-based compensation awards.

Estimates are based on available information and judgment. Therefore, actual results could differ from our estimates and that difference could have a material effect on our Consolidated Financial Statements and notes thereto.

Consolidation Policies

The Consolidated Financial Statements include the accounts of Holdings and the entities in which the Company has a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first determining whether the entity is a voting interest entity (sometimes referred to as a non-VIE), a variable interest entity ("VIE") or a qualified special purpose entity ("QSPE").

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently; and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. In accordance with Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements,* and Statement of Financial Accounting Standards ("SFAS") No. 94, *Consolidation of All Majority-Owned Subsidiaries*, voting interest entities are consolidated when the Company has a controlling financial interest, typically more than 50 percent of an entity's voting interests.

Variable Interest Entity. VIEs are entities that lack one or more voting interest entity characteristics. The Company consolidates VIEs in which it is the primary beneficiary. In accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46-R, *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51* ("FIN 46(R)"), we are the primary beneficiary if we have a variable interest, or a combination of variable interests, that will either (i) absorb a majority of the VIEs expected losses; (ii) receive a majority of the VIEs expected residual returns; or (iii) both. To determine if we are the primary beneficiary of a VIE, we review, among other factors, the VIE's design, capital structure, contractual terms, which interests create or absorb variability and related party relationships, if any. Additionally, we may calculate our share of the VIE's expected losses and expected residual returns based upon the VIE's contractual arrangements and/or our position in the VIE's capital structure. This type of analysis is typically performed using expected cash flows allocated to the expected losses and expected residual returns under various probability-weighted scenarios.

Qualified Special Purpose Entity. QSPEs are passive entities with limited permitted activities. SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125* ("SFAS 140"), establishes the criteria an entity must satisfy to be a QSPE, including types of assets held, limits on asset sales, use of derivatives and financial guarantees, and discretion exercised in servicing activities. In accordance with SFAS 140 and FIN 46(R), we do not consolidate QSPEs.

For a further discussion of our involvement with VIEs, QSPEs and other entities see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

Equity-Method Investments. Entities in which we do not have a controlling financial interest (and therefore do not consolidate) but in which we exert significant influence (generally defined as owning a voting interest of 20 percent to 50 percent, or a partnership interest greater than 3 percent) are accounted for either under Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for*

Investments in Common Stock or SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). For further discussion of our adoption of SFAS 159, see "Accounting and Regulatory Developments—SFAS 159" below.

Other. When we do not consolidate an entity or apply the equity method of accounting, we present our investment in the entity at fair value. We have formed various non-consolidated private equity or other alternative investment funds with third-party investors that are typically organized as limited partnerships. We typically act as general partner for these funds, and when third-party investors have (i) rights to either remove the general partner without cause or to liquidate the partnership; or (ii) substantive participation rights, we do not consolidate these partnerships in accordance with Emerging Issue Task Force ("EITF") No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* ("EITF 04-5").

A determination of whether we have a controlling financial interest in an entity and therefore our assessment of consolidation of that entity is initially made at the time we become involved with the entity. Certain events may occur which cause us to re-assess our initial determination of whether an entity is a VIE or non-VIE or whether we are the primary beneficiary if the entity is a VIE and therefore our assessment of consolidation of that entity. Those events generally are:

- The entity's governance structure is changed such that either (i) the characteristics or adequacy of equity at risk are changed, or (ii) expected returns or losses are reallocated among the participating parties within the entity.

- The equity investment (or some part thereof) is returned to the equity investors and other interests become exposed to expected returns or losses.

- Additional activities are undertaken or assets acquired by the entity that were beyond those anticipated previously.

- Participants in the entity acquire or sell interests in the entity.

- The entity receives additional equity at risk or curtails its activities in a way that changes the expected returns or losses.

Currency Translation

Assets and liabilities of subsidiaries having non–U.S. dollar functional currencies are translated at exchange rates at the applicable Consolidated Statement of Financial Condition date. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating non-U.S. dollar functional currency into U.S. dollars, net of hedging gains or losses, are included in Accumulated other comprehensive income/(loss), net of tax, a component of Stockholders' equity. Gains or losses resulting from non-U.S. dollar currency transactions are included in the Consolidated Statement of Income.

Revenue Recognition Policies

Principal transactions. Realized and unrealized gains or losses from Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased, as well as the gains or losses from certain short- and long-term borrowing obligations, principally certain hybrid financial instruments, and certain deposit liabilities at banks that we measure at fair value are reflected in Principal transactions in the Consolidated Statement of Income.

Investment banking. Underwriting revenues, net of related underwriting expenses, and revenues for merger and acquisition advisory and other investment banking-related services are recognized when services for the transactions are completed. In instances where our Investment Banking segment provides structuring services and/or advice in a capital markets-related transaction, we record a portion of the transaction-related revenue as Investment Banking fee revenues.

Commissions. Commissions primarily include fees from executing and clearing client transactions on equities, options and futures markets worldwide. These fees are recognized on a trade-date basis.

Interest and dividends revenue and interest expense. We recognize contractual interest on Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased, excluding derivatives, on an accrual basis as a component of Interest and dividends revenue and Interest expense, respectively. We account for our secured financing activities and certain short- and long-term borrowings on an accrual basis with related interest recorded as interest revenue or interest expense, as applicable. Contractual interest expense on all deposit liabilities and certain hybrid financial instruments are recorded as a component of Interest expense.

Asset management and other. Investment advisory fees are recorded as earned. In certain circumstances, we receive asset management incentive fees when the return on assets under management exceeds specified benchmarks. Incentive fees are generally based on investment performance over a twelve-month period and are not subject to adjustment after the measurement period ends. Accordingly, we recognize incentive fees when the measurement period ends.

We also receive private equity incentive fees when the returns on certain private equity or other alternative investment funds' investments exceed specified thresholds. Private equity incentive fees typically are based on investment results over a period greater than one year, and future investment underperformance could require amounts previously distributed to us to be returned to the funds. Accordingly, we recognize these incentive fees when all material contingencies have been substantially resolved.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carry-forwards. We record a valuation allowance to reduce deferred tax assets to an amount that more likely than not will be realized. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years. Contingent liabilities related to income taxes are recorded when probable and reasonably estimable in accordance with SFAS No. 5, *Accounting for Contingencies*.

For a discussion of the impact of FIN 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 *("FIN 48"), see "Accounting and Regulatory Developments—FIN 48" below.*

Share-Based Compensation

On December 1, 2003, we adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), using the prospective adoption method. Under this method of adoption, compensation expense was recognized over the related service periods based on the fair value of stock options and restricted stock units ("RSUs") granted for fiscal 2004 and fiscal 2005. Under SFAS 123, stock options granted in periods prior to fiscal 2004 continued to be accounted for under the intrinsic value method prescribed by APB No. 25, *Accounting for Stock Issued to Employees*. Accordingly, under SFAS 123 no compensation expense was recognized for stock option awards granted prior to fiscal 2004 because the exercise price equaled or exceeded the market value of our common stock on the grant date.

On December 1, 2005, we adopted SFAS No. 123 (revised 2004), Share-Based Payment *("SFAS 123(R)") using the modified-prospective transition method. Under this transition method, compensation cost* *recognized during fiscal 2006 includes: (i) compensation cost for all share-based awards granted prior to, but not yet vested as of, December 1, 2005, (including pre-fiscal-2004 options) based on the grant-date fair value and related service period estimates in accordance with the original provisions of SFAS 123; and (ii) compensation cost for all share-based awards granted subsequent to December 1, 2005, based on the grant-date fair value and related service periods estimated in accordance with the provisions of SFAS 123(R). Under the provisions of the modified-prospective transition method, results for fiscal 2005 were not restated.*

SFAS 123(R) clarifies and expands the guidance in SFAS 123 in several areas, including how to measure fair value and how to attribute compensation cost to reporting periods. Changes to the SFAS 123 fair value measurement and service period provisions prescribed by SFAS 123(R) include requirements to: (i) estimate forfeitures of share-based awards at the date of grant, rather than recognizing forfeitures as incurred as was permitted by SFAS 123; (ii) expense share-based awards granted to retirement-eligible employees and those employees with non-substantive non-compete agreements immediately, while our accounting practice under SFAS 123 was to recognize such costs over the stated service periods; (iii) attribute compensation costs of share-based awards to the future vesting periods, while our accounting practice under SFAS 123 included a partial attribution of compensation costs of share-based awards to services performed during the year of grant; and (iv) recognize compensation costs of all share-based awards (including amortizing pre-fiscal-2004 options) based on the grant-date fair value, rather than our accounting methodology under SFAS 123 which recognized pre-fiscal-2004 option awards based on their intrinsic value.

Prior to adopting SFAS 123(R) we presented the cash flows related to income tax deductions in excess of the compensation cost recognized on stock issued under RSUs and stock options exercised during the period ("excess tax benefits") as operating cash flows in the Consolidated Statement of Cash Flows. SFAS 123(R) requires excess tax benefits to be classified as financing cash flows. In addition, as a result of adopting SFAS 123(R), certain balance sheet amounts associated with share-based compensation costs have been reclassified within the equity section of the balance sheet. This change in presentation had no effect on our total equity. Effective December 1, 2005, Deferred stock compensation (representing unearned costs of RSU awards) and Common stock issuable are presented on a net basis as a component of Additional paid-in capital. See "Accounting and Regulatory Developments—SFAS 123(R)" below for a further discussion of SFAS 123(R) and the cumulative effect of this accounting change recognized in fiscal 2006.

Earnings per Share

We compute earnings per share ("EPS") in accordance with SFAS No. 128, Earnings per Share*. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding, which includes RSUs for which service has been provided. Diluted EPS includes the components of basic EPS and also includes the dilutive effects of RSUs for which service has not yet been provided and employee stock options.*

Financial Instruments and Other Inventory Positions

Financial instruments and other inventory positions owned, excluding real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased are carried at fair value. Real estate held for sale is accounted for at the lower of its carrying amount or fair value less cost to sell. For further discussion of our financial instruments and other inventory positions, see Note 3, "Financial Instruments and Other Inventory Positions," to the Consolidated Financial Statements.

Firm-owned securities pledged to counterparties who have the right, by contract or custom, to sell or repledge the securities are classified as Financial instruments and other inventory positions owned and are disclosed as pledged as collateral. For further discussion of our securities received and pledged as collateral, see Note 5, "Securities Received and Pledged as Collateral," to the Consolidated Financial Statements.

We adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") effective December 1, 2006. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When observable prices are not available, we either use implied pricing from similar instruments or valuation models based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

Prior to December 1, 2006, we followed the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide, *Brokers and Dealers in Securities*, when determining fair value for financial instruments, which permitted the recognition of a discount to the quoted price when determining the fair value for a substantial block of a particular security, when the quoted price was not considered to be readily realizable (*i.e.*, a block discount).

For further discussion of our adoption of SFAS 157, see "Accounting and Regulatory Developments—SFAS 157" below.

Derivative financial instruments. *Derivatives are financial instruments whose value is based on an underlying asset (*e.g.*, Treasury bond), index (*e.g.*, S&P 500) or reference rate (*e.g.*, LIBOR), and include futures, forwards, swaps, option contracts, or other financial instruments with similar characteristics. A derivative contract generally represents a future commitment to exchange interest payment streams or currencies based on the contract or notional amount or to purchase or sell other financial instruments or physical assets at specified terms on a specified date. Over-the-counter ("OTC") derivative products are privately-negotiated contractual agreements that can be tailored to meet individual client needs and include forwards, swaps and certain options including caps, collars and floors. Exchange-traded derivative products are standardized contracts transacted through regulated exchanges and include futures and certain option contracts listed on an exchange.*

Derivatives are recorded at fair value and included in either Financial instruments and other inventory positions owned or Financial instruments and other inventory positions sold but not yet purchased in the Consolidated Statement of Financial Condition. Derivatives are presented net-by-counterparty when a legal right of offset exists; net across different products or positions when applicable provisions are stated in a master netting agreement; and/or net of cash collateral received or paid on a counterparty basis, provided legal right of offset exists.

We enter into derivative transactions both in a trading capacity and as an end-user. Acting in a trading capacity, we enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities (collectively, "Trading-Related Derivatives"). For Trading-Related Derivatives, margins on futures contracts are included in receivables and payables from/to brokers, dealers and clearing organizations, as applicable.

As an end-user, we primarily use derivatives to hedge our exposure to market risk (including foreign currency exchange and interest rate risks) and credit risks (collectively, "End-User Derivatives"). When End-User Derivatives are interest rate swaps they are measured at fair value through earnings and the carrying value of the related hedged item is adjusted through earnings for the effect of changes in the risk being hedged. The hedge ineffectiveness in these relationships is recorded in Interest expense in the Consolidated Statement of Income. When End-User Derivatives are used in hedges of net investments in non-U.S. dollar functional currency subsidiaries, the gains or losses are reported within Accumulated other comprehensive income/(loss), net of tax, in Stockholders' equity.

Prior to December 1, 2006, we followed EITF Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3"). Under EITF 02-3, recognition of a trading profit at inception of a derivative transaction was prohibited unless the fair value of that derivative was obtained from a quoted market price supported by comparison to other observable inputs or based on a valuation technique incorporating observable inputs. Subsequent to the inception date ("Day 1"), we recognized trading profits deferred at Day 1 in the period in which the valuation of the instrument became observable. The adoption of SFAS 157 nullified the guidance in EITF 02-3 that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs. For further discussion of our adoption of SFAS 157, see "Accounting and Regulatory Developments—SFAS 157" below.

Securitization activities. In accordance with SFAS 140, we recognize transfers of financial assets as sales, if control has been surrendered. We determine control has been surrendered when the following three criteria have been met:

- The transferred assets have been isolated from the transferor – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership (*i.e.*, a true sale opinion has been obtained);

- Each transferee (or, if the transferee is a QSPE, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor; and

- The transferor does not maintain effective control over the transferred assets through either (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (ii) the ability to unilaterally cause the holder to return specific assets.

Collateralized Lending Agreements and Financings

Treated as collateralized agreements and financings for financial reporting purposes are the following:

- Repurchase and resale agreements. *Securities purchased under agreements to resell and securities sold under agreements to repurchase are collateralized primarily by government and government agency securities and are carried net by counterparty, when permitted, at the amounts at which the securities subsequently will be resold or repurchased plus accrued interest. We take possession of securities purchased under agreements to resell. The fair value of the underlying positions is compared daily with the related receivable or payable balances, including accrued interest. We require counterparties to deposit additional collateral or return collateral pledged, as necessary, to ensure the fair value of the underlying collateral remains sufficient.*

- Securities borrowed and securities loaned. *Securities borrowed and securities loaned are carried at the amount of cash collateral advanced or received plus accrued interest. We value the securities borrowed and loaned daily and obtain additional cash as necessary to ensure these transactions are adequately collateralized. When we act as the lender of securities in a securities-lending agreement and we receive securities that can be pledged or sold as collateral, we recognize an asset, representing the securities received and a liability, representing the obligation to return those securities.*

- Other secured borrowings. *Other secured borrowings principally reflect transfers accounted for as financings rather than sales under SFAS 140. Additionally, Other secured borrowings includes non-recourse financings of entities that we have consolidated because we are the primary beneficiaries of such entities.*

Long-Lived Assets

Property, equipment and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated up to a maximum of 40 years. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases, which range up to 30 years. Equipment, furniture and fixtures are depreciated over periods of up to 10 years. Internal-use software that qualifies for capitalization under AICPA Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, is capitalized and subsequently amortized over the estimated useful life of the software, generally three years, with a maximum of seven years. We review long-lived assets for impairment periodically and whenever events or changes in circumstances indicate the carrying amounts of the assets may be impaired. If the expected future undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized to the extent the carrying value of the asset exceeds its fair value.

Identifiable Intangible Assets and Goodwill

Identifiable intangible assets with finite lives are amortized over their expected useful lives, which range up to 15 years. Identifiable intangible assets with indefinite lives and goodwill are not amortized. Instead, these assets are evaluated at least annually for impairment. Goodwill is reduced upon the recognition of certain acquired net operating loss carryforward benefits.

Cash Equivalents

Cash equivalents include highly liquid investments not held for resale with maturities of three months or less when we acquire them.

Accounting and Regulatory Developments

The following summarizes accounting standards that have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

SFAS 123(R). In December 2004, the FASB issued SFAS 123(R) which established standards of accounting for transactions in which an entity exchanges its equity instruments for goods and services and focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. Two key differences between SFAS 123 and SFAS 123(R) relate to attribution of compensation costs to reporting periods and accounting for award forfeitures. SFAS 123(R) generally requires the immediate expensing of equity-based awards granted to retirement-eligible employees or awards granted subject to substantive non-compete agreements to be expensed over the non-compete period. SFAS 123(R) also requires expected forfeitures to be included in determining stock-based employee compensation expense. We adopted SFAS 123(R) as of the beginning of our 2006 fiscal year and recognized an after-tax gain of approximately $47 million as the cumulative effect of a change in accounting principle attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. For additional information, see “Share-Based Compensation” above and Note 12, “Share-Based Employee Incentive Plans,” to the Consolidated Financial Statements.

SFAS 155. In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments— an amendment of FASB Statements No. 133 and 140* (“SFAS 155”), which permits an entity to measure at fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS 155 in the first quarter of 2006. The effect of adoption resulted in a $24 million after-tax ($43 million pre-tax) decrease to opening retained earnings as of the beginning of our 2006 fiscal year, representing the difference between the fair value of these hybrid financial instruments and the prior carrying value as of November 30, 2005.

SFAS 156. In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets— an amendment of FASB Statement No. 140* (“SFAS 156”), which permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. As a result of adopting SFAS 156, we recognized an $18 million after-tax ($33 million pre-tax) increase to opening retained earnings in our 2006 fiscal year.

SFAS 157. In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

SFAS 157 also (i) nullifies the guidance in EITF 02-3 that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer’s credit standing should be considered when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

We elected to early adopt SFAS 157 at the beginning of our 2007 fiscal year and we recorded the difference between the carrying amounts and fair values of (i) stand-alone derivatives and/or certain hybrid financial instruments measured using the guidance in EITF 02-3 on recognition of a trading profit at the inception of a derivative, and (ii) financial instruments that are traded in active markets that were measured at fair value using block discounts, as a cumulative-effect adjustment to opening retained earnings. As a result of adopting SFAS 157, we recognized a $45 million after-tax ($78 million pre-tax) increase to opening retained earnings. For additional information regarding our adoption of SFAS 157, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

SFAS 158. In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* ("SFAS 158"), which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans, the benefit obligation is the projected benefit obligation; while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income/(loss) (net of tax), a component of Stockholders' equity. In accordance with the guidance in SFAS No. 158, we adopted this provision of the standard for the year ended November 30, 2007. The adoption of SFAS No. 158 reduced Accumulated other comprehensive income/ (loss), by $210 million after-tax ($344 million pre-tax) at November 30, 2007.

SFAS 159. In February 2007, the FASB issued SFAS 159 which permits certain financial assets and financial liabilities to be measured at fair value, using an instrument-by-instrument election. The initial effect of adopting SFAS 159 must be accounted for as a cumulative-effect adjustment to opening retained earnings for the fiscal year in which we apply SFAS 159. Retrospective application of SFAS 159 to fiscal years preceding the effective date is not permitted.

We elected to early adopt SFAS 159 beginning in our 2007 fiscal year and to measure at fair value substantially all hybrid financial instruments not previously accounted for at fair value under SFAS No. 155, as well as certain deposit liabilities at our U.S. banking subsidiaries. We elected to adopt SFAS 159 for these instruments to reduce the complexity of accounting for these instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As a result of adopting SFAS 159, we recognized a $22 million after-tax increase ($35 million pre-tax) to opening retained earnings as of December 1, 2006, representing the effect of changing the measurement basis of these financial instruments from an adjusted amortized cost basis at November 30, 2006 to fair value.

SFAS 141(R). In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in revenue, not goodwill; changes the recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS 141(R) is required for combinations after December 15, 2008. Early adoption and retroactive application of SFAS 141(R) to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

SFAS 160. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 re-characterizes minority interests in consolidated subsidiaries as non-controlling interests and requires the classification of minority interests as a component of equity. Under SFAS 160, a change in control will be measured at fair value, with any gain or loss recognized in earnings. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. We are evaluating the impact of adoption on our Consolidated Financial Statements.

FIN 48. In June 2006, the FASB issued FIN 48, which sets out a framework for management to use to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation of SFAS 109 uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained, and the amount of benefit is then measured on a probabilistic approach, as defined in FIN

48. FIN 48 also sets out disclosure requirements to enhance transparency of an entity's tax reserves. We must adopt FIN 48 as of the beginning of our 2008 fiscal year. We estimate that the effect of adopting FIN 48 at the beginning of the first quarter of 2008 to be a decrease to opening retained earnings of approximately $190 million.

SOP 07-1. In June 2007, the AICPA issued Statement of Position ("SOP") No. 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* ("SOP 07-1"). SOP 07-1 addresses when the accounting principles of the AICPA Audit and Accounting Guide Investment Companies must be applied by an entity and whether those accounting principles must be retained by a parent company in consolidation or by an investor in the application of the equity method of accounting. SOP 07-1 is effective for our fiscal year beginning December 1, 2008. We are evaluating the effect of adopting SOP 07-1 on our Consolidated Financial Statements.

EITF Issue No. 04-5. In June 2005, the FASB ratified the consensus reached in EITF 04-5 which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with either (i) rights to remove the general partner without cause or to liquidate the partnership; or (ii) substantive participation rights. As the general partner of numerous private equity and asset management partnerships, we adopted EITF 04-5 effective June 30, 2005 for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that had not been modified, we adopted EITF 04-5 as of the beginning of our 2007 fiscal year. The adoption of EITF 04-5 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 46(R)-6. In April 2006, the FASB issued FASB Staff Position ("FSP") FIN 46(R)-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* ("FSP FIN 46(R)-6"). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46(R) by requiring an analysis of the purpose for which an entity was created and the variability that the entity was designed to create. We adopted FSP FIN 46(R)-6 on September 1, 2006 and applied it prospectively to all entities in which we first became involved after that date. Adoption of FSP FIN 46(R)-6 did not have a material effect on our Consolidated Financial Statements.

FSP FIN 39-1. In April 2007, the FASB directed the FASB Staff to issue FSP No. FIN 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. FSP FIN 39-1 does not affect our Consolidated Financial Statements because it clarified the acceptability of existing market practice, which we use, of netting cash collateral against net derivative assets and liabilities.

FSP FIN 48-1. In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 48-1, *Definition of "Settlement" In FASB Interpretation No. 48* ("FSP FIN 48-1"). Under FSP FIN 48-1, a previously unrecognized tax benefit may be subsequently recognized if the tax position is effectively settled and other specified criteria are met. We are evaluating the effect of adopting FSP FIN 48-1 on our Consolidated Financial Statements as part of our evaluation of the effect of adopting FIN 48.

FSP FIN 46(R)-7. In May 2007, the FASB directed the FASB Staff to issue FSP No. FIN 46(R)-7, *Application of FASB Interpretation No. 46(R) to Investment Companies* ("FSP FIN 46(R)-7"). FSP FIN 46(R)-7 makes permanent the temporary deferral of the application of the provisions of FIN 46(R) to unregistered investment companies, and extends the scope exception from applying FIN 46(R) to include registered investment companies. FSP FIN 46(R)-7 is effective upon adoption of SOP 07-1. We are evaluating the effect of adopting FSP FIN 46(R)-7 on our Consolidated Financial Statements.

SAB 108. In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 specifies how the carryover or reversal of prior-year unrecorded financial statement misstatements should be considered in quantifying a current-year misstatement. SAB 108 requires an approach that considers the amount by which the current-year statement of income is misstated ("rollover approach") and an approach that considers the cumulative amount by which the current-year statement of financial condition is misstated ("iron-curtain approach"). Prior to the issuance of SAB 108, either the rollover or iron-curtain approach was acceptable for assessing the materiality of financial statement misstatements. SAB 108 became effective for our fiscal year ended November 30, 2006. Upon adoption, SAB 108 allowed a cumulative-effect adjustment to opening retained earnings at December 1, 2005 for prior-year misstatements that were not material under a prior approach but that were material under the SAB 108 approach. Adoption of SAB 108 did not affect our Consolidated Financial Statements.

SAB 109. In November 2007, the SEC issued SAB No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB 109"). SAB 109 supersedes SAB No. 105, *Loan Commitments Accounted for as Derivative Instruments* ("SAB 105"), and expresses the view, consistent with the guidance in SFAS 156 and SFAS 159, that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 105 also expressed the view that internally-developed intangible assets (such as customer relationship intangible assets) should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 retains that view and broadens its application to all written loan commitments that are accounted for at fair value through earnings. Adoption of SAB 109 did not have a material affect on our Consolidated Financial Statements.

Effect of Adoption. The table presented below summarizes the impact of adoption from the accounting developments summarized above on our results of operations, if any, actual or estimated:

In millions	**Date of Adoption**	**Accumulated Other Comprehensive Income/(Loss)**	**Retained Earnings**	**Net Income**
Year Ended November 30, 2006				
SFAS 123(R)	December 1, 2005			$ 47
SFAS 155	December 1, 2005		$ (24)	
SFAS 156	December 1, 2005		18	
Year Ended November 30, 2007				
SFAS 157	December 1, 2006		45	
SFAS 158	November 30, 2007	$ (210)		
SFAS 159	December 1, 2006		22	
Estimated Impact to Year Ended November 30, 2008				
FIN 48	December 1, 2007		(190)	

The ASF Framework. On December 6, 2007, the American Securitization Forum ("ASF"), working with various constituency groups as well as representatives of U.S. federal government agencies, issued the *Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans* (the "ASF Framework"). The ASF Framework provides guidance for servicers to streamline borrower evaluation procedures and to facilitate the use of foreclosure and loss prevention efforts in an attempt to reduce the number of U.S. subprime residential mortgage borrowers who might default in the coming year because the borrowers cannot afford to pay the increased loan interest rate after their U.S. subprime residential mortgage variable loan rate resets. The ASF Framework requires a borrower and its U.S. subprime residential mortgage variable loan to meet specific conditions to qualify for a modification under which the qualifying borrower's loan's interest rate would be kept at the existing rate, generally for five years following an upcoming reset period. The ASF Framework is focused on U.S. subprime first-lien adjustable-rate residential mortgages that have an initial fixed interest rate period of 36 months or less, are included in securitized pools, were originated between January 1, 2005 and July 31, 2007, and have an initial interest rate reset date between January 1, 2008 and July 31, 2010 (defined as "Segment 2 Subprime ARM Loans" within the ASF Framework).

On January 8, 2008, the SEC's Office of Chief Accountant (the "OCA") issued a letter (the "OCA Letter") addressing accounting issues that may be raised by the ASF Framework. Specifically, the OCA Letter expressed the view that if a Segment 2 Subprime ARM Loan is modified pursuant to the ASF Framework and that loan could legally be modified, the OCA will not object to continued status of the transferee as a QSPE under SFAS 140. Concurrent with the issuance of the OCA Letter, the OCA requested the FASB to immediately address the issues that have arisen in the application of the QSPE guidance in SFAS 140. Any loan modifications we make in accordance with the ASF Framework will not have a material affect on our accounting for U.S. subprime residential mortgage loans nor securitizations or retained interests in securitizations of U.S. subprime residential mortgage loans.

Basel II. As of December 1, 2005, Holdings became regulated by the SEC as a consolidated supervised entity ("CSE"). This supervision imposes group-wide supervision and examination by the SEC, minimum capital requirements on a consolidated basis and reporting (including reporting of capital adequacy measurement consistent with the standards adopted by the Basel Committee on Banking Supervision) and notification requirements.

The Basel Committee on Banking Supervision published an updated framework to calculate risk-based capital requirements in June 2004 ("Basel II"). In September 2006, U.S. federal bank regulators announced their intent to implement Basel II in the U.S. On December 10, 2007, the U.S. federal bank regulators published final rules implementing the Basel II framework for the calculation of minimum capital requirements. Within the minimum capital requirements, or "first pillar" of Basel II, the federal rules deal only with the capital risk or banking book component. U.S. federal bank regulators have indicated that final rules to update market risk or trading book rules will be issued in the near future.

Basel II is meant to be applied on a consolidated basis for banking institutions or bank holding companies that have consolidated total assets of $250 billion or more and/or consolidated total on-balance-sheet foreign exposure of $10 billion or more. Basel II provides two broad methods for calculating minimum capital requirements related to credit risk (i) a standardized approach that relies heavily upon external credit assessments by major independent credit rating agencies; and (ii) an internal ratings-based approach that permits the use of internal rating assessments in determining required capital.

The time frame in which Basel II requirements would become effective for U.S. banking institutions or bank holding companies is contemplated to be (i) one or more years of parallel calculation, in which an entity would remain subject to existing risk-based capital rules but also calculate its risk-based capital requirements under the new Basel II framework; and (ii) two or three transition years, during which an entity would be subject to the new framework and an entity's minimum risk-based capital would be subject to a floor.

The Basel II framework is anticipated to impact our minimum capital requirements and reporting (including reporting of capital adequacy measurements) as a CSE.

Note 2 Business Segments and Geographic Information

Business Segments

We organize our business operations into three business segments: Capital Markets, Investment Banking and Investment Management.

Our business segment information for the periods ended in 2007, 2006 and 2005 is prepared using the following methodologies and generally represents the information that is relied upon by management in its decision-making processes:

- Revenues and expenses directly associated with each business segment are included in determining income before taxes.

- Revenues and expenses not directly associated with specific business segments are allocated based on the most relevant measures applicable, including each segment's revenues, headcount and other factors.

- Net revenues include allocations of interest revenue, interest expense and revaluation of certain long-term and short-term debt measured at fair value to securities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions.

- Business segment assets include an allocation of indirect corporate assets that have been fully allocated to our segments, generally based on each segment's respective headcount figures.

Capital Markets. Our Capital Markets segment is divided into two components:

Fixed Income – We make markets in and trade municipal and public sector instruments, interest rate and credit products, mortgage-related securities and loan products, currencies and commodities. We also originate mortgages and we structure and enter into a variety of derivative transactions. We also provide research covering economic, quantitative, strategic, credit, relative value, index and portfolio analyses. Additionally, we provide financing, advice and servicing activities to the hedge fund community, known as prime brokerage services. We engage in certain proprietary trading activities and in principal investing in real estate that are managed within this component.

Equities – We make markets in and trade equities and equity-related products and enter into a variety of derivative transactions. We also provide equity-related research coverage as well as execution and clearing activities for clients. Through our capital markets prime services, we provide prime brokerage services to the hedge fund community. We also engage in certain proprietary trading activities and private equity and other related investments.

Investment Banking. We take an integrated approach to client coverage, organizing bankers into industry, product and geographic groups within our Investment Banking segment. Business activities provided to corporations and governments worldwide can be separated into:

Global Finance – We serve our clients' capital raising needs through underwriting, private placements, leveraged finance and other activities associated with debt and equity products.

Advisory Services – We provide business advisory services with respect to mergers and acquisitions, divestitures, restructurings, and other corporate activities.

Investment Management. The Investment Management business segment consists of:

Asset Management – We provide customized investment management services for high net worth clients, mutual funds and other small and middle market institutional investors. Asset Management also serves as general partner for private equity and other alternative investment partnerships and has minority stake investments in certain alternative investment managers.

Private Investment Management – We provide investment, wealth advisory and capital markets execution services to high net worth and middle market institutional clients.

Business Segments

In millions	Capital Markets	Investment Banking	Investment Management	Total
At and for the year ended November 30, 2007				
Gross revenues	$ 51,897	$ 3,903	$ 3,203	$ 59,003
Interest expense	39,640	—	106	39,746
Net revenues	12,257	3,903	3,097	19,257

Depreciation and amortization expense	432	48	97	577
Other expenses	7,626	2,832	2,209	12,667
Income before taxes	$ 4,199	$ 1,023	$ 791	$ 6,013
Segment assets (in billions)	$ 680.5	$ 1.4	$ 9.2	$ 691.1
At and for the year ended November 30, 2006				
Gross revenues	$ 41,074	$ 3,160	$ 2,475	$ 46,709
Interest expense	29,068	—	58	29,126
Net revenues	12,006	3,160	2,417	17,583
Depreciation and amortization expense	377	42	95	514
Other expenses	6,909	2,458	1,797	11,164
Income before taxes	$ 4,720	$ 660	$ 525	$ 5,905
Segment assets (in billions)	$ 493.5	$ 1.3	$ 8.7	$ 503.5
At and for the year ended November 30, 2005				
Gross revenues	$ 27,545	$ 2,894	$ 1,981	$ 32,420
Interest expense	17,738	—	52	17,790
Net revenues	9,807	2,894	1,929	$ 14,630
Depreciation and amortization expense	308	36	82	426
Other expenses	5,927	2,003	1,445	9,375
Income before taxes	$ 3,572	$ 855	$ 402	$ 4,829
Segment assets (in billions)	$ 401.9	$ 1.2	$ 7.0	$ 410.1

Net Revenues by Geographic Region

We organize our operations into three geographic regions:

- Europe and the Middle East, inclusive of our operations in Russia and Turkey;
- Asia-Pacific, inclusive of our operations in Australia and India; and the Americas.

Net revenues presented by geographic region are based upon the location of the senior coverage banker or investment advisor in the case of Investment Banking or Asset Management, respectively, or where the position was risk managed within Capital Markets and Private Investment Management. Certain revenues associated with U.S. products and services that result from relationships with international clients have been classified as international revenues using an allocation process. In addition, expenses contain certain internal allocations, such as regional transfer pricing, which are centrally managed. The methodology for allocating the firm's revenues and expenses to geographic regions is dependent on the judgment of management.

The following presents, in management's judgment, a reasonable representation of each region's contribution to our operating results.

Geographic Operating Results

		Year Ended November 30,		
In millions		**2007**	**2006**	**2005**
Europe and the Middle East				
	Net revenues	$ 6,296	$ 4,536	$ 3,601
	Non-interest expense	4,221	3,303	2,689
	Income before taxes	2,075	1,233	912
Asia-Pacific				
	Net revenues	3,145	1,809	1,650
	Non-interest expense	1,831	1,191	872
	Income before taxes	1,314	618	778

Americas			
U.S.	9,634	11,116	9,270
Other Americas	182	122	109
Net revenues	9,816	11,238	9,379
Non-interest expense	7,192	7,184	6,240
Income before taxes	2,624	4,054	3,139
Total			
Net revenues	19,257	17,583	14,630
Non-interest expense	13,244	11,678	9,801
Income before taxes	$ 6,013	$ 5,905	$ 4,829

Note 3 Financial Instruments and Other Inventory Positions

Financial instruments and other inventory positions owned and Financial instruments and other inventory positions sold but not yet purchased were comprised of the following:

	Owned		Sold But Not Yet Purchased	
In millions	**Nov 30, 2007**	**Nov 30, 2006**	**Nov 30, 2007**	**Nov 30, 2006**
Mortgage and asset-backed securities	$ 89,106	$ 57,726	$ 332	$ 80
Government and agencies	40,892	47,293	71,813	70,453
Corporate debt and other	54,098	43,764	6,759	8,836
Corporate equities	58,521	43,087	39,080	28,464
Real estate held for sale	21,917	9,408	—	—
Commercial paper and other money market instruments	4,000	2,622	12	110
Derivatives and other contractual agreements	44,595	22,696	31,621	18,017
	$ 313,129	$ 226,596	$ 149,617	$ 125,960

Mortgage and asset-backed securities. Mortgage and asset-backed securities include residential and commercial whole loans and interests in residential and commercial mortgage-backed securitizations. Also included within Mortgage and asset-backed securities are securities whose cash flows are based on pools of assets in bankruptcy-remote entities, or collateralized by cash flows from a specified pool of underlying assets. The pools of assets may include, but are not limited to mortgages, receivables and loans.

It is our intent to sell through securitization or syndication activities, residential and commercial mortgage whole loans we originate, as well as those we acquire in the secondary market. We originated approximately $47 billion and $60 billion of residential mortgage loans in 2007 and 2006, respectively, and approximately $60 billion and $34 billion of commercial mortgage loans in 2007 and 2006, respectively.

Balances reported for Mortgage and asset-backed securities include approximately $12.8 billion and $5.5 billion in 2007 and 2006, respectively, of loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The securitization vehicles issued securities that were distributed to investors. We do not consider ourselves to have economic exposure to the underlying assets in those securitization vehicles. For further discussion of our securitization activities, see Note 6, "Securitizations and Special Purpose Entities," to the Consolidated Financial Statements.

In 2007 and 2006, our inventory of Mortgage and asset-backed securities, excluding those that were accounted for as financings rather than sales under SFAS 140, generally included the following types of assets:

In millions	**November 30, 2007**	**November 30, 2006**
Residential and Asset Backed:		

Whole loans	$	19,587	$	18,749
Securities[1]		16,488		7,923
Servicing		1,183		829
Other		86		16
	$	37,344	$	27,517
Commercial:				
Whole loans	$	26,200	$	22,426
Securities(2)		12,180		1,948
Other		558		351
	$	38,938	$	24,725
Total	$	76,282	$	52,242

(1) Includes approximately $7.1 billion of investment grade retained interests in securitizations and approximately $1.6 billion of non-investment grade retained interests in securitizations at November 30, 2007. Includes approximately $5.3 billion of investment grade retained interests in securitizations and approximately $2.0 billion of non-investment grade retained interests in securitizations at November 30, 2006.

(2) Includes approximately $2.4 billion of investment grade retained interests in securitizations and approximately $0.03 billion of non-investment grade retained interests in securitizations at November 30, 2007. Includes approximately $0.6 billion of investment grade retained interests in securitizations at November 30, 2006.

In 2007 and 2006, our portfolio of U.S. subprime residential mortgages, a component of our Mortgage and asset-backed securities inventory, were:1

In millions		November 30, 2007		November 30, 2006
U.S. residential subprime mortgages				
Whole loans(1)	$	3,226	$	4,978
Retained interests in securitizations		1,995		1,817
Other		55		54
Total	$	5,276	$	6,849

(1) Excludes loans which were accounted for as financings rather than sales under SFAS 140 which were approximately $2.9 billion and $3.0 billion at November 30, 2007 and 2006, respectively.

Government and agencies. Included within these balances are instruments issued by a national government or agency thereof, denominated in the country's own currency or in a foreign currency (*e.g.*, sovereign) as well as municipals.

Corporate debt and other. Longer-term debt instruments, generally with a maturity date falling at least a year after their issue date, not issued by governments and may or may not be traded on major exchanges, are included within this component.

Non-derivative, physical commodities are reported as a component of this line item and were approximately $308 million in 2007. In 2006, we did not have any non-derivative, physical commodities.

Corporate equities. Balances generally reflect held positions in any instrument that has an equity ownership component, such as equity-related positions, public ownership equity securities that are listed on public exchanges, private equity-related positions and non-public ownership equity securities that are not listed on a public exchange.

Real estate held for sale. Real estate held for sale of $21.9 billion and $9.4 billion at November 30, 2007 and 2006, respectively, reflects our investments in parcels of land and related physical property. We invest in entities whose underlying assets are Real estate held for sale. We consolidate those entities in which we are the primary beneficiary in accordance with FIN 46(R). We do not consider ourselves to have economic exposure to the total underlying assets in those entities. Our net investment positions related to Real estate held for sale, excluding the amounts that have been consolidated but for which we do not consider ourselves to have economic exposure, was $12.8 billion and $5.9 billion at November 30, 2007 and 2006, respectively.

Commercial paper and other money market instruments. Commercial paper and other money market instruments include short-term obligations, generally issued by financial institutions or corporations, with maturities within a calendar year of the financial statement date. These instruments may include promissory notes, drafts, checks and certificates of deposit.

Derivatives and other contractual agreements. *These balances generally represent future commitments to exchange interest payment streams or currencies based on contract or notional amounts or to purchase or sell other financial instruments or physical assets at specified terms on a specified date. Both over-the-counter and exchange-traded derivatives are reflected.*

The following table presents the fair value of Derivatives and other contractual agreements at November 30, 2007 and 2006. Assets included in the table represent unrealized gains, net of unrealized losses, for situations in which we have a master netting agreement. Similarly, liabilities represent net amounts owed to counterparties. The fair value of derivative contracts represents our net receivable/payable for derivative financial instruments before consideration of securities collateral. Asset *and liabilities are presented below net of cash collateral of approximately $19.7 billion and $17.5 billion, respectively, at November 30, 2007 and $11.1 billion and $8.2 billion, respectively, at November 30, 2006.*

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[1] We generally define U.S. subprime residential mortgage loans as those associated with borrowers having a credit score in the range of 620 or lower using the Fair Isaac Corporation's statistical model, or having other negative factors within their credit profiles. Prior to its closure in our third quarter, we originated subprime residential mortgage loans through BNC Mortgage LLC ("BNC"), a wholly-owned subsidiary of our U.S. regulated thrift Lehman Brothers Bank, FSB. BNC served borrowers with subprime qualifying credit profiles but also served borrowers with stronger credit history as a result of broker relationships or product offerings and such loans are also included in our subprime business activity. For residential mortgage loans purchased from other mortgage originators, we use a similar subprime definition as for our origination activity. Additionally, second lien loans are included in our subprime business activity.

Fair Value of Derivatives and Other Contractual Agreements

	Nov 30, 2007		Nov 30, 2006	
In millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Over-the-Counter: (1)				
Interest rate, currency and credit default swaps and options	$ 22,028	$ 10,915	$ 8,634	$ 5,691
Foreign exchange forward contracts and options	2,479	2,888	1,792	2,145
Other fixed income securities contracts (including TBAs and forwards)	8,450	6,024	4,308	2,604
Equity contracts (including equity swaps, warrants and options)	8,357	9,279	4,739	4,744
Exchange Traded:				
Equity contracts (including equity swaps, warrants and options)	3,281	2,515	3,223	2,833
	$ 44,595	$ 31,621	$ 22,696	$ 18,017

(1) Our net credit exposure for OTC contracts is $34.6 billion and $15.6 billion at November 30, 2007 and 2006, respectively, representing the fair value of OTC contracts in a net receivable position, after consideration of collateral.

At November 30, 2007, our Derivatives and other contractual agreements include approximately $1.5 billion of both commodity derivative assets and liabilities. At November 30, 2006, our commodity derivative assets and liabilities were $268 million and liabilities of $277 million, respectively.

Concentrations of Credit Risk

A substantial portion of our securities transactions are collateralized and are executed with, and on behalf of, financial institutions, which includes other brokers and dealers, commercial banks and institutional clients. Our exposure to credit risk associated with the non-performance of these clients and counterparties in fulfilling their contractual obligations with respect to various types of transactions can be directly affected by volatile or illiquid trading markets, which may impair the ability of clients and counterparties to satisfy their obligations to us.

Financial instruments and other inventory positions owned include U.S. government and agency securities, and securities issued by non-U.S. governments, which in the aggregate represented 6% and 9% of total assets at November 30, 2007 and 2006, respectively. In addition, collateral held for resale agreements represented approximately 24% and 23% of total assets at November 30, 2007 and 2006, respectively, and primarily consisted of securities issued by the U.S. government, federal agencies or non-U.S. governments. Our most significant industry concentration is financial institutions, which includes other brokers and dealers, commercial banks and institutional clients. This concentration arises in the normal course of business.

Note 4 Fair Value of Financial Instruments

Financial instruments and other inventory positions owned, excluding Real estate held for sale, and Financial instruments and other inventory positions sold but not yet purchased, are presented at fair value. In addition, certain long and short-term borrowing obligations, principally certain hybrid financial instruments, and certain deposit liabilities at banks, are presented at fair value.

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Beginning December 1, 2006, assets and liabilities recorded at fair value in the Consolidated Statement of Financial Condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels – defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities – are as follows:

> Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
>
> The types of assets and liabilities carried at Level I fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.
>
> Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
>
> Fair valued assets and liabilities that are generally included in this category are non-G-7 government securities, municipal bonds, certain hybrid financial instruments, certain mortgage and asset backed securities, certain corporate debt, certain commitments and guarantees, certain private equity investments and certain derivatives.
>
> Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.
>
> Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt, certain private equity investments, certain commitments and guarantees and certain derivatives.

Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations.

In millions	Assets at Fair Value as of November 30, 2007 Level I	Level II	Level III	Total
Mortgage and asset-backed securities[1]	$ 240	$ 63,672	$ 25,194	$ 89,106
Government and agencies	25,393	15,499	—	40,892
Corporate debt and other	324	50,692	3,082	54,098
Corporate equities	39,336	11,054	8,131	58,521
Commercial paper and other money market instruments	4,000	—	—	4,000
Derivative assets[2]	3,281	35,742	5,572	44,595
	$ 72,574	$ 176,659	$ 41,979	$ 291,212

(1) Includes loans transferred to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The securitization vehicles issued securities that were distributed to investors. We do not consider ourselves to have economic exposure to the underlying assets in those securitization vehicles. The loans are reflected as an asset within Mortgages and asset-backed positions and the proceeds received from the transfer are reflected as a liability within Other secured borrowings. These loans are classified as Level II assets.

(2) Derivative assets are presented on a net basis by level. Inter- and intra-level cash collateral, cross-product and counterparty netting at November 30, 2007 was approximately $38.8 billion.

In millions	Liabilities at Fair Value as of November 30, 2007 Level I	Level II	Level III	Total
Mortgage and asset-backed positions	$ —	$ 332	$ —	$ 332
Government and agencies	67,484	4,329	—	71,813
Corporate debt and other	22	6,737	—	6,759
Corporate equities	39,080	—	—	39,080
Commercial paper and other money market instruments	12	—	—	12
Derivative liabilities(1)	2,515	26,011	3,095	31,621
	$ 109,113	$ 37,409	$ 3,095	$ 149,617

(1) Derivative liabilities are presented on a net basis by level. Inter- and intra-level cash collateral, cross-product and counterparty netting at November 30, 2007 was approximately $36.6 billion.

Level III Gains and Losses

Net revenues (both realized and unrealized) for Level III financial instruments are a component of Principal transactions in the Consolidated Statement of Income. Net realized gains associated with Level III financial instruments were approximately $1.3 billion for the fiscal year ended November 30, 2007. The net unrealized loss on Level III non-derivative financial instruments was approximately $2.5 billion for the fiscal year ended November 30, 2007, primarily consisting of unrealized losses from mortgage and asset-backed positions. The net unrealized gain on Level III derivative financial instruments was approximately $1.6 billion for the fiscal year ended November 30, 2007, primarily consisting of unrealized gains from equity and interest rate-related derivative positions. Level III financial instruments may be economically hedged with financial instruments not classified as Level III; therefore, gains or losses associated with Level III financial instruments are offset by gains or losses associated with financial instruments classified in other levels of the fair value hierarchy.

The table presented below summarizes the change in balance sheet carrying values associated with Level III financial instruments during the fiscal year ended November 30, 2007. Caution should be utilized when evaluating reported net revenues for Level III Financial instruments. The values presented exclude economic hedging activities that may be transacted in instruments categorized within other fair value hierarchy levels. Actual net revenues associated with Level III financial instruments inclusive of hedging activities could differ materially.

In millions	Mortgage and asset-backed positions	Corporate debt and other	Corporate equities	Net derivatives	Total
Balance at December 1, 2006	$ 8,575	$ 1,924	$ 2,427	$ 686	$13,612
Net Payments, Purchases and Sales	6,914	472	4,567	376	12,329
Net Transfers In/(Out)	11,373	567	687	(90)	12,537
Gains/(Losses)(1)					
Realized	995	110	309	(78)	1,336
Unrealized	(2,663)	9	141	1,583	(930)
Balance at November 30, 2007	$ 25,194	$ 3,082	$ 8,131	$ 2,477	$38,884

(1) Realized or unrealized gains/(losses) from changes in values of Level III Financial instruments represent gains/(losses) from changes in values of those Financial instruments only for the period(s) in which the instruments were classified as Level III.

The table presented below summarizes the change in balance sheet carrying value associated with Level III financial instruments during each quarterly period in the 2007 fiscal year. Caution should be utilized when evaluating reported net revenues for Level III financial instruments. The values presented exclude economic hedging activities that may be transacted in instruments categorized within other fair value hierarchy levels. Actual net revenues associated with Level III financial instruments inclusive of hedging activities could differ materially.

In millions	Mortgage and asset-backed positions	Corporate debt and other	Corporate equities	Net derivatives	Total
Balance at December 1, 2006	$ 8,575	$ 1,924	$ 2,427	$ 686	$13,612
Net Payments, Purchases and Sales	2,349	428	210	283	3,270
Net Transfers In/(Out)	137	—	—	—	137
Gains/(Losses)(1)					
Realized	176	19	21	7	223
Unrealized	(80)	13	13	158	104
Balance at February 28, 2007	11,157	2,384	2,671	1,134	17,346
Net Payments, Purchases and Sales	1,677	50	972	(6)	2,693
Net Transfers In/(Out)	(101)	95	352	39	385
Gains/(Losses) (1)					
Realized	274	31	5	48	358
Unrealized	(131)	(11)	135	65	58
Balance at May 31, 2007	12,876	2,549	4,135	1,280	20,840
Net Payments, Purchases and Sales	1,674	(299)	446	(59)	1,762
Net Transfers In/(Out)	9,856	(144)	232	(160)	9,784
Gains/(Losses) (1)					
Realized	210	7	37	(4)	250
Unrealized	(825)	19	62	543	(201)
Balance at August 31, 2007	23,791	2,132	4,912	1,600	32,435
Net Payments, Purchases and Sales	1,213	292	2,939	157	4,601
Net Transfers In/(Out)	1,480	615	103	31	2,229
Gains/(Losses) (1)					
Realized	255	47	227	(166)	363
Unrealized	(1,545)	(4)	(50)	855	(744)
Balance at November 30, 2007	$ 25,194	$ 3,082	$ 8,131	$ 2,477	$38,884

(1) Realized or unrealized gains/(losses) from changes in values of Level III Financial instruments represent gains/(losses) from changes in values of those Financial instruments only for the period(s) in which the instruments were classified as Level III.

Fair Value Option

SFAS 159 permits certain financial assets and liabilities to be measured at fair value, using an instrument-by-instrument election. Changes in the fair value of the financial assets and liabilities for which the fair value option was made are reflected in Principal transactions in our Consolidated Statement of Income. As indicated above in the fair value hierarchy tables and further discussed in Note 1, "Summary of Significant Accounting Policies, Accounting and Regulatory Developments—SFAS 159," we elected to account for the following financial assets and liabilities at fair value:

Certain hybrid financial instruments. These instruments are primarily structured notes that are risk managed on a fair value basis and within our Capital Market activities and for which hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, had been complex to maintain. Changes in the fair value of these liabilities, excluding any Interest income or Interest expense, are reflected in Principal transactions in our Consolidated Statement of Income. We calculate the impact of our own credit spread on hybrid financial instruments carried at fair value by discounting future cash flows at a rate which incorporates observerable changes in our credit spread. The estimated changes in the fair value of these liabilities were gains of approximately $1.3 billion, attributable to the widening of our credit spreads during fiscal year 2007. As of November 30, 2007, the aggregate principal amount of hybrid financial instruments classified as short-term borrowings and measured at fair value exceeded the fair value by approximately $152 million. Additionally and as of November 30, 2007, the aggregate principal amount of hybrid financial instruments classified as long-term borrowings and measured at fair value exceeded the fair value by approximately $2.1 billion.

Other secured borrowings. Certain liabilities recorded as Other secured borrowings include the proceeds received from transferring loans to securitization vehicles where such transfers were accounted for as secured financings rather than sales under SFAS 140. The transferred loans are reflected as an asset within Mortgages and asset-backed positions and also accounted for at fair value and categorized as Level II in the fair value hierarchy. We do not consider ourselves to have economic exposure to the underlying assets in these securitization vehicles. The change in fair value attributable to the observable impact from instrument-specific credit risk was not material to our results of operations.

Deposit liabilities at banks. We elected to account for certain deposits at our U.S. banking subsidiaries at fair value. The change in fair value attributable to the observable impact from instrument-specific credit risk was not material to our results of operations. As of November 30, 2007, the difference between the fair value and the aggregate principal amount of deposit liabilities at banks carried at fair value was not material.

Liabilities for which the fair value option was elected are categorized in the table below based upon the lowest level of significant input to the valuations.

	At Fair Value as of November 30, 2007			
In millions	**Level I**	**Level II**	**Level III**	**Total**
Certain hybrid financial instruments:				
Short-term borrowings	—	$ 9,035	—	$ 9,035
Long-term borrowings	—	$ 27,204	—	$ 27,204
Other secured borrowings	—	$ 9,149	—	$ 9,149
Deposit liabilities at banks	—	$ 15,986	—	$ 15,986

Fair Value on a Nonrecurring Basis

The Company uses fair value measurements on a nonrecurring basis in its assessment of assets classified as Goodwill and other inventory positions classified as Real estate held for sale. These assets and inventory positions are recorded at fair value initially and assessed for impairment periodically thereafter. During the fiscal year ended November 30, 2007, the carrying amount of Goodwill assets were compared to their fair value. No change in carrying amount resulted in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Additionally and on a nonrecurring basis during the fiscal year ended November 30, 2007, the carrying amount of Real estate held for sale positions were compared to their fair value less cost to sell. No change in carrying amount resulted in accordance with the provisions of SFAS No. 66, *Accounting for Sales of Real Estate*, SFAS No. 144, *Accounting for Impairment or Disposal of Long Lived Assets*, and other relevant accounting guidance. The lowest level of inputs for fair value measurements for Goodwill and Real estate held for sale are Level III.

For additional information regarding Goodwill, see Note 7, "Identifiable Intangible Assets and Goodwill," to the Consolidated Financial Statements. For additional information regarding our inventory of Real estate held for sale, see Note 3, "Financial Instruments and Other Inventory Positions," to the Consolidated Financial Statements.

Valuation Techniques

In accordance with SFAS 157, valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

Market Approach. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

Income Approach. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. These techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques; option-pricing models, binomial or lattice models that incorporate present value techniques; and the multi-period excess earnings method.

Cost Approach. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described within SFAS 157 are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities accounted for at fair value, where appropriate and possible, one or more valuation techniques may be used. The selection of the valuation method(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required. For assets and liabilities accounted for at fair value, excluding Goodwill and Real estate held for sale, valuation techniques are generally a combination of the market and income approaches. Goodwill and Real estate held for sale valuation techniques generally combine income and cost approaches. For the fiscal year ended November 30, 2007, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Note 5 Securities Received and Pledged as Collateral

We enter into secured borrowing and lending transactions to finance inventory positions, obtain securities for settlement and meet clients' needs. We receive collateral in connection with resale agreements, securities borrowed transactions, borrow/pledge transactions, client margin loans and derivative transactions. We generally are permitted to sell or repledge these securities held as collateral and use them to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions.

At November 30, 2007 and 2006, the fair value of securities received as collateral that we were permitted to sell or repledge was approximately $798 billion and $621 billion, respectively. The fair value of securities received as collateral that we sold or repledged was approximately $725 billion and $568 billion at November 30, 2007 and 2006, respectively.

We also pledge our own assets, primarily to collateralize certain financing arrangements. These pledged securities, where the counterparty has the right by contract or custom to sell or repledge the financial instruments, were approximately $63 billion and $43 billion at November 30, 2007 and 2006, respectively. The carrying value of Financial instruments and other inventory positions owned that have been pledged or otherwise encumbered to counterparties where those counterparties do not have the right to sell or repledge, was approximately $87 billion and $75 billion at November 30, 2007 and 2006, respectively.

Note 6 Securitizations and Special Purpose Entities

Generally, residential and commercial mortgages, home equity loans, municipal and corporate bonds, and lease and trade receivables are financial assets that we securitize through SPEs. We may continue to hold an interest in the financial assets securitized in the form of the securities created in the transaction, including residual interests ("interests in securitizations") established to facilitate the securitization transaction. Interests in securitizations are presented within Financial instruments and other inventory positions owned (primarily in mortgages and asset-backed securities and government and agencies) in the Consolidated Statement of Financial Condition. For additional information regarding the accounting for securitization transactions, see Note 1, "Summary of Significant Accounting Policies— Consolidation Accounting Policies," to the Consolidated Financial Statements.

For the periods ended November 30, 2007 and 2006, we securitized the following financial assets:

	Year Ended November 30,	
In millions	**2007**	**2006**
Residential mortgages	$ 100,053	$ 145,860
Commercial mortgages	19,899	18,961
Municipal and other asset-backed financial instruments	5,532	3,624
Total	$ 125,484	$ 168,445

At November 30, 2007 and 2006, we had approximately $1.6 billion and $2.0 billion, respectively, of non-investment grade interests from our securitization activities.

The table below presents: the fair value of our interests in securitizations at November 30, 2007 and 2006; model assumptions of market factors, sensitivity of valuation models to adverse changes in the assumptions, as well as cash flows received on such interests in the securitizations. The sensitivity analyses presented below are hypothetical and should be used with caution since the stresses are performed without considering the effect of hedges, which serve to reduce our actual risk. We mitigate the risks associated with the below interests in securitizations through various risk management dynamic hedging strategies. These results are calculated by stressing a particular economic assumption independent of changes in any other assumption (as required by U.S. GAAP). In reality, changes in one factor often result in changes in another factor which may counteract or magnify the effect of the changes outlined in the table below. Changes in the fair value based on a 10% or 20% variation in an assumption should not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Securitization Activity

Dollars in millions	November 30, 2007 Residential Mortgages Investment Grade(1)	November 30, 2007 Residential Mortgages Non-Investment Grade	November 30, 2007 Other(2)	November 30, 2006 Residential Mortgages Investment Grade(1)	November 30, 2006 Residential Mortgages Non-Investment Grade	November 30, 2006 Other(2)
Interests in securitizations (in billions)	$ 7.1	$ 1.6	$ 2.6	$ 5.3	$ 2.0	$ 0.6
Weighted-average life (years)	9	4	6	5	6	5
Average constant prepayment rate	12.4%	17.0%	—	27.2%	29.1%	—
Effect of 10% adverse change	$ 55	$ 8	$ —	$ 21	$ 61	$ —
Effect of 20% adverse change	$ 111	$ 10	$ —	$ 35	$ 110	$ —
Weighted-average credit loss assumption	0.5%	2.4%	0.7%	0.6%	1.3%	—
Effect of 10% adverse change	$ 107	$ 104	$ 6	$ 70	$ 109	$ —
Effect of 20% adverse change	$ 197	$ 201	$ 12	$ 131	$ 196	$ —
Weighted-average discount rate	7.7%	19.4%	7.3%	7.2%	18.4%	5.8%
Effect of 10% adverse change	$ 245	$ 53	$ 84	$ 124	$ 76	$ 13
Effect of 20% adverse change	$ 489	$ 102	$ 166	$ 232	$ 147	$ 22

(1) The amount of investment-grade interests in securitizations related to agency collateralized mortgage obligations was approximately $2.5 billion and $1.9 billion at November 30, 2007 and 2006, respectively.

(2) At November 30, 2007, other interests in securitizations included approximately $2.4 billion of investment grade commercial mortgages, approximately $26 million of non-investment grade commercial mortgages and the remainder relates to municipal products. At November 30, 2006, other interests in securitizations included approximately $0.6 billion of investment grade commercial mortgages.

Cash flows received on interests in securitizations

	November 30, 2007 Residential Mortgages		November 30, 2006 Residential Mortgages	
	Investment	Non-Investment	Investment	Non-Investment

In millions	Grade	Grade	Other	Grade	Grade	Other
	$ 898	$ 633	$ 130	$ 664	$ 216	$ 59

Mortgage servicing rights. Mortgage servicing rights ("MSRs") represent the right to future cash flows based upon contractual servicing fees for mortgage loans and mortgage-backed securities. Our MSRs generally arise from the securitization of residential mortgage loans that we originate. MSRs are presented within Financial instruments and other inventory positions owned on the Consolidated Statement of Financial Condition. Effective with the adoption of SFAS 156 as of the beginning of our 2006 fiscal year, MSRs are carried at fair value, with changes in fair value reported in earnings in the period in which the change occurs. At November 30, 2007 and 2006, the Company had MSRs of approximately $1.2 billion and $829 million, respectively. Our MSRs activities for the year ended November 30, 2007 and 2006 are as follows:

	Year Ended November 30,	
In millions	**2007**	**2006**
Balance, beginning of period	$829	$561
Additions, net	368	507
Changes in fair value:		
Paydowns/servicing fees	(209)	(192)
Resulting from changes in valuation assumptions	195	(80)
Change due to SFAS 156 adoption	—	33
Balance, end of period	$1,183	$829

The determination of MSRs fair value is based upon a discounted cash flow valuation model. Cash flow and prepayment assumptions used in our discounted cash flow model are: based on empirical data drawn from the historical performance of our MSRs; consistent with assumptions used by market participants valuing similar MSRs; and from data obtained on the performance of similar MSRs. These variables can, and generally will, vary from quarter to quarter as market conditions and projected interest rates change. For that reason, risk related to MSRs directly correlates to changes in prepayment speeds and discount rates. We mitigate this risk by entering into hedging transactions.

The following table shows the main assumptions used to determine the fair value of our MSRs at November 30, 2007 and 2006, the sensitivity of our MSRs' fair value measurements to changes in these assumptions, and cash flows received on contractual servicing:

	At November 30,	
Dollars in millions	**2007**	**2006**
Weighted-average prepayment speed (CPR)	24.5%	31.1%
Effect of 10% adverse change	$ 102	$ 84
Effect of 20% adverse change	$ 190	$ 154
Discount rate	6.5%	8.0%
Effect of 10% adverse change	$ 20	$ 17
Effect of 20% adverse change	$ 39	$ 26
Cash flows received on contractual servicing	$ 276	$ 255

The above sensitivity analysis is hypothetical and should be used with caution since the stresses are performed without considering the effect of hedges, which serve to reduce our actual risk. These results are calculated by stressing a particular economic assumption independent of changes in any other assumption (as required by U.S. GAAP). In reality, changes in one factor often result in changes in another factor which may counteract or magnify the effect of the changes outlined in the above table. Changes in the fair value based on a 10% or 20% variation in an assumption should not be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear.

Non-QSPE activities. We have transactional activity with SPEs that do not meet the QSPE criteria because their permitted activities are not limited sufficiently or the assets are non-qualifying financial instruments (*e.g.*, real estate). These SPEs issue credit-linked notes, invest in real estate or are established for other structured financing transactions designed to meet clients' investing or financing needs. A collateralized debt obligation ("CDO") transaction involves the purchase by an SPE of a diversified portfolio of securities and/or loans that are then managed by an independent asset manager. Interests in the SPE (debt and equity) are sold to third party investors. Our primary role in a CDO is to act as structuring and placement agent, warehouse provider, underwriter and market maker in the related CDO securities. In a typical CDO, at the direction of a third party asset manager, we will temporarily warehouse securities or loans on our balance sheet pending the sale to the SPE once the permanent financing is completed. At November 30, 2007 and 2006, we owned approximately $581.2 million and $55.1 million of equity securities in CDOs, respectively. Because our investments do not represent a majority of the CDOs' equity, we are not exposed to the majority of the CDOs' expected losses. Accordingly, we are not the primary beneficiary of the CDOs and therefore we do not consolidate them.

As a dealer in credit default swaps, we make a market in buying and selling credit protection on single issuers as well as on portfolios of credit exposures. We mitigate our credit risk, in part, by purchasing default protection through credit default swaps with SPEs. We pay a premium to the SPEs for assuming credit risk under the credit default swap. In these transactions, SPEs issue credit-linked notes to investors and use the proceeds to invest in high quality collateral. Our maximum potential loss associated with our involvement with such credit-linked note transactions is measured by the fair value of our credit default swaps with such SPEs. At November 30, 2007 and 2006, respectively, the fair values of these credit default swaps were $3.9 billion and $155 million. The underlying investment grade collateral held by SPEs where we are the first-lien holder was $15.7 billion and $10.8 billion at November 30, 2007 and 2006, respectively.

Because the investors assume default risk associated with both the reference portfolio and the SPEs' assets, our expected loss calculations generally demonstrate the investors in the SPEs bear a majority of the entity's expected losses. Accordingly, we generally are not the primary beneficiary and therefore do not consolidate these SPEs. In instances where we are the primary beneficiary of the SPEs, we consolidate the SPEs. At November 30, 2007 and 2006, we consolidated approximately $180 million and $718 million of these SPEs, respectively. The assets associated with these consolidated SPEs are presented as a component of Financial instruments and other inventory positions owned, and the liabilities are presented as a component of Other secured borrowings.

We also invest in real estate directly through consolidated subsidiaries and through VIEs. We consolidate our investments in real estate VIEs when we are the primary beneficiary. We record the assets of these consolidated real estate VIEs as a component of Financial instruments and other inventory positions owned, and the liabilities are presented as a component of Other secured borrowings. At November 30, 2007 and 2006, we consolidated approximately $9.8 billion and $3.4 billion, respectively, of real estate-related investments. After giving effect to non-recourse financing, our net investment position in these consolidated real estate VIEs was $6.0 billion and $2.2 billion at November 30, 2007 and 2006, respectively.

The following table summarizes our non-QSPE activities at November 30, 2007 and 2006:

	At November 30,	
In millions	**2007**	**2006**
Credit default swaps with SPEs	$ 3,859	$ 155
Value of underlying investment-grade collateral	15,744	10,754
Value of assets consolidated	180	718
Consolidated real estate VIEs	9,786	3,380
Net investment	6,012	2,180

In addition to the above, we enter into other transactions with SPEs designed to meet clients' investment and/or funding needs. For further discussion of our SPE-related and other commitments, see Note 9, "Commitments, Contingencies and Guarantees," to the Consolidated Financial Statements.

Note 7 Identifiable Intangible Assets and Goodwill

For the years ended November 30, 2007, 2006 and 2005, aggregate amortization expense for intangible assets, primarily customer lists, was approximately $47 million, $50 million, and $49 million, respectively. Estimated amortization expense for each of the years ending November 30, 2008 through 2012 are as follows:

In thousands	2008	2009	2010	2011	2012
Estimated amortization expense	$ 52,636	$ 41,283	$ 39,760	$ 38,369	$ 37,531

Identifiable Intangible Assets

	November 30, 2007		November 30, 2006	
In millions	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Customer lists	$ 580	$ 143	$ 504	$ 110
Other	98	65	82	51
	$ 678	$ 208	$ 586	$ 161
Intangible assets not subject to amortization:				
Mutual fund customer-related intangibles	$ 395		$ 395	
Trade name	125		125	
	$ 520		$ 520	

The changes in the carrying amount of goodwill for the years ended November 30, 2007 and 2006 are as follows:

Goodwill

In millions	Capital Markets	Investment Management	Total
Balance (net) at November 30, 2005	$ 187	$ 2,083	$ 2,270
Goodwill acquired	116	—	116
Purchase price valuation adjustment	25	6	31
Balance (net) at November 30, 2006	328	2,089	2,417
Goodwill acquired	593	168	761
Goodwill disposed	(53)	—	(53)
Purchase price valuation adjustment	12	—	12
Balance (net) at November 30, 2007	$ 880	$ 2,257	$ 3,137

Note 8 Borrowings and Deposit Liabilities

Borrowings and deposit liabilities at banks at November 30, 2007 and 2006 consisted of the following:

	At November 30,	
In millions	2007	2006

Short-term borrowings		
Unsecured		
Current portion of long-term borrowings	$ 16,801	$ 12,878
Commercial paper	3,101	1,653
Other(1)	7,645	5,880
Secured	519	227
Total	$ 28,066	$ 20,638
Amount carried at fair value(2)	$ 9,035	$ 6,064
Weighted-average contractual interest rate	4.54%	5.39%
Deposit liabilities at banks		
Time deposits		
At U.S. banks	$ 16,189	$ 14,592
At non-U.S. banks	10,974	5,621
Savings deposits		
At U.S. banks	1,556	1,199
At non-U.S. banks	644	—
Total	$ 29,363	$ 21,412
Amount carried at fair value(2)	$ 15,986	$ 14,708
Weighted-average contractual interest rate	4.67%	4.66%
Long-term borrowings		
Senior notes	$ 108,914	$ 75,202
Subordinated notes	9,259	3,238
Junior subordinated notes	4,977	2,738
Total(3)	$ 123,150	$ 81,178
Amount carried at fair value(2)	$ 27,204	$ 11,025
Weighted-average contractual interest rate(4)	4.38%	4.32%

(1) Principally certain hybrid financial instruments with maturities of less than one year and zero-strike warrants.

(2) Certain borrowings and deposit liabilities at banks are carried at fair value in accordance with SFAS 155, SFAS 157 and SFAS 159. For additional information, see Note 1, "Summary of Significant Accounting Polices," and Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

(3) In accordance with SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments*," the carrying amount of our total long-term borrowings can be approximated at fair value using a discounted cash flow valuation model with inputs of quoted market prices for similar types of borrowing arrangements. The estimated fair value of our long-term borrowings at November 30, 2007 was approximately $4.8 billion less than the carrying amount. The estimated fair value of our long-term borrowings at November 30, 2006 was approximately $250 million more than the carrying amount.

(4) Weighted-average contractual interest rates for U.S.-dollar denominated obligations were 5.30% and 5.21% at November 30, 2007 and 2006, respectively. Weighted-average contractual interest rates for non-U.S.-dollar denominated obligations were 3.42% and 3.15% at November 30, 2007 and 2006, respectively.

Maturity Profile

The maturity dates of long-term borrowings are as follows:

	U.S. Dollar		Non-U.S. Dollar		Total	
In millions	**Fixed Rate**	**Floating Rate**	**Fixed Rate**	**Floating Rate**	**Nov 30, 2007**	**Nov 30, 2006**

Maturing in fiscal 2008	—	—	—	—	—	$ 17,892
Maturing in fiscal 2009	$ 2,369	$ 14,121	$ 429	$ 8,104	$ 25,023	13,583
Maturing in fiscal 2010	3,754	4,845	1,663	3,269	13,531	7,744
Maturing in fiscal 2011	2,215	3,315	1,798	7,287	14,615	12,412
Maturing in fiscal 2012	4,636	2,605	3,234	7,513	17,988	4,409
December 1, 2012 and thereafter	18,414	7,805	8,782	16,992	51,993	25,138
	$ 31,388	$ 32,691	$ 15,906	$ 43,165	$ 123,150	$ 81,178

At November 30, 2007, $863 million of outstanding long-term borrowings are repayable at par value prior to maturity at the option of the holder. These obligations are reflected in the above table as maturing at their put dates, which range from fiscal 2009 to fiscal 2022, rather than at their contractual maturities, which range from fiscal 2013 to fiscal 2031. In addition, $20.2 billion of long-term borrowings are redeemable prior to maturity at our option under various terms and conditions. These obligations are reflected in the above table at their contractual maturity dates, which range from fiscal 2009 to fiscal 2054, rather than at their call dates which range from fiscal 2009 to fiscal 2027. Extendible debt structures totaling approximately $5.4 billion are shown in the above table at their earliest maturity dates, which range from fiscal 2009 to fiscal 2013. Extendible debt matures on an initial specified maturity date unless the debt holders elect to extend the term of the note for a period specified in the note.

Included in long-term borrowings is $5.1 billion of certain hybrid financial instruments with early redemption features linked to market prices or other triggering events (*e.g.*, the downgrade of a reference obligation underlying a credit–linked note). In the above maturity table, these notes are shown at their contractual maturity dates.

At November 30, 2007, our U.S. dollar and non–U.S. dollar debt portfolios included approximately $12.9 billion and $16.9 billion, respectively, of certain hybrid financial instruments for which the interest rates and/or redemption values are linked to the performance of an underlying measure (including industry baskets of stocks, commodities or credit events). Generally, such notes are issued as floating rate notes or the interest rates on such index notes are effectively converted to floating rates based primarily on LIBOR through the use of derivatives.

End–User Derivative Activities

We use a variety of derivative products including interest rate and currency swaps as an end-user to modify the interest rate characteristics of our long-term borrowings portfolio. We use interest rate swaps to convert a substantial portion of our fixed-rate debt to floating interest rates to more closely match the terms of assets being funded and to minimize interest rate risk. In addition, we use cross–currency swaps to hedge our exposure to foreign currency risk arising from our non–U.S. dollar debt obligations, after consideration of non–U.S. dollar assets that are funded with long-term debt obligations in the same currency. In certain instances, we may use two or more derivative contracts to manage the interest rate nature and/or currency exposure of an individual long-term borrowings issuance.

End–User Derivative Activities resulted in the following mix of fixed and floating rate debt:

Long-Term Borrowings After End–User Derivative Activities

	November 30,	
In millions	**2007**	**2006**
U.S. dollar:		
Fixed rate	$ 1,096	$ 942
Floating rate	81,762	57,053
Total U.S. dollar	82,858	57,995
Weighted-average effective interest rate	5.18%	5.60%

Non–U.S. dollar:		
Fixed rate	269	645
Floating rate	40,023	22,538
Total Non-U.S. dollar	40,292	23,183
Weighted-average effective interest rate	4.15%	3.51%
Total	$ 123,150	$ 81,178
Weighted-average effective interest rate	4.83%	5.00%

Junior Subordinated Notes

Junior subordinated notes are notes issued to trusts or limited partnerships (collectively, the "Trusts") and qualify as equity capital by leading rating agencies (subject to limitation). The Trusts were formed for the purposes of: (i) issuing securities representing ownership interests in the assets of the Trusts; (ii) investing the proceeds of the Trusts in junior subordinated notes of Holdings; and (iii) engaging in activities necessary and incidental thereto. The securities issued by the Trusts are comprised of the following:

	November 30,	
In millions	**2007**	**2006**
Trust Preferred Securities:		
Lehman Brothers Holdings Capital Trust III, Series K	$ 300	$ 300
Lehman Brothers Holdings Capital Trust IV, Series L	300	300
Lehman Brothers Holdings Capital Trust V, Series M	400	399
Lehman Brothers Holdings Capital Trust VI, Series N	225	225
Lehman Brothers Holdings Capital Trust VII	1,000	—
Lehman Brothers Holdings Capital Trust VIII	500	—
Euro Perpetual Preferred Securities:		
Lehman Brothers U.K. Capital Funding LP	256	231
Lehman Brothers U.K. Capital Funding II LP	369	329
Enhanced Capital Advantaged Preferred Securities (ECAPS®):		
Lehman Brothers Holdings E-Capital Trust I	255	296
Enhanced Capital Advantaged Preferred Securities (Euro ECAPS®):		
Lehman Brothers U.K. Capital Funding III L.P.	577	658
Lehman Brothers U.K. Capital Funding IV L.P.	295	—
Lehman Brothers U.K. Capital Funding V L.P.	500	—
	$ 4,977	$ 2,738

The following table summarizes the key terms of Trusts with outstanding securities at November 30, 2007:

Trust-Issued Securities

November 30, 2007	**Issuance Date**	**Mandatory Redemption Date**	**Redeemable by Issuer on or after**
Holdings Capital Trust III, Series K	March 2003	March 15, 2052	March 15, 2008
Holdings Capital Trust IV, Series L	October 2003	October 31, 2052	October 31, 2008
Holdings Capital Trust V, Series M	April 2004	April 22, 2053	April 22, 2009
Holdings Capital Trust VI, Series N	January 2005	January 18, 2054	January 18, 2010
Holdings Capital Trust VII	May 2007	June 1, 2043(1)	May 31, 2012
Holdings Capital Trust VIII	May 2007	June 1, 2043(1)	May 31, 2012
U.K. Capital Funding LP	March 2005	Perpetual	March 30, 2010
U.K. Capital Funding II LP	September 2005	Perpetual	September 21, 2009
Holdings E-Capital Trust I	August 2005	August 19, 2065	August 19, 2010
U.K. Capital Funding III LP	February 2006	February 22, 2036	February 22, 2011
U.K. Capital Funding IV LP	January 2007	Perpetual	April 25, 2012
U.K. Capital Funding V LP	May 2007	Perpetual	June 1, 2012

(1) Or on such earlier date as we may elect in connection with a remarketing.

The trust preferred securities issued by Holdings Capital Trust VII and Holdings Capital Trust VIII were issued together with contracts to purchase depositary shares representing our Non-Cumulative Perpetual Preferred Stock, Series H and Series I, respectively, with an aggregate redemption value of $1.5 billion. The stock purchase date is expected to be on or around May 31, 2012, but could occur on an earlier date or be deferred until as late as May 31, 2013 in certain circumstances.

Credit Facilities

We use both committed and uncommitted bilateral and syndicated long-term bank facilities to complement our long-term debt issuance. In particular, Holdings maintains a $2.0 billion unsecured, committed revolving credit agreement with a syndicate of banks which expires in February 2009. In addition, we maintain a $2.5 billion multi-currency unsecured, committed revolving credit facility ("European Facility") with a syndicate of banks for Lehman Brothers Bankhaus AG ("Bankhaus") and Lehman Brothers Treasury Co. B.V. which expires in April 2010. Our ability to borrow under such facilities is conditioned on complying with customary lending conditions and covenants. We have maintained compliance with the material covenants under these credit agreements at all times. We draw on both of these facilities from time to time in the normal course of conducting our business. As of November 30, 2007, there were no outstanding borrowings against either Holdings' credit facility or the European Facility.

Note 9 Commitments, Contingencies and Guarantees

In the normal course of business, we enter into various commitments and guarantees, including lending commitments to high grade and high yield borrowers, private equity investment commitments, liquidity commitments and other guarantees.

Lending–Related Commitments

The following table summarizes the contractual amounts of lending-related commitments at November 30, 2007 and 2006:

	Expiration Per Period at November 30,					Total Contractual Amount November 30,	
In millions	**2008**	**2009**	**2010-2011**	**2012-2013**	**Later**	**2007**	**2006**
Lending commitments							
High grade	$ 5,579	$ 1,039	$ 6,554	$10,411	$ 403	$ 23,986	$ 17,945
High yield	4,051	411	2,103	4,850	2,658	14,073	7,558
Contingent acquisition facilities							
High grade	10,230	—	—	—	—	10,230	1,918
High yield	9,749	—	—	—	—	9,749	12,766
Mortgage commitments	5,082	670	1,378	271	48	7,449	12,162
Secured lending transactions	122,661	455	429	468	1,846	125,859	83,071

We use various hedging and funding strategies to actively manage our market, credit and liquidity exposures on these commitments. We do not believe total commitments necessarily are indicative of actual risk or funding requirements because the commitments may not be drawn or fully used and such amounts are reported before consideration of hedges.

Lending commitments. Through our high grade (investment grade) and high yield (non-investment grade) sales, trading and underwriting activities, we make commitments to extend credit in loan syndication transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. We define high yield exposures as securities of or loans to companies rated

BB+ or lower or equivalent ratings by recognized credit rating agencies, as well as non-rated securities or loans that, in management's opinion, are non-investment grade.

We had commitments to high grade borrowers at November 30, 2007 and 2006 of $24.0 billion (net credit exposure of $12.2 billion, after consideration of hedges) and $17.9 billion (net credit exposure of $4.9 billion, after consideration of hedges), respectively. We had commitments to high yield borrowers of $14.1 billion (net credit exposure of $12.8 billion, after consideration of hedges) and $7.6 billion (net credit exposure of $5.9 billion, after consideration of hedges) at November 30, 2007 and 2006, respectively.

Contingent acquisition facilities. We provide contingent commitments to investment and non-investment grade counterparties related to acquisition financing. We do not believe contingent acquisition commitments are necessarily indicative of actual risk or funding requirements as funding is dependent upon both a proposed transaction being completed and the acquiror fully utilizing our commitment. Typically, these commitments are made to a potential acquiror in a proposed acquisition, which may or may not be completed depending on whether the potential acquiror to whom we have provided our commitment is successful. A contingent borrower's ability to draw on the commitment is typically subject to there being no material adverse change in the borrower's financial condition, among other factors, and the commitments also generally contain certain flexible pricing features to adjust for changing market conditions prior to closing. In addition, acquirers generally utilize multiple financing sources, including other investment and commercial banks, as well as accessing the general capital markets for completing transactions. Therefore, our contingent acquisition commitments are generally greater than the amounts we ultimately expect to fund. Further, our past practice, consistent with our credit facilitation framework, has been to syndicate acquisition financings to investors. The ultimate timing, amount and pricing of a syndication, however, is influenced by market conditions that may not necessarily be consistent with those at the time the commitment was entered. We provided contingent commitments to high grade counterparties related to acquisition financing of approximately $10.2 billion and $1.9 billion at November 30, 2007 and 2006, respectively, and to high yield counterparties related to acquisition financing of approximately $9.8 billion and $12.8 billion at November 30, 2007 and 2006, respectively.

Mortgage commitments. Through our mortgage origination platforms we make commitments to extend mortgage loans. At November 30, 2007 and 2006, we had outstanding mortgage commitments of approximately $7.4 billion and $12.2 billion, respectively. These commitments included $3.0 billion and $7.0 billion of residential mortgages in 2007 and 2006 and $4.4 billion and $5.2 billion of commercial mortgages at 2007 and 2006. Typically, residential mortgage loan commitments require us to originate mortgage loans at the option of a borrower generally within 90 days at fixed interest rates. Consistent with past practice, our intention is to sell residential mortgage loans, once originated, primarily through securitizations. The ability to sell or securitize mortgage loans, however, is dependent on market conditions.

Secured lending transactions. In connection with our financing activities, we had outstanding commitments under certain collateralized lending arrangements of approximately $9.8 billion and $7.5 billion at November 30, 2007 and 2006, respectively. These commitments require borrowers to provide acceptable collateral, as defined in the agreements, when amounts are drawn under the lending facilities. Advances made under these lending arrangements typically are at variable interest rates and generally provide for over-collateralization. In addition, at November 30, 2007, we had commitments to enter into forward starting secured resale and repurchase agreements, primarily secured by government and government agency collateral, of $70.8 billion and $45.3 billion, respectively, compared to $44.4 billion and $31.2 billion, respectively, at November 30, 2006.

Other Commitments and Guarantees

The following table summarizes other commitments and guarantees at November 30, 2007 and 2006:

	Expiration Per Period at November 30,	Total Contractual Amount

In millions	2008	2009	2010-2011	2012-2013	Later	November 30, 2007	November 30, 2006
Derivative contracts[(1)]	$87,394	$59,598	$152,317	$210,496	$228,132	$ 737,937	$ 534,585
Municipal-securities-related commitments	2,362	733	86	69	3,652	6,902	1,599
Other commitments with variable interest entities	106	3,100	170	963	4,772	9,111	4,902
Standby letters of credit	1,685	5	—	—	—	1,690	2,380
Private equity and other principal investments	820	675	915	173	—	2,583	1,088

(1) We believe the fair value of these derivative contracts is a more relevant measure of the obligations because we believe the notional amount overstates the expected payout. At November 30, 2007 and 2006, the fair value of these derivatives contracts approximated $36.8 billion and $9.3 billion, respectively.

Derivative contracts. Under FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"), derivative contracts are considered to be guarantees if such contracts require us to make payments to counterparties based on changes in an underlying instrument or index (*e.g.*, security prices, interest rates, and currency rates) and include written credit default swaps, written put options, written foreign exchange and interest rate options. Derivative contracts are not considered guarantees if these contracts are cash settled and we cannot determine if the derivative counterparty held the contracts' underlying instruments at inception. We have determined these conditions have been met for certain large financial institutions. Accordingly, when these conditions are met, we have not included these derivatives in our guarantee disclosures.

At November 30, 2007 and 2006, the maximum payout value of derivative contracts deemed to meet the FIN 45 definition of a guarantee was approximately $737.9 billion and $534.6 billion, respectively. For purposes of determining maximum payout, notional values are used; however, we believe the fair value of these contracts is a more relevant measure of these obligations because we believe the notional amounts greatly overstate our expected payout. At November 30, 2007 and 2006, the fair value of such derivative contracts approximated $36.8 billion and $9.3 billion, respectively. In addition, all amounts included above are before consideration of hedging transactions. We substantially mitigate our risk on these contracts through hedges, using other derivative contracts and/or cash instruments. We manage risk associated with derivative guarantees consistent with our global risk management policies.

Municipal-securities-related commitments. At November 30, 2007 and 2006, we had municipal-securities-related commitments of approximately $6.9 billion and $1.6 billion, respectively, which are principally comprised of liquidity commitments related to trust certificates backed by high grade municipal securities. We believe our liquidity commitments to these trusts involve a low level of risk because our obligations are supported by high grade securities and generally cease if the underlying assets are downgraded below investment grade or upon an issuer's default. In certain instances, we also provide credit default protection to investors, which approximated $468 million and $48 million at November 30, 2007 and 2006, respectively.

Other commitments with VIEs. We make certain liquidity commitments and guarantees to VIEs. We provided liquidity commitments of approximately $1.4 billion and $1.0 billion at November 30, 2007 and 2006, respectively, which represented our maximum exposure to loss, to commercial paper conduits in support of certain clients' secured financing transactions. However, we believe our actual risk to be limited because these liquidity commitments are supported by over-collateralization with investment grade collateral.

In addition, we provide limited downside protection guarantees to investors in certain VIEs by guaranteeing return of their initial principal investment. Our maximum exposure to loss under such commitments was approximately $6.1 billion and $3.9 billion at November 30, 2007 and 2006, respectively. We believe our actual risk to be limited because our obligations are collateralized by the VIEs' assets and contain significant constraints under which downside protection will be available (*e.g.*, the VIE is required to liquidate assets in the event certain loss levels are triggered).

We participate in an A-1/P-1-rated multi-seller conduit. This multi-seller issues secured liquidity notes to provide financing. Our intention is to utilize this conduit for purposes of funding a portion of our contingent acquisition commitments. At November 30, 2007, we were contingently committed to provide $1.6 billion of liquidity if the conduit is unable to remarket the secured liquidity notes upon their maturity, generally, one year after a failed remarketing event. This conduit is not consolidated in Holdings' results of operations.

Standby letters of credit. At November 30, 2007 and 2006, respectively, we had commitments under letters of credit issued by banks to counterparties for $1.7 billion and $2.4 billion. We are contingently liable for these letters of credit which are primarily used to provide collateral for securities and commodities borrowed and to satisfy margin deposits at option and commodity exchanges.

Private equity and other principal investments. At November 30, 2007 and 2006, we had private equity and other principal investment commitments of approximately $2.6 billion and $1.1 billion, respectively, comprising commitments to private equity partnerships and other principal investment opportunities. It has been our past practice to distribute and syndicate certain of these commitments to our investing clients.

Other. In the normal course of business, we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral.

In connection with certain asset sales and securitization transactions, we often make customary representations and warranties about the assets. Violations of these representations and warranties, such as early payment defaults by borrowers, may require us to repurchase loans previously sold, or indemnify the purchaser against any losses. To mitigate these risks, to the extent the assets being securitized may have been originated by third parties, we generally obtain equivalent representations and warranties from these third parties when we acquire the assets. We have established reserves which we believe to be adequate in connection with such representations and warranties.

In the normal course of business, we are exposed to credit and market risk as a result of executing, financing and settling various client security and commodity transactions. These risks arise from the potential that clients or counterparties may fail to satisfy their obligations and the collateral obtained is insufficient. In such instances, we may be required to purchase or sell financial instruments at unfavorable market prices. We seek to control these risks by obtaining margin balances and other collateral in accordance with regulatory and internal guidelines.

Certain of our subsidiaries, as general partners, are contingently liable for the obligations of certain public and private limited partnerships. In our opinion, contingent liabilities, if any, for the obligations of such partnerships will not, in the aggregate, have a material adverse effect on our Consolidated Statement of Financial Condition or Consolidated Statement of Income.

In connection with certain acquisitions and strategic investments, we agreed to pay additional consideration contingent on the acquired entity meeting or exceeding specified income, revenue or other performance thresholds. These payments will be recorded as amounts become determinable. Had the determination dates been November 30, 2007 and 2006, our estimated obligations related to these contingent consideration arrangements would have been $420 million and $224 million, respectively.

Income Taxes

We are under continuous examination by the Internal Revenue Service (the "IRS"), and other tax authorities in major operating jurisdictions such as the United Kingdom and Japan, and in various states in which the Company has significant operations, such as New York. The Company regularly assesses the likelihood of additional assessments in each tax jurisdiction and the impact on the Consolidated Financial Statements. Tax reserves have been established, which we believe to be adequate with regards to the potential for additional exposure. Once established, reserves are adjusted only when additional information is obtained or an event requiring a change to the reserve occurs. Management believes the resolution of these uncertain tax positions will not have a material impact on the financial condition of the Company; however resolution could have an impact on our effective tax rate in any reporting period.

We have completed the appeals process with respect to the 1997 through 2000 IRS examination. Although most issues were settled on a basis acceptable to us, two issues remain unresolved and will carry into litigation with the IRS. Based on the strength of its positions, we have not reserved any part of these issues. The aggregate tax benefits previously recorded with regard to these two issues is approximately $185 million.

The IRS has recently begun an examination with respect to our 2001 through 2005 tax years. The audit is in its initial stages and no adjustments have been proposed. We believe we are adequately reserved for any issues that may arise from this audit. The two issues from the 1997 through 2000 cycle which we plan to litigate also have an impact on the 2001 through 2005 tax years. The aggregate tax benefit previously recorded with regard to these two issues is approximately $500 million.

Litigation

In the normal course of business we have been named as a defendant in a number of lawsuits and other legal and regulatory proceedings. Such proceedings include actions brought against us and others with respect to transactions in which we acted as an underwriter or financial advisor, actions arising out of our activities as a broker or dealer in securities and commodities and actions brought on behalf of various classes of claimants against many securities firms, including us. We provide for potential losses that may arise out of legal and regulatory proceedings to the extent such losses are probable and can be estimated. Although there can be no assurance as to the ultimate outcome, we generally have denied, or believe we have a meritorious defense and will deny, liability in all significant cases pending against us, and we intend to defend vigorously each such case. Based on information currently available, we believe the amount, or range, of reasonably possible losses in excess of established reserves not to be material to the Company's Consolidated Financial Condition or Cash Flows. However, losses may be material to our operating results for any particular future period, depending on the level of income for such period.

Lease Commitments

Total rent expense for 2007, 2006 and 2005 was $250 million, $181 million and $167 million, respectively. Certain leases on office space contain escalation clauses providing for additional payments based on maintenance, utility and tax increases.

Minimum future rental commitments under non-cancelable operating leases (net of subleases of approximately $325 million) and future commitments under capital leases are as follows:

Minimum Future Rental Commitments Under Operating and Capital Lease Agreements

In millions	**Operating Leases**	**Capital Leases**
Fiscal 2008	$ 281	$ 74
Fiscal 2009	269	99
Fiscal 2010	251	101
Fiscal 2011	242	105
Fiscal 2012	227	108
December 1, 2012 and thereafter	1,335	2,489
Total minimum lease payments	$ 2,605	$ 2,976

Less: Amount representing interest	1,534
Present value of future minimum capital lease payments	$ 1,442

Note 10 Stockholders' Equity

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. Prior period share and earnings per share amounts have been restated to reflect the split. The par value of the common stock remained at $0.10 per share. Accordingly, an adjustment from Additional paid-in capital to Common stock was required to preserve the par value of the post-split shares.

Preferred Stock

Holdings is authorized to issue a total of 24,999,000 shares of preferred stock. At November 30, 2007, Holdings had 798,000 shares issued and outstanding under various series as described below. All preferred stock has a dividend preference over Holdings' common stock in the paying of dividends and a preference in the liquidation of assets.

On March 28, 2000, Holdings issued 5,000,000 Depositary Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), $1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock was 7.115% per annum through May 31, 2005. On May 31, 2005, Holdings redeemed all of its issued and outstanding shares of Series E Preferred Stock, together with accumulated and unpaid dividends.

The following table summarizes our outstanding preferred stock at November 30, 2007:

Series	Depositary Shares	Shares Issued and Outstanding	Dividend Rate	Earliest Redemption Date	Redemption Value
C	5,000,000	500,000	5.94%	May 31, 2008	250,000,000
D	4,000,000	40,000	5.67%	August 31, 2008	200,000,000
F	13,800,000	138,000	6.50%	August 31, 2008	345,000,000
G	12,000,000	120,000	one-month LIBOR + 0.75%(1)	February 15, 2009	300,000,000

(1) Subject to a floor of 3.0% per annum.

The Series C, D, F and G Preferred Stock rank equally as to dividends and upon liquidation, dissolution or winding up and have no voting rights except as provided below or as otherwise from time to time required by law. If dividends payable on any of the Series C, D, F or G Preferred Stock or on any other equally-ranked series of preferred stock have not been paid for six or more quarters, whether or not consecutive, the authorized number of directors of the Company will automatically be increased by two. The holders of the Series C, D, F or G Preferred Stock will have the right, with holders of any other equally-ranked series of preferred stock that have similar voting rights and on which dividends likewise have not been paid, voting together as a class, to elect two directors to fill such newly created directorships until the dividends in arrears are paid.

Common Stock

Dividends declared per common share were $0.60, $0.48 and $0.40 in 2007, 2006 and 2005, respectively. During the years ended November 30, 2007, 2006 and 2005, we repurchased or acquired, pursuant to our stock repurchase program, shares of our common stock at an aggregate cost of approximately $3.2 billion, $3.7 billion and $4.2 billion, respectively, or $73.85, $69.61, and $51.59 per share, respectively. These shares were acquired in the open market and from employees who tendered mature shares to pay for the exercise cost of stock options or for statutory tax withholding obligations on restricted stock unit ("RSU") issuances or option exercises. For additional information, see Note 12, "Share-Based Employee Incentive Plans—Stock Repurchase Program," to the Consolidated Financial Statements.

Changes in the number of shares of common stock outstanding are as follows:

	Year Ended November 30,		
	2007	2006	2005
Shares outstanding, beginning of period	533,368,195	542,874,206	548,318,822
Exercise of stock options and other share issuances	17,056,454	22,374,748	53,142,714
Shares issued to the RSU Trust	24,500,000	21,000,000	22,000,000
Treasury stock acquisitions	(43,037,230)	(52,880,759)	(80,587,330)
Shares outstanding, end of period	531,887,419	533,368,195	542,874,206

In 1997, we established an irrevocable grantor trust (the "RSU Trust") to provide common stock voting rights to employees who hold outstanding RSUs and to encourage employees to think and act like owners. In 2007, 2006 and 2005, we transferred 24.5 million, 21.0 million and 22.0 million treasury shares, respectively, into the RSU Trust. At November 30, 2007, approximately 72.5 million shares were held in the RSU Trust with a total value of approximately $2.3 billion. These shares are valued at weighted-average grant prices. Shares transferred to the RSU Trust do not affect the total number of shares used in the calculation of basic and diluted earnings per share because we include amortized RSUs in the calculations. Accordingly, the RSU Trust has no effect on total equity, net income, book value per share or earnings per share.

Note 11 Earnings per Common Share

Earnings per Common Share

	November 30,		
In millions, except per share data	**2007**	**2006**	**2005**
Numerator:			
Net income	$ 4,192	$ 4,007	$ 3,260
Less: Preferred stock dividends	67	66	69
Numerator for basic earnings per share–net income applicable to common stock	$ 4,125	$ 3,941	$ 3,191
Denominator:			
Denominator for basic earnings per share–weighted-average common shares	540.6	543.0	556.3
Effect of dilutive securities:			
Employee stock options	23.6	29.1	25.4
Restricted stock units	4.1	6.3	5.5
Dilutive potential common shares	27.7	35.4	30.9
Denominator for diluted earnings per share–weighted-average common and dilutive potential common shares (1)	568.3	578.4	587.2
Basic earnings per common share	$ 7.63	$ 7.26	$ 5.74
Diluted earnings per common share	$ 7.26	$ 6.81	$ 5.43

(1) Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share	13.7	4.4	8.7

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. See Note 10, "Stockholders' Equity," for additional information about the stock split.

Note 12 Share-Based Employee Incentive Plans

We adopted the fair value recognition provisions for share-based awards pursuant to SFAS 123(R) effective as of the beginning of the 2006 fiscal year. For a further discussion, see Note 1, "Summary of Significant Accounting Policies–Accounting and Regulatory Developments," to the Consolidated Financial Statements.

We sponsor several share-based employee incentive plans. Amortization of compensation costs for grants awarded under these plans was approximately $1.3 billion, $1.0 billion and $1.1 billion during 2007, 2006 and 2005, respectively. The total income tax benefit recognized in the Consolidated Statement of Income for these plans was $515 million, $421 million and $457 million for 2007, 2006 and 2005, respectively. Not included in the $1.3 billion of 2007 amortization expense is $514 million of stock awards granted in December 2007, which were accrued as compensation expense in fiscal 2007.

At November 30, 2007, unrecognized compensation cost related to non-vested stock option and RSU awards totaled $2.0 billion. The cost of these non-vested awards is expected to be recognized over the next 9.0 years over a weighted-average period of 3.8 years.

Below is a description of our share-based employee incentive compensation plans.

Share-Based Employee Incentive Plans

We sponsor several share-based employee incentive plans. The total number of shares of common stock remaining available for future awards under these plans at November 30, 2007, was 82.3 million (not including shares that may be returned to the Stock Incentive Plan (the "SIP") as described below, but including an additional 0.4 million shares authorized for issuance under the Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") that have been reserved solely for issuance in respect of dividends on outstanding awards under this plan). In connection with awards made under our share-based employee incentive plans, we are authorized to issue shares of common stock held in treasury or newly-issued shares.

1994 and 1996 Management Ownership Plans and Employee Incentive Plan. *The 1994 Plan, the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (the "1996 Plan") and the Lehman Brothers Holdings Inc. Employee Incentive Plan (the "EIP") all expired following the completion of their various terms. These plans provided for the issuance of RSUs, performance stock units, stock options and other share-based awards to eligible employees. At November 30, 2007, awards with respect to 605.6 million shares of common stock have been made under these plans, of which 130.3 million are outstanding and 475.3 million have been converted to freely transferable common stock.*

Stock Incentive Plan. *The SIP has a 10-year term ending in May 2015, with provisions similar to the previous plans. The SIP authorized the issuance of up to the total of (i) 95.0 million shares (20.0 million as originally authorized, plus an additional 75.0 million authorized by the stockholders of Holdings at its 2007 Annual Meeting), plus (ii) the 33.5 million shares authorized for issuance under the 1996 Plan and the EIP that remained unawarded upon their expiration, plus (iii) any shares subject to repurchase or forfeiture rights under the 1996 Plan, the EIP or the SIP that are reacquired by the Company, or the award of which is canceled, terminates, expires or for any other reason is not payable, plus (iv) any shares withheld or delivered pursuant to the terms of the SIP in payment of any applicable exercise price or tax withholding obligation. Awards with respect to 51.1 million shares of common stock have been made under the SIP as of November 30, 2007, 50.4 million of which are outstanding.*

1999 Long-Term Incentive Plan. *The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of common stock that may be* *issued under the LTIP is 15.4 million. At November 30, 2007, awards with respect to approximately 13.7 million shares of common stock had been made under the LTIP, of which 3.2 million were outstanding.*

Restricted Stock Units

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with RSU awards. RSU awards generally vest over two to five years and convert to unrestricted freely transferable common stock five years from the grant date. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period. We accrue dividend equivalents on outstanding RSUs (in the form of additional RSUs), based on dividends declared on our common stock.

For RSUs granted prior to 2004, we measured compensation cost based on the market value of our common stock at the grant date in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, a discount from the market price of an unrestricted share of common stock on the RSU grant date was not recognized for selling restrictions subsequent to the vesting date. For awards granted beginning in 2004, we measure compensation cost based on the market price of our common stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with SFAS 123 and SFAS 123(R). The fair value of RSUs subject to post-vesting date sale restrictions are generally discounted by three to eight percent for each year based upon the duration of the post-vesting restriction. These discounts are based on market-based studies and academic research on securities with restrictive features. RSUs granted in each of the periods presented contain selling restrictions subsequent to a vesting date.

The fair value of RSUs converted to common stock without restrictions for the year ended November 30, 2007 was $1.2 billion. Compensation costs previously recognized and tax benefits recognized in equity upon issuance of these awards were approximately $760 million.

The following table summarizes RSU activity for 2007 and 2006:

	Unamortized	Amortized	Total Number of RSUs	Weighted Average Grant Date Fair Value
Balance, November 30, 2005	48,116,384	72,301,290	120,417,674	$ 38.35
Granted	8,251,700	—	8,251,700	71.41
Canceled	(2,244,585)	(72,424)	(2,317,009)	43.81
Exchanged for stock without restrictions	—	(25,904,367)	(25,904,367)	28.93
Amortization	(19,218,999)	19,218,999	—	
Balance, November 30, 2006	34,904,500	65,543,498	100,447,998	$ 43.37
Granted	38,839,114	—	38,839,114	68.92
Canceled	(4,720,625)	1,079,269	(3,641,356)	51.27
Exchanged for stock without restrictions	—	(17,716,614)	(17,716,614)	31.51
Amortization	(34,166,465)	34,166,465	—	
Balance, November 30, 2007	34,856,524	83,072,618	117,929,142	$ 53.33

The above table excludes approximately 49.7 million RSUs which were granted to employees on December 7, 2007, including approximately 11.3 million RSUs awarded to retirement eligible employees and expensed in fiscal 2007 and approximately 38.4 million RSUs awarded to employees and subject to future vesting provisions.

Of the approximately 117.9 million RSUs outstanding at November 30, 2007, approximately 83.1 million were amortized and included in basic earnings per share. Approximately 16.5 million of RSUs outstanding at November 30, 2007 will be amortized during 2008, and the remainder will be amortized subsequent to 2008.

The above table includes approximately 5.8 million RSUs awarded to certain senior officers, the terms of which were modified in 2006 (the “Modified RSUs”). The original RSUs resulted from performance stock units (“PSUs”) for which the performance periods have expired, but which were not previously converted into RSUs as their vesting was contingent upon a change in control of the Company or certain other specified circumstances as determined by the Compensation and Benefits Committee of the Board of Directors (the “CIC RSUs”). On November 30, 2006, with the approval of the Compensation and Benefits Committee, each executive agreed to a modification of the vesting terms of the CIC RSUs to eliminate the change in control provisions and to provide for vesting in ten equal annual installments from 2007 to 2016, provided the executive continues to be an employee on the vesting date of the respective installment. Vested installments will remain subject to forfeiture for detrimental behavior for an additional two years, after which time they will convert to common stock on a one-for-one basis and be issued to the executive. The Modified RSUs will vest (and convert to common stock and be issued) earlier only upon death, disability or certain government service approved by the Compensation and Benefits Committee. Dividends will be payable by the Corporation on the Modified RSUs from the date of their modification and will be reinvested in additional RSUs with the same terms.

Also included in the previous table are PSUs for which the number of RSUs to be earned was dependent on achieving certain performance levels within predetermined performance periods. During the performance period, these PSUs were accounted for as variable awards. At the end of the performance period, any PSUs earned converted one-for-one to RSUs that then vest in three or more years. At November 30, 2006, all performance periods have been completed and any PSUs earned have been converted into RSUs. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Stock Options

Employees and Directors may receive stock options, in lieu of cash, as a portion of their total compensation. Such options generally become exercisable over a one- to five-year period and generally expire five- to ten years from the date of grant, subject to accelerated expiration upon termination of employment.

We use the Black-Scholes option-pricing model to measure the grant date fair value of stock options granted to employees. Stock options granted have exercise prices equal to the market price of our common stock on the grant date. The principal assumptions utilized in valuing options and our methodology for estimating such model inputs include: (i) risk-free interest rate - estimate is based on the yield of U.S. zero coupon securities with a maturity equal to the expected life of the option; (ii) expected volatility - estimate is based on the historical volatility of our common stock for the three years preceding the award date, the implied volatility of market-traded options on our common stock on the grant date and other factors; and (iii) expected option life - estimate is based on internal studies of historical and projected exercise behavior based on different employee groups and specific option characteristics, including the effect of employee terminations. Based on the results of the model, the weighted-average fair value of stock options granted were $24.94, $15.83 and $13.24 for 2007, 2006 and 2005, respectively. The weighted-average assumptions used for 2007, 2006 and 2005 were as follows:

Weighted Average Black-Scholes Assumptions

	Year Ended November 30,		
	2007	**2006**	**2005**
Risk-free interest rate	4.72%	4.49%	3.97%
Expected volatility	25.12%	23.08%	23.73%
Annual dividends per share	$ 0.60	$ 0.48	$ 0.40
Expected life	7.0 years	4.5 years	3.9 years

The valuation technique takes into account the specific terms and conditions of the stock options granted including vesting period, termination provisions, intrinsic value and time dependent exercise behavior.

The following table summarizes stock option activity for 2007 and 2006:

Stock Option Activity

	Options	Weighted-Average Exercise Price	Expiration Dates
Balance, November 30, 2005	101,750,326	$ 31.36	12/05—11/15
Granted	2,670,400	66.14	
Exercised	(22,453,729)	28.38	
Canceled	(570,626)	31.63	
Balance, November 30, 2006	81,396,371	$ 33.32	12/06—05/16
Granted	10,200	72.07	
Exercised	(15,429,250)	28.86	
Canceled	(371,778)	31.64	
Balance, November 30, 2007	65,605,543	$ 34.39	01/08—04/17

The total intrinsic value of stock options exercised in 2007 was approximately $711 million for which compensation costs previously recognized and tax benefits recognized in equity upon issuance totaled approximately $238 million. Cash received from the exercise of stock options in 2007 totaled approximately $443 million.

The table below provides additional information related to stock options outstanding:

	Outstanding at Nov. 30,			Options Exercisable at Nov. 30,		
	2007	2006	2005	2007	2006	2005
Number of options	65,605,543	81,396,371	101,750,326	51,748,377	54,561,355	52,638,434
Weighted-average exercise price	$ 34.39	$ 33.32	$ 31.36	$ 30.24	$ 30.12	$ 27.65
Aggregate intrinsic value (in millions)	$ 1,867	$ 3,284	$ 3,222	$ 1,676	$ 2,376	$ 1,861
Weighted-average remaining contractual terms in years	4.00	4.84	5.46	3.70	4.25	4.58

At November 30, 2007, the number of options outstanding, net of projected forfeitures, was approximately 65 million shares, with a weighted-average exercise price of $34.19, aggregate intrinsic value of approximately $1.8 billion, and weighted-average remaining contractual terms of 3.97 years.

At November 30, 2007, the intrinsic value of unexercised vested options was approximately $1.7 billion for which compensation cost and tax benefits expected to be recognized in equity, upon issuance, are approximately $508 million.

Restricted Stock

In addition to RSUs, we also continue to issue restricted stock to certain Neuberger employees under the LTIP. The following table summarizes restricted stock activity for 2007, 2006 and 2005:

	2007	2006	2005
Balance, beginning of year	671,956	1,042,376	1,541,692

Granted	—	43,520	15,534
Canceled	(4,444)	(6,430)	(37,446)
Exchanged for stock without restrictions	(311,892)	(407,510)	(477,404)
Balance, end of year	355,620	671,956	1,042,376

At November 30, 2007, there were 355,620 shares of restricted stock outstanding. The fair value of the 311,892 shares of restricted stock that became freely tradable in 2007 was approximately $23 million.

Stock Repurchase Program

We maintain a common stock repurchase program to manage our equity capital. Our stock repurchase program is effected through open-market purchases, as well as through employee transactions where employees tender shares of common stock to pay for the exercise price of stock options and the required tax withholding obligations upon option exercises and conversion of RSUs to freely-tradable common stock. In January 2007, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings' common stock for the management of our equity capital, including offsetting dilution due to employee stock awards. This authorization superseded the stock repurchase program authorized in 2006. During 2007, we repurchased approximately 34.6 million shares of our common stock through open-market purchases at an aggregate cost of approximately $2.6 billion, or $75.40 per share. In addition, we withheld approximately 8.5 million shares of common stock from employees at an equivalent cost of approximately $573 million. At November 30, 2007, approximately 57 million shares remained available for repurchase under this authorization.

In January 2008, our Board of Directors authorized the repurchase, subject to market conditions, of up to 100 million shares of Holdings' common stock for the management of the Firm's equity capital, including consideration of dilution due to employee stock awards. This resolution supersedes the stock repurchase program authorized in 2007.

Note 13 Employee Benefit Plans

We provide both funded and unfunded noncontributory defined benefit pension plans for the majority of our employees worldwide. In addition, we provide certain other postretirement benefits, primarily health care and life insurance, to eligible employees. We use a November 30 measurement date for our plans.

In September 2006, the FASB issued SFAS 158, which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans, the benefit obligation is the projected benefit obligation. For other postretirement plans, the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income/(loss) (net of tax), a component of Stockholders' equity. We adopted this provision of SFAS 158 for the year ended November 30, 2007.

The following table illustrates the incremental effect of the application of SFAS 158 on the Consolidated Statement of Financial Condition at November 30, 2007:

In millions	Before Application of SFAS 158	SFAS 158 Adoption Adjustments	After Application of SFAS 158
Prepaid pension cost	$ 662	$ (351)	$ 311
Deferred tax assets	3,183	137	3,320
Total Assets	691,277	(214)	691,063
Liability for pension and postretirement benefits	123	(7)	116
Deferred tax liabilities	1,008	3	1,011
Total Liabilities	668,577	(4)	668,573

Accumulated other comprehensive income/(loss)	(100)	(210)	(310)
Total Stockholders' Equity	$ 22,700	$ (210)	$ 22,490

The minimum pension liability of $24 million was eliminated with the adoption of SFAS 158.

The following table provides a summary of the changes in the plans' benefit obligations, fair value of plan assets, and funded status and amounts recognized in the Consolidated Statement of Financial Condition for our U.S. and non-U.S. defined benefit pension and postretirement benefit plans:

Defined Benefit Plans

	Pension Benefits				Other Postretirement Benefits	
In millions	**U.S.**		**Non–U.S.**			
November 30,	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Change in benefit obligation						
Benefit obligation at beginning of year	$ 1,168	$ 1,017	$ 514	$ 399	$ 61	$ 60
Service cost	54	47	7	8	1	1
Interest cost	67	61	26	20	3	3
Plan amendments and curtailments	(3)	3	(11)	—	—	—
Actuarial loss/(gain)	(177)	69	(71)	37	(6)	2
Benefits paid	(32)	(29)	(9)	(7)	(6)	(5)
Foreign currency exchange rate changes	—	—	28	57	—	—
Benefit obligation at end of year	1,077	1,168	484	514	53	61
Change in plan assets						
Fair value of plan assets at beginning of year	1,147	1,030	494	378	—	—
Actual return on plan assets, net of expenses	94	96	28	43	—	—
Employer contribution	—	50	48	26	6	5
Benefits paid	(32)	(29)	(12)	(6)	(6)	(5)
Foreign currency exchange rate changes	—	—	30	53	—	—
Fair value of plan assets at end of year	1,209	1,147	588	494	—	—
Funded/(underfunded) status (1)	132	(21)	104	(20)	(53)	(61)
Unrecognized net actuarial loss/(gain) (1)		455		161		(9)
Unrecognized prior service cost/(benefit) (1)		30		1		(1)
Prepaid/(accrued) benefit cost (1)		$ 464		$ 142		$ (71)
Accumulated benefit obligation–funded plans	$ 947	$ 1,020	$ 457	$ 490		
Accumulated benefit obligation–unfunded plans	63	76	12	—		

(1) In accordance with SFAS 158, the funded/(underfunded) status was recognized in the Consolidated Statement of Financial Condition at November 30, 2007 and Unrecognized net actuarial gain/(loss) and Unrecognized prior service cost/(benefit) was recognized in the Consolidated Statement of Stockholders' Equity at November 30, 2007.

Weighted-Average Assumptions Used to Determine Benefit Obligations

	Pension Benefits				Other Postretirement Benefits	
	U.S.		Non-U.S.			
November 30,	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Discount rate	6.66%	5.73%	5.00%	4.82%	6.45%	5.70%
Rate of compensation increase	5.00%	5.00%	4.60%	4.30%		

The following table presents the pre-tax net actuarial loss/(gain) and prior service cost/(benefit) recognized in accumulated other comprehensive income/(loss) at November 30, 2007:

	Pension Benefits		Other Postretirement Benefits
In millions	**U.S.**	**Non-U.S.**	
Net actuarial loss/(gain)	$ 238	$ 94	$ (16)
Prior Service cost/(benefit)	27	—	(1)
Total	$ 265	$ 94	$ (17)

The following table presents the estimated pre-tax net actuarial loss/(gain) and estimated prior service costs/(credits) that will be amortized from accumulated other comprehensive income/(loss) into net periodic cost/(income) and recorded into the Consolidated Statement of Income in fiscal 2008:

	Pension Benefits		Other Postretirement Benefits
In millions	**U.S.**	**Non-U.S.**	
Net actuarial loss/(gain)	$ 10	$ 4	$ (1)
Prior Service cost/(benefit)	$ 4	$ —	$ (1)

Components of Net Periodic Cost

In millions	Pension Benefits						Postretirement Benefits		
	U.S. Pensions			Non–U.S.					
November 30,	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Service cost	$ 57	$ 49	$ 42	$ 7	$ 8	$ 7	$ 1	$ 2	$ 2
Interest cost	67	61	56	26	20	19	4	3	3
Expected return on plan assets	(86)	(76)	(74)	(37)	(26)	(24)	—	—	—
Amortization of net actuarial loss	26	30	33	11	10	11	—	—	—
Amortization of prior service cost	4	4	3	—	1	1	(1)	(1)	(1)
Net periodic cost	$ 68	$ 68	$ 60	$ 7	$ 13	$ 14	$ 4	$ 4	$ 4

Weighted-Average Assumptions Used to Determine Net Periodic Cost for the Years Ended November 30,

	Pension Benefits						Postretirement Benefits		
	U.S. Pensions			Non-U.S.					
	2007	**2006**	**2005**	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Discount rate	5.73%	5.98%	5.90%	5.00%	4.82%	4.80%	5.70%	5.70%	5.90%
Expected return on plan assets	7.50%	7.50%	8.50%	7.50%	6.57%	6.96%			
Rate of	5.00%	5.00%	5.00%	4.60%	4.30%	4.30%			

compensation increase

Return on Plan Assets

U.S. and non–U.S. Plans. Establishing the expected rate of return on pension assets requires judgment. We consider the following factors in determining these assumptions:

- The types of investment classes in which pension plan assets are invested and the expected compounded return we can reasonably expect the portfolio to earn over appropriate time periods. The expected return reflects forward-looking economic assumptions.

- The investment returns we can reasonably expect our active investment management program to achieve in excess of the returns expected if investments were made strictly in indexed funds.

- Investment related expenses.

We review the expected long-term rate of return annually and revise it as appropriate. Also, we periodically commission detailed asset/liability studies to be performed by third-party professional investment advisors and actuaries. These studies project stated future returns on plan assets. The studies performed in the past support the reasonableness of our assumptions based on the targeted allocation investment classes and market conditions at the time the assumptions were established.

Plan Assets

Pension plan assets are invested with the objective of meeting current and future benefit payment needs, while minimizing future contributions.

U.S. plans. Plan assets are invested with several investment managers. Assets are diversified among U.S. and international equity securities, U.S. fixed income securities, real estate and cash. The plan employs a mix of active and passive investment management programs. The strategic target of plan asset allocation is approximately 65% equities and 35% U.S. fixed income. The investment sub-committee of our pension committee reviews the asset allocation quarterly and, with the approval of the pension committee, determines when and how to rebalance the portfolio. The plan does not have a dedicated allocation to Lehman Brothers common stock, although the plan may hold a minimal investment in Lehman Brothers common stock as a result of investment decisions made by various investment managers.

Non–U.S. plans. Non–U.S. pension plan assets are invested with several investment managers across a range of different asset classes. The strategic target of plan asset allocation is approximately 75% equities, 20% fixed income and 5% real estate.

Weighted-average plan asset allocations were as follows:

	U.S. Plans		**Non–U.S. Plans**	
	Nov 30, 2007	**Nov 30, 2006**	**Nov 30, 2007**	**Nov 30, 2006**
Equity securities	76%	72%	69%	72%
Fixed income securities	24	23	14	14
Real estate	—	—	4	5
Cash	—	5	13	9
	100%	100%	100%	100%

Expected Contributions for the Fiscal Year Ending November 30, 2008

We do not expect it to be necessary to contribute to our U.S. pension plans in the fiscal year ending November 30, 2008. We expect to contribute approximately $8 million to our non–U.S. pension plans in the fiscal year ending November 30, 2008.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension		
In millions	**U.S.**	**Non-U.S.**	**Postretirement**
Fiscal 2008	$ 37	$ 7	$ 6
Fiscal 2009	41	7	5
Fiscal 2010	43	7	5
Fiscal 2011	46	7	5
Fiscal 2012	51	8	5
Fiscal 2013—2017	308	42	24

Postretirement Benefits

Assumed health care cost trend rates were as follows:

	November 30,	
	2007	**2006**
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year the rate reaches the ultimate trend rate	2012	2011

A one-percentage-point change in assumed health care cost trend rates would be immaterial to our other postretirement plans.

Note 14 Income Taxes

We file a consolidated U.S. federal income tax return reflecting the income of Holdings and its subsidiaries. The provision for income taxes consists of the following:

Provision for Income Taxes

	November 30,		
In millions	**2007**	**2006**	**2005**
Current:			
Federal	$ 121	$ 1,024	$ 1,037
State	50	91	265
Foreign	1,232	890	769
	1,403	2,005	2,071
Deferred:			
Federal	405	(80)	(634)
State	23	(22)	(59)
Foreign	(10)	42	191
	418	(60)	(502)
Provision for income taxes	$ 1,821	$ 1,945	$ 1,569

Income before taxes included $6.8 billion, $2.7 billion and $1.9 billion that also were subject to income taxes of foreign jurisdictions for 2007, 2006 and 2005, respectively.

The income tax provision differs from that computed by using the statutory federal income tax rate for the reasons shown below:

Reconciliation of Provision for Income Taxes to Federal Income Taxes at Statutory Rate

	November 30,		
In millions	**2007**	**2006**	**2005**
Federal income taxes at statutory rate	$ 2,104	$ 2,068	$ 1,690
State and local taxes	48	45	134
Tax-exempt income	(114)	(125)	(135)
Foreign operations	(225)	(17)	(113)
Other, net	8	(26)	(7)
Provision for income taxes	$ 1,821	$ 1,945	$ 1,569

The provision for income taxes resulted in effective tax rates of 30.3%, 32.9% and 32.5% for 2007, 2006 and 2005, respectively. The decrease in the effective tax rate in 2007 compared to 2006 was primarily due to a more favorable mix of earnings which resulted in lower tax expense from foreign operations as compared to the U.S. statutory rate. The increases in the effective tax rates in 2006 and 2005 compared with the prior years were primarily due to an increase in level of pretax earnings which minimizes the impact of certain tax benefit items, and in 2006 a net reduction in certain benefits from foreign operations, partially offset by a reduction in state and local taxes due to favorable audit settlements in 2006 and 2005.

In 2007, we recorded an income tax benefit of $2 million, and in 2006 and 2005 we recorded income tax charges of $2 million and $1 million, respectively, from the translation of foreign currencies, which was recorded directly in Accumulated other comprehensive income/(loss). Income tax benefits related to employee stock compensation plans of approximately $434 million, $836 million and $1.0 billion in 2007, 2006 and 2005, respectively, were allocated to Additional paid-in capital.

Deferred income taxes are provided for the differences between the tax bases of assets and liabilities and their reported amounts in the Consolidated Financial Statements. These temporary differences will result in future income or deductions for income tax purposes and are measured using the enacted tax rates that will be in effect when such items are expected to reverse.

Net deferred tax assets are included in Other assets in the Consolidated Statement of Financial Condition. At November 30, 2007 and 2006, deferred tax assets and liabilities consisted of the following:

Deferred Tax Assets and Liabilities

	November 30,	
In millions	**2007**	**2006**
Deferred tax assets:		
Liabilities and other accruals not currently deductible	$ 161	$ 415
Deferred compensation	1,930	1,657
Unrealized investment activity	—	251
Foreign tax credit carryforwards	246	214
Foreign operations (net of associated tax credits)	1,049	709
Net operating loss carryforwards	75	64
Other	132	91
Total deferred tax assets	3,593	3,401
Less: valuation allowance	(273)	(5)

Total deferred tax assets, net of valuation allowance	3,320	3,396
Deferred tax liabilities:		
Excess tax over financial depreciation, net	(104)	(103)
Acquired intangibles	(369)	(384)
Unrealized investment activity	(375)	—
Pension and retirement costs	(104)	(192)
Other	(59)	(47)
Total deferred tax liabilities	(1,011)	(726)
Net deferred tax assets	$ 2,309	$ 2,670

We have permanently reinvested earnings in certain foreign subsidiaries. At November 30, 2007, $4.3 billion of accumulated earnings were permanently reinvested. At current tax rates, additional Federal income taxes (net of available tax credits) of approximately $1.1 billion would become payable if such income were to be repatriated.

We have approximately $215 million of Federal net operating loss carryforwards that are subject to separate company limitations. Substantially all of these net operating loss carryforwards begin to expire between 2023 and 2026. At November 30, 2007, $5 million of the deferred tax asset valuation allowance relates to Federal net operating loss carryforwards of an acquired entity that is subject to separate company limitations. If future circumstances permit the recognition of the acquired tax benefit, goodwill will be reduced. The remaining deferred tax asset valuation allowance of $268 million relates to losses from foreign legal entities in which the prospect of future profitability does not meet the more likely than not recognition threshold.

We are under continuous examination by the IRS, and other tax authorities in major operating jurisdictions such as the United Kingdom and Japan, and in various states in which the Company has significant operations, such as New York. The Company regularly assesses the likelihood of additional assessments in each tax jurisdiction and the impact on the Consolidated Financial Statements. Tax reserves have been established, which we believe to be adequate with regards to the potential for additional exposure. Once established, reserves are adjusted only when additional information is obtained or an event requiring a change to the reserve occurs. Management believes the resolution of these uncertain tax positions will not have a material impact on the financial condition of the Company; however resolution could have an impact on our effective tax rate in any one particular period.

We have completed the appeals process with respect to the 1997 through 2000 IRS examination. Although most issues were settled on a basis acceptable to us, two issues remain unresolved and will carry into litigation with the IRS. Based on the strength of its positions, we have not reserved any part of these issues. The aggregate tax benefits previously recorded with regard to these two issues is approximately $185 million.

The IRS has recently begun an examination with respect to the 2001 through 2005 tax years. The audit is in its initial stages and no adjustments have been proposed. We believe we are adequately reserved for any issues that may arise from this audit. The two issues from the 1997 through 2000 cycle which we plan to litigate also have an impact on the 2001 through 2005 tax years. The aggregate tax benefit previously recorded with regard to these two issues is approximately $500 million.

Note 15 Regulatory Requirements

For regulatory purposes, Holdings and its subsidiaries are referred to collectively as a CSE. CSEs are supervised and examined by the SEC, which requires minimum capital standards on a consolidated basis. At November 30, 2007, Holdings was in compliance with the CSE capital requirements and had allowable capital in excess of the minimum capital requirements on a consolidated basis.

In the United States, Lehman Brothers Inc. ("LBI") and Neuberger Berman, LLC ("NB LLC") are registered broker-dealers in the U.S. that are subject to SEC Rule 15c3-1 and Rule 1.17 of the Commodity

Futures Trading Commission, which specify minimum net capital requirements for the registrants. LBI and NB LLC have consistently operated with net capital in excess of their respective regulatory capital requirements. LBI has elected to calculate its minimum net capital in accordance with Appendix E of the Net Capital Rule which establishes alternative net capital requirements for broker-dealers that are part of CSEs. In addition to meeting the alternative net capital requirements, LBI is required to maintain tentative net capital in excess of $1 billion and net capital in excess of $500 million. LBI is also required to notify the SEC in the event that its tentative net capital is less than $5 billion. As of November 30, 2007, LBI had net capital of approximately $2.7 billion, which exceeded the minimum net capital requirement by approximately $2.1 billion. As of November 30, 2007, NB LLC had net capital of approximately $188 million, which exceeded the minimum net capital requirement by approximately $183 million.

Lehman Brothers International (Europe) ("LB Europe"), a United Kingdom registered broker-dealer and subsidiary of Holdings, is subject to the capital requirements of the Financial Services Authority ("FSA") in the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At November 30, 2007, LB Europe's financial resources of approximately $16.2 billion exceeded the minimum requirement by approximately $3.8 billion. Lehman Brothers Japan ("LB Japan"), a regulated broker-dealer, is subject to the capital requirements of the Financial Services Agency in Japan and the Bank of Japan. At November 30, 2007, LB Japan had net capital of approximately $1.3 billion, which was approximately $748 million in excess of Financial Services Agency in Japan's required level and approximately $512 million in excess of Bank of Japan's required level.

Lehman Brothers Bank, FSB ("LB Bank"), our thrift subsidiary, is regulated by the Office of Thrift Supervision. Lehman Brothers Commercial Bank ("LB Commercial Bank"), our Utah industrial bank subsidiary is regulated by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation. LB Bank and LB Commercial Bank exceeded all regulatory capital requirements and are considered to be well capitalized as of November 30, 2007. Bankhaus is subject to the capital requirements of the Federal Financial Supervisory Authority of the German Federal Republic. At November 30, 2007, Bankhaus' financial resources exceeded its minimum financial resources requirement.

Certain other subsidiaries are subject to various securities, commodities and banking regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. At November 30, 2007, these other subsidiaries were in compliance with their applicable local capital adequacy requirements.

In addition, our "AAA" rated derivatives subsidiaries, Lehman Brothers Financial Products Inc. ("LBFP") and Lehman Brothers Derivative Products Inc. ("LBDP"), have established certain capital and operating restrictions that are reviewed by various rating agencies. At November 30, 2007, LBFP and LBDP each had capital that exceeded the requirements of the rating agencies.

The regulatory rules referred to above, and certain covenants contained in various debt agreements, may restrict Holdings' ability to withdraw capital from its regulated subsidiaries, which in turn could limit its ability to pay dividends to shareholders. Holdings fully guarantees the payment of all liabilities, obligations and commitments of certain of its subsidiaries.

Note 16 Quarterly Information (unaudited)

The following table presents unaudited quarterly results of operations for 2007 and 2006. Certain amounts reflect reclassifications to conform to the current period's presentation. These quarterly results reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results. Revenues and net income can vary significantly from quarter to quarter due to the nature of our business activities.

Quarterly Information (unaudited)

	For the Quarter Ended

In millions, except per share data	Nov 30, 2007	Aug 31, 2007	May 31, 2007	Feb 28, 2007
Total revenues	$ 14,890	$ 14,739	$ 15,579	$ 13,795
Interest expense	10,500	10,431	10,067	8,748
Net revenues	4,390	4,308	5,512	5,047
Non-interest expenses:				
Compensation and benefits	2,164	2,124	2,718	2,488
Non-personnel expenses	996	979	915	860
Total non-interest expenses	3,160	3,103	3,633	3,348
Income before taxes	1,230	1,205	1,879	1,699
Provision for income taxes	344	318	606	553
Net income	$ 886	$ 887	$ 1,273	$ 1,146
Net income applicable to common stock	$ 870	$ 870	$ 1,256	$ 1,129
Earnings per common share:				
Basic	$ 1.60	$ 1.61	$ 2.33	$ 2.09
Diluted	$ 1.54	$ 1.54	$ 2.21	$ 1.96
Weighted-average common shares:				
Basic	542.6	540.4	538.2	540.9
Diluted	563.7	565.8	568.1	575.4
Dividends per common share	$ 0.15	$ 0.15	$ 0.15	$ 0.15
Book value per common share (at period end)	$ 39.44	$ 38.29	$ 37.15	$ 35.15

	For the Quarter Ended			
In millions, except per share data	Nov 30, 2006	Aug 31, 2006	May 31, 2006	Feb 28, 2006
Total revenues	$ 13,160	$ 11,727	$ 11,515	$ 10,307
Interest expense	8,627	7,549	7,104	5,846
Net revenues	4,533	4,178	4,411	4,461
Non-interest expenses:				
Compensation and benefits	2,235	2,060	2,175	2,199
Non-personnel expenses	809	751	738	711
Total non-interest expenses	3,044	2,811	2,913	2,910
Income before taxes and cumulative effect of accounting change	1,489	1,367	1,498	1,551
Provision for income taxes	485	451	496	513
Cumulative effect of accounting change	—	—	—	47
Net income	$ 1,004	$ 916	$ 1,002	$ 1,085
Net income applicable to common stock	$ 987	$ 899	$ 986	$ 1,069
Earnings per common share:				
Basic	$ 1.83	$ 1.66	$ 1.81	$ 1.96
Diluted	$ 1.72	$ 1.57	$ 1.69	$ 1.83
Weighted-average common shares:				
Basic	539.2	540.9	545.1	546.2
Diluted	573.1	573.3	582.8	584.2
Dividends per common share	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Book value per common share (at period end)	$ 33.87	$ 32.16	$ 31.08	$ 30.01

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, with the participation of the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings (its principal executive officer and principal financial officer, respectively), evaluated our disclosure controls and procedures as of the end of the fiscal year covered by this Report.

Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this Report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by Holdings in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by Holdings in such reports is accumulated and communicated to our management, including the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting and the attestation report of our independent registered public accounting firm are contained in Part II, Item 8, of this Report and are incorporated herein by reference. There was no change in our internal control over financial reporting that occurred during the fourth fiscal quarter of 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to Directors of the Registrant is set forth under the captions "Nominees for Election as Directors," "Committees of the Board of Directors" and "Other Matters—Procedures for Recommending Director Candidates to the Nominating and Corporate Governance Committee" in the Proxy Statement, and information relating to Executive Officers of the Registrant is set forth under the caption "Executive Officers of the Company" in the Proxy Statement, and is incorporated herein by reference.

Information relating to beneficial ownership reporting compliance by Directors and Executive Officers of the Registrant pursuant to Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

We have a Code of Ethics which is applicable to all Directors, officers and employees of the Company, including the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings (its principal executive officer and principal financial and accounting officer, respectively). The Code of Ethics is available on the Corporate Governance page of the Company's web site at www.lehman.com/shareholder/corpgov/. A copy of the Code of Ethics will be provided without charge to any person who requests it by writing to the address or telephoning the number indicated under "Available Information" on page 2. We will disclose on our web site amendments to or waivers from our Code of Ethics applicable to Directors or Executive Officers of Holdings, including the Chairman and Chief Executive Officer and the Chief Financial Officer, in accordance with all applicable laws and regulations.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is set forth under the captions "Compensation of Directors," "Compensation and Benefits Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Compensation and Benefits Committee Report" and "Compensation of Executive Officers" in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to security ownership of certain beneficial owners and management is set forth under the captions “Security Ownership of Principal Stockholders” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement and is incorporated herein by reference.

Information regarding shares of our common stock authorized for issuance under equity compensation plans is set forth under the caption “Proposal 3—Amendment to the 2005 Stock Incentive Plan—Equity Compensation Plan Information” in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information relating to certain relationships and related transactions is set forth under the caption “Certain Transactions and Agreements with Directors and Executive Officers” in the Proxy Statement and is incorporated herein by reference.

Information relating to the Company’s Board of Directors and Director independence is set forth under the captions “Proposal 1—Election of Directors” and “Director Independence” in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to fees paid to our independent registered public accounting firm and certain related matters is set forth under the caption “Ernst & Young LLP Fees and Services” in the Proxy Statement and is incorporated herein by reference.