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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

Form 10-K

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended November 30, 2002**

OR

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission File Number 1-9466

Lehman Brothers Holdings Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**13-3216325**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
745 Seventh Avenue New York, New York	**10019**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 526-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.10 par value	New York Stock Exchange Pacific Exchange
Depositary Shares representing 5.94% Cumulative Preferred Stock, Series C	New York Stock Exchange
Depositary Shares representing 5.67% Cumulative Preferred Stock, Series D	New York Stock Exchange
Depositary Shares representing Fixed/Adjustable Rate Cumulative Preferred Stock, Series E	New York Stock Exchange
7.875% Trust Preferred Securities, Series J, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
8% Trust Preferred Securities, Series I, of Subsidiary Trust (and Registrant's guarantee thereof)	New York Stock Exchange
8% Yield Enhanced Equity Linked Debt Securities Plus Due November 13, 2003, Based Upon a Basket of Five Technology Stocks	American Stock Exchange
10 Uncommon Values Index Basket Adjusting Structured Equity Securities Notes Due 2003	American Stock Exchange
10 Uncommon Values Index Basket Adjusting Structured Equity Securities Notes Due 2004	American Stock Exchange
10 Uncommon Values Index Basket Adjusting Structured Equity Securities Notes, Series B, Due 2004	American Stock Exchange
10 Uncommon Values Index Risk Adjusting Equity Range Securities Plus Notes Due July 3, 2003	American Stock Exchange
10 Uncommon Values Index Risk Adjusting Equity Range Securities Plus Notes Due July 2, 2004	American Stock Exchange
10 Uncommon Values Index Stock Upside Note Securities Notes Due July 3, 2004	American Stock Exchange
10 Uncommon Values Index Stock Upside Note Securities Notes Due July 2, 2005	American Stock Exchange
Dow Jones Industrial Average 112.5% Minimum Redemption PrincipalPlus Stock Upside Note Securities Due August 5, 2007	American Stock Exchange
Dow Jones Internet Index Stock Upside Note Securities Due November 10, 2004	American Stock Exchange
NASDAQ-100 Index 109% Minimum Redemption Stock Upside Note Securities Due April 26, 2004	American Stock Exchange
Notes due November 14, 2007-Performance Linked to Marsh & McLennan Companies, Inc. (MMC) Common Stock	American Stock Exchange
Notes due November 14, 2007-Performance Linked to Pfizer Inc. (PFE) Common Stock	American Stock Exchange
Portfolio Risk Adjusting Equity Range Securities Notes Due August 14, 2003, Based Upon a Basket of Ten Stocks	American Stock Exchange
Prudential Research Universe Diversified Equity Notes Due December 29, 2004	American Stock Exchange
Prudential Research Universe Diversified Equity Notes Due July 2, 2006, Linked to a Basket of Healthcare Stocks	American Stock Exchange
S&P 500 Index Stock Upside Note Securities Due April 30, 2005	American Stock Exchange
S&P 500 Index Stock Upside Note Securities Due December 26, 2006	American Stock Exchange
S&P 500 Index Stock Upside Note Securities Due February 5, 2007	American Stock Exchange
S&P 500 Index Stock Upside Note Securities Due September 27, 2007	American Stock Exchange
S&P 500 Index Stock Upside Note Securities Due August 5, 2008	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

The aggregate market value of the voting and nonvoting common equity held by non-affiliates of the Registrant at May 31, 2002 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $14,229,420,000. As of that date, 233,269,163 shares of the Registrant's Common Stock, $.10 par value per share, were held by non-affiliates. For purposes of this information, the outstanding shares of Common Stock that were and that may be deemed to have been beneficially owned by directors and executive officers of the Registrant were deemed to be shares of common stock held by affiliates at that date.

As of February 14, 2003, 242,519,083 shares of the Registrant's Common Stock, $.10 par value per share, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

(1) Lehman Brothers Holdings Inc. 2002 Annual Report to Stockholders (the "2002 Annual Report")—Incorporated in part in Parts I, II and IV.
(2) Lehman Brothers Holdings Inc. Definitive Proxy Statement for its 2003 Annual Meeting of Stockholders (the "Proxy Statement")—Incorporated in part in Parts III and IV.

<u>TABLE OF CONTENTS</u>

AVAILABLE INFORMATION

Lehman Brothers Holdings Inc. ("Holdings") files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document Holdings files with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Holdings' electronic SEC filings are available to the public at http://www.sec.gov.

Holdings' public internet site is http://www.lehman.com. Holdings makes available free of charge through its internet site, via a link to the SEC's internet site at http://www.sec.gov, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC.

In addition, Holdings currently makes available on http://www.lehman.com its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its most recent proxy statement and its most recent annual report to shareholders, although in some cases these documents are not available on that site as soon as they are available on the SEC's site. You will need to have on your computer the Adobe Acrobat Reader software to view these documents, which are in the .PDF format. If you do not have Adobe Acrobat, a link to Adobe Systems Incorporated's internet site, from which you can download the software, is provided.

PART I

ITEM 1. BUSINESS

As used herein, "Holdings" or the "Registrant" means Lehman Brothers Holdings Inc., a Delaware corporation, incorporated on December 29, 1983. Holdings and its subsidiaries are collectively referred to as the "Company," the "Firm" or "Lehman Brothers," and Lehman Brothers Inc., a Delaware corporation and the principal subsidiary of Holdings, is referred to herein as "LBI."

The Company is one of the leading global investment banks, serving institutional, corporate, government and high-net-worth individual clients and customers. Its executive offices are located at 745 Seventh Avenue, New York, New York 10019, and its telephone number is (212) 526-7000.

Forward-Looking Statements

Some of the statements contained or incorporated by reference in this Report, including those relating to the Company's strategy and other statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions, are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. These statements are not historical facts but instead represent only the Firm's expectations, estimates and projections regarding future events. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict, which may include market, credit or counterparty, liquidity, legal and operational risks. Those risks and uncertainties include, but are not limited to:

- *Market Fluctuations and Volatility.* Changes in interest and foreign exchange rates, securities and commodities valuations and increases in volatility can increase risk, and may also impact customer flow related revenues in the Company's Capital Markets and Client Services businesses, as well as impact the volume of debt and equity underwritings and merger and acquisition transactions.

- *Industry Competition and Changes in Competitive Environment.* Increased competition from both banking institutions and non-traditional financial services providers and from industry consolidation could impact fees earned from the Company's investment banking and capital markets businesses.

- *Investor Sentiment.* This past year has seen a record number of accounting and corporate governance scandals, which have had a significant impact on investor confidence in the marketplace. In addition, geopolitical concerns about possible military action and terrorist activities can have an effect on the global financial markets.

- *Liquidity.* Liquidity risk management is of critical importance to the Company. Liquidity could be impacted by the inability to access the long-term or short-term debt markets or the repurchase and securities lending markets. However, the Company's liquidity and funding policies have been designed with the goal of providing sufficient liquidity resources to continually fund its balance sheet and to meet all obligations in all market environments.

- *Credit Ratings.* The Company's access to the unsecured funding markets is dependent upon the Company's credit ratings. A reduction in the Company's credit ratings could adversely affect the Company's access to liquidity alternatives and its competitive position, and could increase the cost of funding, or trigger additional collateral requirements.

- *Credit Exposure.* Credit risk represents the possibility that a counterparty will be unable to honor its contractual obligations to the Company. Although the Company actively manages daily credit risk exposure as part of its risk management framework, counterparty default risk may arise from unforeseen events or circumstances.

- *Legal/Regulatory.* Legal risks include litigation (see "Item 3—Legal Proceedings" herein) and legislative and regulatory developments in the United States and other jurisdictions, which could have unforeseeable impacts on the Firm's businesses and results.

The Firm's actual results and financial condition may differ, perhaps materially, from the anticipated results and financial condition in any forward-looking statements, and, accordingly, readers are cautioned not to place undue reliance on such statements. For more information concerning the risks and other factors that could affect the Firm's future results and financial condition, see "Management's Discussion and Analysis" in the 2002 Annual Report. The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

LEHMAN BROTHERS

Lehman Brothers is one of the leading global investment banks, serving institutional, corporate, government and high-net-worth individual clients and customers. The Company's worldwide headquarters in New York and regional headquarters in London and Tokyo are complemented by offices in additional locations in the United States, Europe, the Middle East, Latin America and the Asia Pacific region. The Company is engaged primarily in providing financial services. Other businesses in which the Company is engaged represent less than 10 percent of consolidated assets, revenues or pre-tax income.

The Company's business includes capital raising for clients through securities underwriting and direct placements, corporate finance and strategic advisory services, private equity investments, securities sales and trading, research, and the trading of foreign exchange and derivative products and certain commodities. The Company acts as a market-maker in all major equity and fixed income products in both the U.S. and international markets. Lehman Brothers is a member of all principal securities and commodities exchanges in the United States, as well as the National Association of Securities Dealers, Inc. ("NASD"), and holds memberships or associate memberships on several principal international securities and commodities exchanges, including the London, Tokyo, Hong Kong, Frankfurt, Paris and Milan stock exchanges.

Lehman Brothers provides a full array of capital market products and advisory services worldwide. Through the Company's investment banking, trading, research, structuring and distribution capabilities in equity and fixed income products, the Company continues its focus of building its client/customer business model. These "customer flow" activities represent a majority of the Company's revenues. In addition to its customer flow activities, the Company also takes proprietary positions, the success of which is dependent on its ability to anticipate economic and market trends. The Company believes its customer flow orientation mitigates its overall revenue volatility.

The Company operates in three business segments (each of which is described below): Investment Banking, Capital Markets and Client Services. Financial information concerning the Company for the fiscal years ended November 30, 2002, November 30, 2001, and November 30, 2000, including the amount of net revenue contributed by each segment in such periods, is set forth in the Consolidated Financial Statements and the Notes thereto in the 2002 Annual Report and is incorporated herein by reference. Information with respect to the Company's operations by segment and net revenues by geographic area is set forth under the captions "Management's Discussion and Analysis—Segments" and "–Geographic Diversification" and in Note 21 of the Notes to Consolidated Financial Statements in the 2002 Annual Report and is incorporated herein by reference.

Investment Banking

Lehman Brothers' Investment Banking professionals are responsible for developing and maintaining relationships with issuer clients, gaining a thorough understanding of their specific needs and bringing together the full resources of Lehman Brothers to accomplish their financial and strategic objectives. Investment Banking is organized into industry, geographic and product coverage groups, enabling individual bankers to develop specific expertise in particular industries and markets. Industry coverage groups include Communications & Media, Consumer/Retailing, Financial Institutions, Financial Sponsors, Healthcare, Industrial, Natural Resources, Power, Real Estate and Technology. Where appropriate, specialized product groups are partnered with the global industry and geographic groups to provide tailor-made solutions for Lehman Brothers' clients. These product groups include Equity Capital Markets, which consists of equity and equity-related securities and derivatives, Debt Capital Markets, which incorporates expertise in syndicate, liability management, derivatives and bank loan syndication, Private Placements, Leveraged Finance and Mergers &

Acquisitions/Strategic Advisory Services. Geographically, Lehman Brothers maintains investment banking offices in seven cities in the U.S. and in sixteen cities in Europe, the Middle East, Asia and Latin America. The high degree of integration among the Company's industry, product and geographic groups has allowed Lehman Brothers to become a leading source of one-stop financial solutions for its global clients.

Mergers & Acquisitions/Strategic Advisory. Lehman Brothers has a long history of providing strategic advisory services to corporate, institutional and government clients around the world on a wide range of financial matters, including mergers and acquisitions, restructurings and spin-offs, targeted stock transactions, share repurchase strategies, government privatization programs, takeover defenses and other strategic advice.

Underwriting. The Company is a leading underwriter of initial and other public and private offerings of equity and fixed income securities, including listed and over-the-counter securities, government and agency securities and mortgage- and asset-backed securities.

Capital Markets

Lehman Brothers combines the skills from the sales, trading and research areas of its Equities and Fixed Income Divisions to serve the financial needs of the Company's clients and customers. This integrated approach enables Lehman Brothers to structure and execute global transactions for clients and to provide worldwide liquidity in marketable securities.

Equities

The Equities group is responsible for the Company's equity operations and all dollar and non-dollar equity and equity-related products worldwide. These products include listed and over-the-counter securities, American Depositary Receipts, convertibles, options, warrants and derivatives.

Equity Cash Products. Lehman Brothers makes markets in equity and equity-related securities, and executes block trades on behalf of clients and customers. The Company participates in the global equity and equity-related markets in all major currencies through its worldwide presence and membership in major stock exchanges, including, among others, those in New York, London, Tokyo, Hong Kong, Frankfurt, Paris and Milan.

Equity Derivatives. Lehman Brothers offers equity derivative capabilities across a wide spectrum of products and currencies, including domestic and international portfolio trading, listed options and futures and over-the-counter derivatives. The Firm's equity derivatives business is organized into two major product areas: a global volatility business, encompassing options-related products, and a global portfolio trading business that specializes in agency/risk baskets and other structured products.

Equity Finance. Lehman Brothers maintains an integrated Equity Financing and Prime Broker business to provide liquidity to its clients and customers and supply a source of secured financing for the Firm. Equity Financing provides financing in all markets on a margin basis for customer purchases of equities and other capital markets products as well as securities lending and short-selling facilitation. The Prime Broker business also engages in full operations, clearing and processing services for that unit's customers.

Arbitrage. Lehman Brothers engages in a variety of arbitrage activities including "riskless" arbitrage, where the Company seeks to benefit from temporary price discrepancies that occur when a security is traded in two or more markets, and "risk" arbitrage activities, which involve the purchase of securities at discounts from the expected values that would be realized if certain proposed or anticipated corporate transactions (such as mergers, acquisitions, recapitalizations, exchange offers, reorganizations, bankruptcies, liquidations or spin-offs) were to occur. Lehman Brothers' arbitrage activities benefit from the Company's presence in the global capital markets, access to advanced information technology, in-depth market research, proprietary risk management tools and general experience in assessing rapidly changing market conditions.

Fixed Income

Lehman Brothers actively participates in all key fixed income markets worldwide and maintains a 24-hour trading presence in global fixed income securities. The Company is a preeminent market-maker in new issue and other fixed income securities.

Fixed Income businesses include the following:

Government and Agency Obligations. Lehman Brothers is one of the leading primary dealers in U.S. government securities, as designated by the Federal Reserve Bank of New York, participating in the underwriting and market-making of U.S. Treasury bills, notes and bonds, and securities of federal agencies. The Company is also a market-maker in the government securities of all G7 countries, and participates in other major European and Asian government bond markets.

Corporate Debt Securities and Loans. Lehman Brothers makes markets in fixed and floating rate investment grade debt worldwide. The Company is also a major participant in the preferred stock market, managing numerous offerings of long-term and perpetual preferreds and auction rate securities.

High Yield Securities and Leveraged Bank Loans. The Company also makes markets in non-investment grade debt securities and bank loans. Lehman Brothers provides "one-stop" leveraged financing solutions for corporate and financial acquirers and high yield issuers, including multi-tranche, multi-product acquisition financing. The Company remains one of the leading investment banks in the syndication of leveraged loans.

Money Market Products. Lehman Brothers holds leading market positions in the origination and distribution of medium-term notes and commercial paper. The Company is an appointed dealer or agent for numerous active commercial paper and medium-term note programs on behalf of companies and government agencies worldwide.

Mortgage and Asset-Backed Securities. The Company is a leading underwriter of and market-maker in residential and commercial mortgage- and asset-backed securities and is active in all areas of secured lending, structured finance and securitized products. Lehman Brothers underwrites and makes markets in the full range of U.S. agency-backed mortgage products, mortgage-backed securities, asset-backed securities and whole loan products. It is also a leader in the global market for residential and commercial mortgages (including multi-family financing) and leases . The Company also originates mortgage loans directly through its subsidiary savings bank, Lehman Brothers Bank, FSB. In addition, Lehman Brothers engages in select investments in commercial and residential properties.

Municipal and Tax-Exempt Securities. Lehman Brothers is a major dealer in municipal and tax-exempt securities, including general obligation and revenue bonds, notes issued by states, counties, cities, and state and local governmental agencies, municipal leases, tax-exempt commercial paper and put bonds.

Financing. The Company's Financing Unit engages in three primary functions: managing the Company's matched book activities, supplying secured financing to customers, and providing funding for the Company's activities. Matched book funding involves borrowing and lending cash on a short-term basis to institutional customers collateralized by marketable securities, typically government or government agency securities. The Company enters into these agreements in various currencies and seeks to generate profits from the difference between interest earned and interest paid. The Financing Unit works with the Company's institutional sales force to identify customers that have cash to invest and/or securities to pledge to meet the financing and investment objectives of the Company and its customers. Financing also coordinates with the Company's Treasury area to provide collateralized financing for a large portion of the Company's securities and other financial instruments owned. In addition to its activities on behalf of its U.S. clients and customers, the Company is a major participant in the European and Asian repurchase agreement markets, providing secured financing for the Firm's customers in those regions.

Fixed Income Derivatives. The Company offers a broad range of derivative, interest rate and credit products and services. Derivatives professionals are integrated into all of the Company's fixed income areas in response to the worldwide convergence of the cash and derivative markets.

Foreign Exchange. Lehman Brothers' global foreign exchange operations provide market access and liquidity in all currencies for spot, forward and over-the-counter options markets around the clock. Lehman Brothers offers its customers superior execution, market intelligence, analysis and hedging capabilities, utilizing foreign exchange as well as foreign exchange options and derivatives. Lehman Brothers also provides advisory services to central banks, corporations and investors worldwide, structuring innovative products to fit their specific needs. The Firm makes extensive use of its global macroeconomics research to advise clients on the appropriate strategies to minimize interest rate and currency risk.

Lehman Brothers Bank. Lehman Brothers Bank, FSB, offers traditional and online mortgage and banking services nationally to individuals as well as institutions and their customers on a co-branded basis through its Alliance Partnership Program, which creates strategic partnerships with retail and financial organizations throughout the country. The Bank is a major part of the Firm's institutional mortgage business, providing an origination pipeline for mortgages and asset-backed securities.

Global Distribution

Lehman Brothers' institutional sales organizations encompass distinct global sales forces that have been integrated into the Fixed Income and Equities Capital Markets businesses to provide investors with the full array of products and research offered by the Firm.

Equity Sales. Lehman Brothers' institutional Equity sales force provides an extensive range of services to institutional investors through locations in the U.S., Europe and Asia. The Equity sales organization focuses on developing long-term relationships though a comprehensive understanding of customers' investment objectives, while providing proficient execution and consistent liquidity in a wide range of global equity securities and derivatives.

Fixed Income Sales. Lehman Brothers' Fixed Income sales force is one of the most productive in the industry, serving the investing and liquidity needs of major institutional investors. Employing a relationship management approach that provides superior information flow and product opportunities for the Firm's customers, the Fixed Income sales organization covers the major share of the buying power in the global fixed income markets.

Research

Research at Lehman Brothers encompasses the full range of research disciplines, including quantitative, economic, strategic, credit, relative value and market-specific analysis.

Equity Research. To ensure in-depth expertise within various markets, Equity Research has established regional teams on a worldwide basis that are staffed with industry and strategy specialists.

Fixed Income Research. The Firm's Fixed Income Research specialists provide expertise in U.S., European and Asian government and agency securities, derivatives, sovereign issues, corporate securities, high yield, asset- and mortgage-backed securities, indices, emerging market debt and municipal securities.

Client Services

Client Services includes the Company's Private Client Services group, a retail-based organization that primarily serves the investment needs of wealthy individuals, and its Private Equity Division, which manages assets through a series of private equity funds and investments.

Private Client Services

The Company's Private Client Services group's investment representatives serve the investment needs of private investors with substantial assets as well as thousands of mid-sized institutional accounts worldwide. The group has investment representatives located in 14 offices around the globe. Investment professionals provide their clients with direct access to banking, fixed income, equity, foreign exchange and derivative products, as well as the Firm's research and execution capabilities.

Lehman Brothers also provides asset management services, including Investment Consulting Services, a wrap-fee series of third party managed products, management of multiple manager funds onshore and offshore and a managed futures advisory business. The Firm also has dealer agreements with a large number of mutual fund families.

Lehman Brothers is expanding its asset management activities to focus on the strategic development of a comprehensive asset management platform for the Firm, drawing on—and providing both individual and institutional clients with access to—Lehman Brothers' investment advisory expertise across various asset classes and geographies. Those responsibilities include the Firm's recently established asset management initiatives, such as Lehman Brothers Alternative Investment Management (the Firm's joint venture with Ehrenkranz & Ehrenkranz) and its investment in the United Kingdom's Edgeworth Capital. In January 2003, Lehman Brothers acquired the fixed income investment management business of Lincoln Capital Management, which will become the Firm's U.S. institutional fixed income management platform for large institutional investors.

Private Equity

The Company currently has over $4.5 billion in Private Equity assets under management, primarily in five asset classes: Merchant Banking, Venture Capital, Real Estate, Fixed Income-related and Third Party Funds. The primary goal of each asset class is to make investments that provide attractive risk-adjusted returns to investors, including institutions, high-net-worth individuals, the Firm and certain employees of the Firm.

Merchant Banking. Lehman Brothers' merchant banking activities include making principal equity investments, often in partnership with clients of the Firm. Merchant banking seeks to partner with proven operating teams that have compelling business strategies and growth plans, with the aim of creating long-term value for investors.

Venture Capital. Lehman Brothers' venture capital funds are focused on making growth-oriented equity investments in technology, communications and healthcare companies. Venture capital investments focus on companies capable of turning innovative technology and management solutions into successful businesses.

Real Estate. Lehman Brothers' Real Estate Fund is focused on making real estate equity investments in North America and Europe in a wide variety of commercial and residential properties, real estate companies and related service businesses.

Fixed Income-related. This asset class is currently comprised of two investing activities: European mezzanine investments and collateralized debt obligation (CDO)-related investments.

Third Party Funds. This asset class consists of investment activities related to non-affiliated partnerships, including a fund-of-funds for investments in other private equity funds, purchasing secondary limited partnership interests in existing private equity funds and managing co-investment programs on behalf of large institutional investors.

Commitments for all of the Firm's private equity funds are raised in private placements not requiring registration under the Securities Act of 1933.

Technology and e-Commerce

Lehman Brothers is committed to maintaining a technology platform to deliver a full range of capital markets information and services to its institutional and high-net-worth client base. The Firm-wide e-Commerce organization, which brings together senior management from all of the Firm's global business areas, has developed the Firm's overall e-commerce strategy, approves all e-commerce investments and provides a forum to share e-commerce knowledge and new developments across the Firm's businesses and geographies. The Firm's e-commerce strategy focuses on client and markets connectivity, content and strategic ventures. Lehman Brothers has an integrated client and employee web site, LehmanLive, which serves as a complete suite of services, including research and analytics, trade and post-trade (clearing and settlement information, risk management and prime brokerage) information and employee applications. Lehman Brothers has made many strategic investments and is a participant in a number of institutional trading networks in the U.S., Europe and Asia. Notable investments include TradeWeb, MarketAxess and SecuritiesHub in Fixed Income, and TheMarkets.com, EquiLend, Redi/Arca and NYFIX Millennium in Equities. Additionally, Lehman Brothers has supported the global expansion of NASDAQ with an investment in its U.S. and European ventures.

Corporate

The Company's Corporate division provides support to its businesses through the processing of certain securities and commodities transactions; receipt, identification and delivery of funds and securities; safeguarding of customers' securities; risk management; and compliance with regulatory and legal requirements. In addition, this staff is responsible for technology infrastructure and systems development, treasury operations, financial control and analysis, tax planning and compliance, internal audit, expense management, career development and recruiting and other support functions.

Risk Management

As a leading global investment banking company, risk is an inherent part of the Company's businesses. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. Lehman Brothers has developed policies and procedures designed to identify, measure and monitor each of the risks involved in its trading, brokerage and investment banking activities on a global basis. The principal risks of Lehman Brothers are market, credit, liquidity, legal and operational risks. As part of the Company's customer flow activities, Lehman Brothers takes proprietary positions in interest rates, foreign exchange and various securities, derivatives and commodities. Although the Company seeks to mitigate risk associated with such positions through hedging activities, consistent with its expectations of future events, it is subject to the risk that actual market events may differ from the Company's expectations, which may result in losses associated with such positions.

Lehman Brothers has developed a control infrastructure to monitor and manage each type of risk on a global basis throughout the Company. A full description of the Firm's Risk Management procedures is contained in "Management's Discussion and Analysis—Risk Management" in the 2002 Annual Report, and is incorporated herein by reference.

Competition

All aspects of the Company's business are highly competitive. The Company competes in U.S. and international markets directly with numerous other brokers and dealers in securities and commodities, including traditional and online securities brokerage firms, investment banking firms, investment advisors and certain commercial banks and, indirectly for investment funds, with insurance companies and others.

The financial services industry has become considerably more concentrated as numerous securities firms have been acquired by or merged into other firms. These developments have increased competition from other firms, many of which have significantly greater equity capital than the Company. Legislative and regulatory changes in the United States allow commercial banks to enter businesses previously limited to investment banks, and several combinations between commercial banks and investment banks have occurred, which has further increased competition.

Regulation

The securities industry in the United States is subject to extensive regulation under both federal and state laws. LBI is registered as a broker-dealer, and LBI and certain other subsidiaries of Holdings are registered as investment advisors, with the SEC and as such are subject to regulation by the SEC and by self-regulatory organizations, principally the NASD, national securities exchanges such as the New York Stock Exchange (which has been designated by the SEC as LBI's primary regulator) and the Municipal Securities Rulemaking Board. Securities firms are also subject to regulation by state securities administrators in those states in which they conduct business. LBI is a registered broker-dealer in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico. The SEC, self-regulatory organizations and state securities commissions may conduct administrative proceedings, which may result in censure, fine, the issuance of cease-and-desist orders or suspension or expulsion of a broker-dealer or an investment advisor, its officers or employees.

LBI is also registered with the Commodity Futures Trading Commission (the "CFTC") as a futures commission merchant and is subject to regulation as such by the CFTC and various domestic boards of trade and other commodity exchanges. The Company's U.S. commodity futures and options business is also regulated by the National Futures Association, a not-for-profit membership corporation which has been designated as a registered futures association by the CFTC.

The Company does business in the international fixed income and equity markets and undertakes international investment banking activities, principally through its regional headquarters in London and Tokyo. Holdings' subsidiary, Lehman Brothers International (Europe) ("LBIE"), is an authorized investment firm in the United Kingdom and is a member of the London, Frankfurt, Paris and Milan exchanges, among others. The U.K. Financial Services and Markets Act 2000 (the "FSMA") governs all aspects of the United Kingdom investment business, including regulatory capital, sales and trading practices, use and safekeeping of customer funds and securities, record keeping, margin practices and procedures, approval standards for individuals, periodic reporting and settlement procedures. Pursuant to the FSMA, certain subsidiaries of Holdings are subject to regulations promulgated and administered by the Financial Services Authority.

Holdings' subsidiary, Lehman Brothers Japan Inc. ("LBJ"), is a licensed securities company in Japan and a member of the Tokyo Stock Exchange Limited, the Osaka Stock Exchange Limited and the Tokyo Financial Futures Exchange and, as such, is regulated by the Financial Services Agency, the Japan Securities Dealers Association and such exchanges.

Lehman Brothers Bank, FSB, the Company's thrift subsidiary, is regulated by the Office of Thrift Supervision. Lehman Brothers Bankhaus A.G. is regulated by the German Federal Banking Authority.

LBI, LBIE, LBJ and Holdings' other subsidiaries are also subject to regulation by securities, banking and finance regulatory authorities, securities exchanges and other self-regulatory organizations in numerous other countries in which they do business.

The Company believes that it is in material compliance with applicable regulations.

Capital Requirements

LBI, Lehman Brothers International (Europe), the Tokyo branch of Lehman Brothers Japan Inc., Lehman Brothers Bank, FSB, and others of Holdings' subsidiaries are subject to various capital adequacy requirements promulgated by the regulatory, banking and exchange authorities of the countries in which they operate and/or to capital targets established by various ratings agencies. Reference is made to Note 12 of the Notes to Consolidated Financial Statements in the 2002 Annual Report, which is incorporated herein by reference.

Employees

As of November 30, 2002, the Company employed approximately 12,300 persons, including 8,000 in North America and 4,300 internationally. The Company considers its relationship with its employees to be good.

ITEM 2. PROPERTIES

The new 1,000,000 square-foot office tower at 745 Seventh Avenue in New York City, which the Company purchased in 2001, is now fully operational as the Company's world headquarters. In September 2002, the Company sold its 1.1 million square foot tenancy-in-common interest in Three World Financial Center (the location of its former world headquarters) in downtown Manhattan.

In addition to its world headquarters building, the Company leases approximately 437,000 square feet of office space at 399 Park Avenue and 56,000 square feet of data center space at another location in New York City, each with a term extending until 2016. Both locations are now fully operational.

The Company also leases approximately 409,000 square feet of office space in Jersey City, New Jersey, with a term extending until 2016. As of fiscal year end 2002, the Company occupied 153,000 square feet, with the rest sublet to an unaffiliated third party. The Company expects to occupy the remaining 256,000 square feet by year end 2003. Lehman Brothers leases approximately 400,000 square feet of additional office space in Jersey City, of which approximately 32,000 square feet have been subleased to a third-party tenant. This lease expires in 2011. The Company intends to vacate the latter space as it occupies the remaining space in the other Jersey City building and will seek to sublease the vacated space.

The Company leases and has options to lease a total of approximately 715,000 square feet of space at One World Financial Center (in the same office complex as Three World Financial Center), which it had occupied or had planned to occupy prior to September 11, 2001. The lease terms expire at various dates from December 2015 through 2025, with the exception of a lease for 148,000 square feet, which expires in 2006. In April 2002, the Company entered into a sublease arrangement with an unaffiliated third party for approximately 85,000 square feet of the space at One World Financial Center, which expires in December 2015. The remainder of the leased space remains unoccupied, and the Company continues to explore sublease alternatives with respect to this facility.

The Company's European headquarters in London, England, currently occupy approximately 450,000 square feet of leased office space in the Broadgate complex. These leases expire at various dates to 2017. Approximately 34,000 square feet have been subleased to an unaffiliated third party. In March 2001, the Company agreed to lease up to 1,000,000 square feet of space in a new tower at the Canary Wharf development, east of the City of London, with a 30-year term. The Company expects to relocate to this facility in the fourth quarter of fiscal 2003 and is exploring sublease options for the Broadgate space.

In December 2002 the Company entered into a lease with an initial 2-year term for a new approximately 157,000 square foot Asian headquarters location in the Roppongi Hills area of central Tokyo, Japan. The Company's current Asian headquarters occupy approximately 100,000 square feet of leased office space in the ARK Mori Building in central Tokyo. The ARK Mori lease has been extended to early 2004 to coincide with the Company's planned relocation to the Roppongi Hills building.

All three of the Company's business segments (as described herein and in the Consolidated Financial Statements of the Registrant and its subsidiaries) use the facilities described above (or will use them, in the case of facilities to be occupied).

Facilities occupied by the Company (or to be occupied as described above) are believed to be adequate for the purposes for which they are (or are to be) used, and the occupied facilities are well maintained.

Additional information with respect to facilities, certain charges related thereto and lease commitments is set forth in Notes 2 and 3 and under the caption "Lease Commitments" in Note 20 of the Notes to Consolidated Financial Statements in the 2002 Annual Report and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its business. Such proceedings include actions brought against the Company and others with respect to transactions in which the Company acted as an underwriter or financial advisor, actions arising out of the Company's activities as a broker or dealer in securities and commodities and actions brought on behalf of various classes of claimants against many securities and commodities firms, including the Company.

Although there can be no assurance as to the ultimate outcome, the Company generally has denied, or believes it has a meritorious defense and will deny, liability in all significant cases pending against it including the matters described below, and it intends to defend vigorously each such case. Based on information currently available and established reserves, the Company believes that the eventual outcome of the actions against it, including the matters described below, will not, in the aggregate, have a material adverse effect on the consolidated financial position or cash flows of the Company but may be material to the Company's operating results for any particular period, depending on the level of the Company's income for such period.

Research Analyst Independence Investigations

On December 20, 2002, LBI reached an agreement in principle with the SEC, the New York State Attorney General's Office, the New York Stock Exchange ("NYSE"), the NASD and the North American Securities Administrators Association (on behalf of state securities regulators) to resolve their investigations of the Company relating to allegations of research analyst conflicts of interest. Pursuant to the agreement in principle, LBI agreed, among other things, (i) to pay $50 million in retrospective relief, (ii) to contribute $25 million spread over five years to provide third-party independent research to clients, (iii) to contribute $5 million towards investor education and (iv) to adopt internal structural and operational reforms that will further augment the steps it has already taken to promote research analyst independence. The agreement in principle will become final upon execution of written agreements acceptable to all of the parties and final judicial approval of the settlement. In the fourth quarter of fiscal 2002, the Company recorded a pre-tax charge associated with the agreement in principle; for additional information see Note 4 of the Notes to Consolidated Financial Statements in the 2002 Annual Report, which is incorporated herein by reference.

AIA Holding SA et al. v. Lehman Brothers Inc. and Bear Stearns & Co., Inc.

In July 1997, LBI was served with a complaint in the United States District Court for the Southern District of New York (the "New York District Court") in which 277 named plaintiffs asserted 24 causes of action against LBI and Bear Stearns & Co., Inc. The amount of damages was unspecified. The claims arose from the activities of an individual named Ahmad Daouk, who was employed by an introducing broker which introduced accounts to LBI between 1988 and 1992. Daouk allegedly perpetrated a fraud upon the claimants, who are mostly investors of Middle Eastern origin, and the complaint alleged that LBI breached various contractual and common law duties owed to the investors. In March 1998, the District Court dismissed without prejudice 18 of the 24 counts pleaded in the complaint. In July 1998, the plaintiffs served a First Amended Complaint containing 18 causes of action against LBI and/or Bear Stearns. Prior to the date for the trial, in December 2002 all parties agreed to a settlement of all claims.

Actions Regarding Enron Corporation

In April 2002, a Consolidated Complaint for Violation of the Securities Laws was filed in the United States District Court for the Southern District of Texas (the "Texas District Court") in *In re Enron Corporation Securities Litigation* (the "*Enron Litigation*"), alleging claims for violation of Sections 11 and 15 of the Securities Act of 1933 (the "Securities Act"), Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act'), and Rule 10b-5 thereunder, and the Texas Securities Act. The case is brought purportedly on behalf of purchasers of Enron Corporation's publicly traded equity and debt securities between October 19, 1998, and November 27, 2001, against Holdings and eight other commercial or investment banks, 38 current or former Enron officers and directors, Enron's accountants, Arthur Andersen LLP ("Andersen") (and affiliated entities and partners) and two law firms. The complaint seeks unspecified compensatory and injunctive relief based on the theory that defendants engaged or participated in manipulative devices to inflate Enron's reported profits and financial condition, made false or misleading statements and participated in a scheme or course of business to defraud Enron's shareholders. On December 20, 2002, the Court granted Holdings' motion to dismiss as to the Section 10(b)/Rule 10b-5 claim and dismissed that claim as to Holdings. The other claims against Holdings remain pending.

In May 2002, a complaint was filed in the District Court of Galveston County, Texas, 56th Judicial Circuit, against LBI and Holdings by American National Insurance Company and certain of its affiliates. The complaint is based on the allegations in the *Enron Litigation* and asserts that plaintiffs relied on defendants' allegedly false and misleading statements in purchasing and continuing to hold Enron debt and equities in their LBI accounts. The complaint alleges violations of the Texas State Securities Act, fraud, breach of fiduciary duty, negligence and professional malpractice, and seeks unspecified compensatory relief and punitive damages. LBI and Holdings removed this case to the Texas District Court, and plaintiffs have filed a motion to remand the case back to state court.

Also in May 2002, a Third Amended Petition was filed in the District Court of Tulsa County, Oklahoma, by Samson Investment Company alleging that Andersen is liable for plaintiffs' damages, allegedly incurred in connection with certain contracts entered into with Enron. Plaintiffs allege that Andersen conspired with Enron to misrepresent Enron's financial condition in its financial statements. In December 2002, Andersen filed a Third-Party Petition against LBI, Holdings and other commercial and investment banks. The Third Party Petition seeks contribution from LBI and Holdings in the event Andersen is held liable to plaintiffs and alleges that LBI, Holdings and other third-party defendants were involved in creating and using Enron's special purpose entities ("SPEs"), engaged in transactions with the SPEs, misrepresented or failed to disclose to Andersen information about the SPEs and issued analysts' reports that enhanced the public's perception of Enron's financial performance and condition.

In August 2002, a complaint was filed in the Court of Common Pleas, Civil Division, Franklin County, Ohio, against Holdings, along with four other commercial or investment banks, among other defendants, by the Public Employees Retirement System of Ohio and three other state employee retirement plans. The complaint alleges that defendants engaged or participated in manipulative devices to inflate Enron's reported profits and financial condition, made false or misleading statements and participated in a scheme or course of business to defraud Enron's shareholders, and that plaintiffs relied on defendants' false and misleading statements in purchasing and continuing to hold Enron debt and equities in the State's pension funds. Against Holdings, the complaint alleges claims for common law fraud and deceit, aiding and abetting common law fraud, conspiracy to commit fraud, negligent misrepresentation and violation of the Texas Securities Act, and seeks unspecified compensatory relief and punitive damages. This action was removed to federal court, transferred to the Texas District Court and consolidated with the *Enron Litigation*.

Also in August 2002, Capital Management, L.P., the former general partner of LJM2 Co-Investment, L.P. ("LJM2"), an Enron-related SPE, filed a third-party claim in Delaware Chancery Court alleging that Holdings' subsidiary LB I Group Inc., an investor in LJM2, together with the other LJM2 limited partners breached the Limited Partnership Agreement by rescinding a capital call. The case has been removed to federal court and a motion has been made to transfer it to the U.S. Bankruptcy Court in Dallas, Texas, where the LJM2 bankruptcy is proceeding. A motion to remand the case back to state court is also pending.

In September 2002, the Washington State Investment Board, which is a named plaintiff in the *Enron Litigation*, filed a new purported class action in the Texas District Court. This action mirrors the claims in the *Enron Litigation*, but alleges a class action period of September 9, 1997, to October 18, 1998. This action is an attempt to expand the class action period in the *Enron Litigation* based upon the lengthened statute of limitations in the Sarbanes-Oxley Act of 2002.

In October 2002, two actions were filed in Iowa state court (Linn and Polk Counties) against LBI and Holdings, along with several other commercial or investment banks, by AUSA Life Insurance Co., Principal Global Investors, LLC, and certain other purchasers of Enron securities. The complaints seek rescission and an unspecified amount of compensatory and punitive damages. The complaints allege that defendants participated in the alleged Enron fraudulent scheme by participating in Enron's debt offerings, making disguised loans to Enron and participating in transactions involving Enron's SPEs, which were used to avoid recognizing losses. Plaintiffs allege that through the performance of these services, defendants gained knowledge of Enron's inflated values but failed to disclose that information. The complaints allege violations of the Iowa Securities Act and claims for fraud and deceit and for civil conspiracy. The Polk County action was removed to federal court but has been remanded to state court. The Linn County action has been removed to federal court, and plaintiffs have moved to remand it back to state court, while defendants have requested that the action be transferred to the Bankruptcy Court for the Southern District of New York, where the Enron bankruptcy is proceeding.

Also in October 2002, a complaint was filed in Superior Court for Los Angeles County against LBI, Holdings, and other commercial or investment banks by two Oaktree Capital Management investment funds. The complaint alleges that Enron systematically falsified its financial statements using improper accounting valuations and false hedges that enabled Enron to boost its reported earnings. Plaintiffs allege that Enron's bankers, including LBI and Holdings, participated in the fraudulent scheme by obtaining loan proceeds that Enron falsely characterized as prepaid commodity trades, falsely concealing the true financial condition of Enron from rating agencies and institutional investors and creating and using note offerings by Enron's SPEs to generate new cash for Enron. The complaint alleges that defendants knew and acted on inside information about Enron's true financial condition in connection with its offerings of Enron securities, while misrepresenting or omitting material facts to the public. The complaint makes claims under California state law for trading on inside information, for making false and misleading statements and for unfair competition by material misstatements or omissions in connection with Enron securities offerings. The complaint seeks compensatory damages, an accounting, restitution and disgorgement of profits.

In December 2002, a Second Amended Petition was filed against Andersen in the District Court of Washington County, Texas, 21st Judicial District, by Jane Bullock and other purchasers of Enron securities making claims for fraud, negligent misrepresentation and civil conspiracy in connection with allegedly materially misleading public statements concerning Enron's financial condition. In January 2003, Andersen filed a Third-Party Petition against LBI, Holdings and other commercial or investment banks. The Third Party Petition seeks assessment of proportionate liability and contribution from LBI and Holdings and the other third-party defendants. The Third Party Petition alleges that the third-party defendants were involved in creating, structuring, using and managing Enron's SPEs, misrepresented or failed to disclose information regarding the SPEs, made public statements about Enron, financially assisted Enron, assisted Enron in raising money, invested in the SPEs and engaged in transactions involving Enron's assets.

First Alliance Mortgage Company Matters

During 1999 and the first quarter of 2000, Lehman Commercial Paper, Inc. ("LCPI") provided a warehouse line of credit to First Alliance Mortgage Company ("FAMCO"), and LBI underwrote the securitizations of mortgages originated by FAMCO. Prior to 1999, LCPI had provided a $25 million back-up warehouse line to FAMCO for an 18-month period, and LBI had co-managed four securitizations, one each quarter, both of which engagements ended at the conclusion of the third quarter of 1997. In March 2000, FAMCO filed for protection from its creditors under Chapter 11 of the United States Bankruptcy Code. In August 2001, a purported adversary class action (the "Class Action") was filed in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), allegedly on behalf of a class of FAMCO borrowers seeking equitable subordination of LPCI's (among other creditors') liens and claims in the Bankruptcy Court. In October 2001, the complaint was amended to add LBI as a defendant and to add claims for aiding and abetting alleged fraudulent lending activities by FAMCO and for unfair competition under the California Business and Professions Code. In August 2002, a Second Amended Complaint was filed, which added a claim for punitive damages and extended the class period from May 1, 1996, until FAMCO's bankruptcy filing. The pending complaint seeks actual and punitive damages, the imposition of a constructive trust on all proceeds paid or being paid by FAMCO to LCPI and LBI, disgorgement of profits, and attorneys' fees and costs.

In November 2001, the Official Joint Borrowers Committee (the "Committee") initiated an adversary proceeding, allegedly on behalf of the FAMCO-related debtors, in the Bankruptcy Court by filing a complaint against LCPI, LBI, Holdings and several individual officers and directors of FAMCO and its affiliates. As to the Lehman Brothers defendants, the Committee asserted bankruptcy claims for avoidance of lien, recovery of property, equitable subordination and disallowance of claim, and also asserted claims for declaratory relief and aiding and abetting breach of fiduciary duty. In December 2001, the Committee amended its complaint, dropping Holdings as a defendant and adding claims for equitable indemnification and contribution, which claims have subsequently been dismissed. In addition to relief under the Bankruptcy Code, the Committee seeks unspecified compensatory damages.

The United States Court for the Central District of California (the "California District Court") withdrew the reference to the Bankruptcy Court in both of these cases and in February 2002 consolidated them before the California District Court. In November 2002, the California District Court entered an order defining the class in the Class Action as "all persons who acquired mortgage loans from First Alliance from May 1, 1996 through March 31, 2000, which were used as collateral for First Alliance's warehouse credit line with Lehman Commercial Paper Inc. or were securitized in transactions underwritten by Lehman Brothers Inc."

In February 2003, the California District Court issued an Order granting Lehman's motion for summary judgment on the California Business and Professions Code claims and granting Lehman's motion for partial summary judgment on the claims prior to 1999 and dismissing those claims. Trial began on February 18, 2003.

Separately, LBI has had discussions with the Florida Attorney General's office about that office's investigation of LBI regarding LBI's role in connection with First Alliance.

Actions Regarding Frank Gruttadauria

LBI discovered in January 2002 that Frank Gruttadauria, the former branch manager of LBI's Cleveland office, which was acquired in October 2000 from SG Cowen Securities Corporation (''SG Cowen'') as part of the purchase by LBI of certain accounts and related assets belonging to SG Cowen's private client group, had apparently been involved in creating false account statements for clients of that office and may have caused unauthorized transfers of funds from client accounts. This conduct allegedly took place for a number of years and began well prior to the acquisition of this office by LBI. Under the terms of the purchase agreement, SG Cowen retained liability for activities arising out of the conduct or operation of the business while owned by SG Cowen.

To date, the following cases have been filed against Lehman Brothers and SG: eight cases in the United States District Court for the Northern District of Ohio, six cases in the United States District Court for the Northern District of Illinois, one case in the United States District Court for the Southern District of California, and one case in the United States District Court for the Eastern District of Wisconsin. One of the cases pending in the United States District Court for the Northern District of Illinois has been stayed pending arbitration before the NASD by agreement of the parties. Six arbitrations have been filed including four before the NYSE, the previously referenced matter before the NASD, and one additional matter before the NASD. Four of the foregoing matters, the case pending in United States District Court for the Southern District of California, two of the cases pending in the United States District Court for the Northern District of Illinois, and one of the cases filed before the NYSE, have been settled. Generally speaking, the remaining complaints, amended complaints and statements of claim allege violations of federal securities laws, violations of state and Blue Sky laws, civil conspiracy, and common law claims for fraud, promissory estoppel, negligent and reckless failure to supervise and breach of fiduciary duty. On the whole, plaintiffs seek compensatory and punitive damages, pre- and post-judgment interest, attorneys' fees and costs, an accounting, and in some instances, treble damages. Each case still pending in federal court is or will be subject to a motion to stay pending arbitration based on plaintiffs' contractual agreement to arbitrate their claims against defendants, and eight of the federal court matters are currently subject to appeals to the United States Court of Appeals as a result of the district courts' denial of motions to stay pending arbitration. One of the NYSE arbitrations is scheduled to go to a hearing in May of 2003, and one of the NASD arbitrations is scheduled to go to a hearing in July of 2003.

LBI received and responded to requests for information, documents and/or testimony related to the Gruttadauria matter from the NYSE, the SEC, the Division of Securities of the Department of Commerce of the State of Ohio ("Ohio Securities Division") and the U.S. House of Representatives Committee on Financial Services, Subcommittee on Oversight and Investigations. LBI is in discussions with the NYSE, the SEC and the Ohio Securities Division to resolve any regulatory concerns in this matter.

IPO Allocation Cases

LBI was named as a defendant in approximately 192 purported securities class actions that were filed between March and December 2001 in the New York District Court. The actions, which allege improper IPO allocation practices, have been brought by persons who, either directly or in the aftermarket, purchased IPO securities during the period between March 1997 and December 2000. The plaintiffs allege that Lehman and other IPO underwriters required persons receiving allocations of IPO shares to pay excessive commissions on unrelated trades and to purchase shares in the aftermarket at specified escalating prices. The plaintiffs, who seek unspecified compensatory damages, claim that these alleged practices violated various provisions of the federal securities laws, specifically, sections 11, 12(a)(2) and 15 of the Securities Act, section 10(b) of the Exchange Act, Rule 10b-5 thereunder, and section 20(a) of the Exchange Act. The 192 actions in which LBI was named a defendant have been consolidated into 83 cases, each involving a distinct offering. Those 83 consolidated cases, and approximately 240 others in which LBI is not named as a defendant, have been coordinated for pretrial purposes before a single judge.

In January 2002, a separate consolidated class action, entitled *In re Initial Public Offering Antitrust Litigation*, was filed against LBI, among other underwriters, alleging violations of federal and state antitrust laws. The complaint alleges that the underwriter defendants conspired to require customers who wanted IPO allocations to pay back to the underwriters a percentage of their IPO profits in the form of commissions on unrelated trades, to purchase other, less attractive securities and to buy shares in the aftermarket at predetermined escalating prices. Originally filed as twelve separate class actions in three different courts, the consolidated antitrust action is now pending before a single judge—different from the one hearing the securities cases—in the New York District Court. The antitrust plaintiffs seek unspecified treble damages.

In April 2002, a suit was filed in Delaware Chancery Court by Breakaway Solutions Inc. ("Breakaway"), which names LBI and two other underwriters as defendants. The complaint purports to be brought on behalf of a class of issuers who issued securities in initial public offerings ("IPOs") through at least one of the defendants during the period of January 1998 through October 2000 and whose securities increased in value 15% or more above the original price within 30 days after the IPO. It alleges that defendants underpriced IPO securities and allocated those underpriced securities to certain favored customers in return for alleged arrangements with the customers for increased commissions on other transactions and alleged tie-in arrangements. The complaint asserts claims for breaches of contract, of the implied covenant of good faith and fair dealing and of fiduciary duty, and for indemnification or contribution and unjust enrichment or restitution. Breakaway seeks, among other relief, certification of a class, a permanent injunction preventing defendants from engaging in the alleged practices, an accounting of all defendants' commissions, profits and compensation in connection with the IPOs, declarations requiring defendants to indemnify Breakaway in the pending consolidated IPO securities class actions and determining that Breakaway has no indemnification obligation to defendants in those actions, and compensatory damages.

IPO Fee Litigation

Harold Gillet, et al. v. Goldman Sachs & Co., et al.; Yakov Prager, et al. v. Goldman, Sachs & Co., et al.; David Holzman, et al. v. Goldman, Sachs & Co., et al. Beginning in November 1998, four purported class actions were filed in the New York District Court against in excess of 25 underwriters of initial public offering (''IPO'') securities, including LBI. Plaintiffs, alleged purchasers of securities issued in certain IPOs, seek compensatory and injunctive relief for alleged violations of the antitrust laws based on the theory that the defendants fixed and maintained fees for underwriting certain IPO securities at supra-competitive levels. By memorandum and order in February 2001 (the ''Order''), the New York District Court granted defendants' motion to dismiss the Consolidated Amended Complaint, concluding that the purchaser plaintiffs lacked standing under the antitrust laws to assert the claims. On appeal, the U.S. Court of Appeals for the Second Circuit reversed and remanded the case to the New York District Court for further proceedings, including potential dismissal of the claims based on additional arguments raised in the motion to dismiss.

In Re Issuer Plaintiff Initial Public Offering Fee Antitrust Litigation. By order dated April 10, 2001, the New York District Court consolidated four actions pending before the court brought by bankrupt issuers of IPO securities against more than 20 underwriter defendants (including LBI). In July 2001, the plaintiffs filed a consolidated class action complaint seeking unspecified compensatory damages and injunctive relief for alleged violations of the antitrust laws based on the theory that the defendant underwriters fixed and maintained fees for underwriting certain IPO securities at supra-competitive levels. CHS Electronics and MDCM Holdings, two of the four original plaintiffs, subsequently withdrew their claims.

Island Venture Corporation, et al. v. Lehman Brothers Inc. and Lehman Brothers Securities Asia, Ltd.

On February 9, 2001, Island Venture Corporation, Continental Resources Corporation, Recola Investment Corporation, Grand Concord Corporation and Goodwell Industrial Corporation filed a First Amended Complaint in the United States District Court for the District of New Jersey against LBI and Lehman Brothers Securities Asia, Ltd. In July 2001, plaintiffs filed a Second Amended Complaint. The complaint arises in connection with the plaintiffs' purchase of various promissory notes issued by Indonesian companies in 1997 and upon which the issuers have defaulted. It also asserts claims relating to an alleged unauthorized liquidation for $8.5 million of a $10 million Asia Investment Grade Default Note (''Basket Note'') issued by Lehman Brothers Holdings PLC. The complaint seeks rescission and damages under various common law theories of mutual mistake, breach of contract, breach of fiduciary duty, negligence, negligent misrepresentation and constructive fraud, as well as asserting claims under Section 10(b) of the Securities Exchange Act. The plaintiffs seek to recover damages of approximately $60 million on all the notes they purchased and the difference between the liquidation price and the face value of the Basket Note plus lost interest payments.

In re Metricom Securities Litigation

In August 2002, a First Amended Consolidated Class Action Complaint for Violation of the Securities Act of 1933 and the Exchange Act of 1934, Corrected Copy, was filed in the United States District Court for the Northern District of California captioned *In re Metricom Securities Litigation.* The action is brought on behalf of a purported class of investors who purchased the common stock of Metricom, Inc., during the period from June 21, 1999, to July 2, 2001. Plaintiffs name various officers, directors and selling shareholders of Metricom, along with LBI and the four other co-managing underwriters of an offering of Metricom common stock on February 3, 2000. Prior to the commencement of this action, Metricom filed for protection under the federal bankruptcy code. The February 2000 offering raised approximately $500 million. Against the underwriters, plaintiffs allege violations of Sections 11 and 12(2) of the Securities Act and of Section 10(b) of the Exchange Act. The complaint alleges that the prospectus and registration statement for the offering failed to disclose material facts concerning, among other things, Metricom's flawed business plan and marketing strategy. The complaint seeks class action status, damages and ''statutory compensation," and attorneys' fees and other costs.

WorldCom Bondholders Litigation

LBI and other underwriters of WorldCom, Inc., bonds issued in several offerings in each of 1997, 1998, 2000 and 2001 have been named as defendants in certain lawsuits alleging that the offering materials were false and misleading. LBI underwrote $915 million principal amount of bonds in the 1998 offerings and $375 million principal amount of bonds in the 2000 offerings. (LBI did not participate in the 1997 and 2001 offerings.) With respect to LBI, a purported class action was filed in July 2002 in the New York District Court. On October 11, 2002, the complaint was superceded by the filing of a consolidated putative class action complaint in the New York District Court, entitled *In re WorldCom, Inc. Securities Litigation.* This action alleges violations by the underwriters of the federal securities law, including Sections 11 and 12 of the Securities Act, in connection with May 2000 and May 2001 bond offerings, and is brought on behalf of purchasers and acquirers of bonds issued in or traceable to these offerings. In addition to the above purported class action, a number of individual actions have been filed in connection with some or all of these WorldCom bond offerings.

A lawsuit was filed in October 2002 in the Supreme Court of the State of New York, New York County, by municipal pension funds that allegedly purchased WorldCom common stock and $383 million principal amount of WorldCom notes, an unspecified amount of which are alleged to be traceable to the 2000 public offerings. The complaint alleges violations of Section 11 of the Securities Act, along with common law claims, against LBI and

Holdings. Plaintiffs seek, among other things, unspecified compensatory and punitive damages.

A suit was filed in November 2002 in the Washington Superior Court, Kings County, by a state pension fund that allegedly purchased approximately $162 million principal amount of WorldCom notes issued in the 1998, 2000 and 2001 public offerings. The complaint alleges violations of Section 11 of the Securities Act by LBI and Holdings. Plaintiff seeks unspecified compensatory damages, among other things.

Three other lawsuits were filed in November 2002 and January 2003 in the Superior Court of California, Los Angeles County, by county, municipal and private pension and retirement funds that allegedly purchased, respectively, approximately $157 million, $102 million and $135 million principal amount of WorldCom notes issued in the 1998, 2000 and 2001 public offerings and a December 2000 private offering. The complaints allege violations of Section 11 of the Securities Act by LBI and Holdings. Plaintiffs seek rescission or unspecified compensatory damages, among other things.

Two suits were filed in December 2002 in the Wisconsin Circuit Court, Dane County, and in the State of Minnesota District Court, Second Judicial District, by state and municipal pension funds, which allegedly purchased a total of approximately $133 million and $161 million, respectively, of WorldCom notes issued in the 1998, 2000 and 2001 public offerings. The complaint alleges violations of Section 11 of the Securities Act by LBI and Holdings. Plaintiffs seek rescission or unspecified compensatory damages, among other things.

A lawsuit was filed in January 2003 in the Chancery Court of Davidson County in Tennessee on behalf of the Tennessee Consolidated Retirement System, which allegedly purchased $60 million principal amount of WorldCom notes issued in the 1998 and 2000 offerings (as well as $102 million in the 2001 offerings in which Lehman did not participate). The complaint alleges violations of Section 11 of the Securities Act against LBI and Holdings and seeks unspecified compensatory damages, among other things.

In addition, actions have been filed in federal court in Mississippi by a bank and trust company and in state courts in Ohio and Montana by a state or union pension funds; each, insofar as LBI is concerned, allege violations of disclosure requirements and assert damages of less than $15 million.

Each of these individual actions, with the exception of the actions filed in January 2003, has been removed to federal court and each has been, or is expected to be, transferred by the Judicial Panel on Multidistrict Litigation to the New York District Court for consolidated pre-trial proceedings with the class action pending in the New York District Court. A motion to remand these actions to state court is pending.

Most of these actions also name as defendants certain of WorldCom's present or former officers and/or directors and/or WorldCom's outside accounting firm. On July 21, 2002, WorldCom, Inc. filed for protection under the U.S. bankruptcy laws.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The approximate number of holders of record of the Registrant's Common Stock was 22,700 at February 14, 2003. Information concerning the market for the Registrant's common equity, dividends and related stockholder matters is set forth under the captions "Selected Financial Data" and "Other Stockholder Information" in the 2002 Annual Report, and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information under the captions "Selected Financial Data" and "Management's Discussion and Analysis—Certain Factors Affecting Results of Operations" contained in the 2002 Annual Report and the information under "Item 1—Business—Forward-Looking Statements" in this Report is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is set forth under the caption "Management's Discussion and Analysis" in the 2002 Annual Report. Such information is incorporated herein by reference and should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained in the 2002 Annual Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the caption "Management's Discussion and Analysis—Risk Management" in the 2002 Annual Report is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Registrant and its Subsidiaries together with the Notes thereto and the Report of Independent Auditors thereon required by this Item are contained in the 2002 Annual Report and are incorporated herein by reference. Condensed unconsolidated financial information of Holdings and notes thereto are set forth in Schedule I beginning on Page F-2 of this Report and are incorporated herein by reference.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to Directors of the Registrant is set forth under the captions "Nominees for Election as Class III Directors to Serve until the 2006 Annual Meeting of Stockholders," "Class I Directors Whose Terms Continue until the 2005 Annual Meeting of Stockholders" and "Class II Directors Whose Terms Continue until the 2004 Annual Meeting of Stockholders" 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.

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 of Executive Officers," "Pension Benefits" and "Employment Contracts, Termination of Employment and Change in Control Arrangements" in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 relating to securities of the Registrant authorized for issuance under equity compensation plans is set forth under the caption "Equity Compensation Plan Information" in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to certain relationships and related transactions is set forth under the captions "Certain Transactions and Agreements with Directors and Executive Officers" and "Certain Transactions and Agreements with American Express and Subsidiaries" in the Proxy Statement and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

The Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of a date within 90 days prior to the date of the filing of this Report, that the Company's 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 the Company's management, including the Chairman and Chief Executive Officer and the Chief Financial Officer of Holdings, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

The Financial Statements and the Notes thereto and the Report of Independent Auditors thereon incorporated by reference herein and filed as an exhibit hereto are listed on page F-1 hereof by reference to the corresponding page numbers in the 2002 Annual Report.

2. Financial Statement Schedules:

The financial statement schedule and the notes thereto filed as a part hereof are listed on page F-1 hereof.

3. Exhibits:

Exhibit No.	
3.01	Restated Certificate of Incorporation of the Registrant dated May 27, 1994 *(incorporated by reference to Exhibit 3.1 to the Registrant's Transition Report on Form 10-K for the eleven months ended November 30, 1994)*
3.02	Certificate of Designations with respect to the Registrant's 5.94% Cumulative Preferred Stock, Series C *(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 13, 1998)*
3.03	Certificate of Designations with respect to the Registrant's 5.67% Cumulative Preferred Stock, Series D *(incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on July 23, 1998)*
3.04	Certificate of Designations with respect to the Registrant's Fixed/Adjustable Rate Cumulative Preferred Stock, Series E *(incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on March 30, 2000)*
3.05	Certificate of Amendment of the Restated Certificate of Incorporation of the Registrant, dated April 9, 2001 *(incorporated by reference to Exhibit 3.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 28, 2001)*
3.06*	By-Laws of the Registrant, amended as of October 22, 2002
4.01	Standard multiple series indenture provisions with respect to the senior and subordinated debt securities *(incorporated by reference to Exhibit 4(a) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-16141))*
4.02	Indenture with respect to senior debt securities *(incorporated by reference to Exhibit 4(b) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-16141))*
4.03	First Supplemental Indenture with respect to senior debt securities *(incorporated by reference to Exhibit 4(m) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-25797))*
4.04	Second Supplemental Indenture with respect to senior debt securities *(incorporated by reference to Exhibit 4(e) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-49062))*
4.05	Third Supplemental Indenture with respect to senior debt securities *(incorporated by reference to Exhibit 4(f) to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-46146))*
4.06	Fourth Supplemental Indenture with respect to senior debt securities *(incorporated by reference to Exhibit 4(f) to Registrant's Registration Statement on Form 8-A filed with the SEC on October 7, 1993)*
4.07	Fifth Supplemental Indenture with respect to the senior debt securities *(incorporated by reference to Exhibit 4(h) to Post-Effective Amendment No. 1 to the Registrant's Registration Statement on Form S-3 (Reg. No. 33-56615))*

4.08	Sixth Supplemental Indenture with respect to the senior debt securities *(incorporated by reference to Exhibit 4(h) to the Registrant's Registration Statement on Form S-3 (No. 333-38227))*
4.09	The other instruments defining the rights of holders of the long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to section (b)(4)(iii)(A) of Item 601 of Regulation S-K. The Registrant hereby agrees to furnish copies of these instruments to the Securities and Exchange Commission upon request.
10.01	Tax Allocation Agreement between Shearson Lehman Brothers Holdings Inc. and American Express Company *(incorporated by reference to Exhibit 10.2 to the Registrant's Transition Report on Form 10-K for the eleven months ended November 30, 1994)*
10.02 †	Lehman Brothers Inc. Executive and Select Employees Plan *(incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (Reg. No. 33-12976))*
10.03 †	Lehman Brothers Holdings Inc. Deferred Compensation Plan for Non-Employee Directors *(incorporated by reference to Exhibit 10.11 to the Registrant's Registration Statement on Form S-1 (Reg. No. 33-12976))*
10.04	Amended and Restated Agreements of Limited Partnership of Shearson Lehman Hutton Capital Partners II *(incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1988)*
10.05*†	Lehman Brothers Holdings Inc. 1994 Management Ownership Plan, as amended through November 19, 2002 (including amendments to Section 5.1)
10.06*†	Lehman Brothers Holdings Inc. 1996 Management Ownership Plan, as amended through November 19, 2002 (including amendments to Sections 6(c) and 15)
10.07*†	Lehman Brothers Holdings Inc. Short-Term Executive Compensation Plan, as amended through February 19, 2003 (including amendments to Sections 1, 3, 4(c) and 6(h))
10.08*†	Amended and Restated Lehman Brothers Holdings Inc. Employee Incentive Plan, as amended through February 19, 2003 (including amendments to Sections 4, 6(b), 6(c) and 17 and to Exhibit A)
10.09*†	Lehman Brothers Holdings Inc. Cash Award Plan, as amended (including amendments to Sections 1.1, 1.2 and 2.2)
10.10	Amended and Restated Agreement of Limited Partnership of Lehman Brothers Capital Partners III, L.P. *(incorporated by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 1995)*
10.11	Agreement of Limited Partnership of Lehman Brothers Capital Partners IV, L.P. *(incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 1997)*
10.12	A description of the Lehman Brothers Supplemental Retirement Plan is contained under the caption "Pension Benefits" in the Proxy Statement and is incorporated herein by reference.
10.13	Purchase and Sale Agreement dated as of October 19, 2001, between MSDW 745, LLC, as seller, and LB 745 LLC, as purchaser *(incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001)*
10.14	Amendment to Purchase and Sale Agreement dated as of the October 19, 2001, between MSDW 745, LLC, as seller, and LB 745 LLC, as purchaser *(incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001)*
10.15	JV Option Agreement dated November 19, 1998, between Rock-Forty-Ninth LLC and LB 745 LLC (as assignee of MSDW 745, LLC) *(incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the fiscal year ended November 30, 2001)*
12.01*	Computations in support of ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends
13.01*	The following portions of the Company's 2002 Annual Report to Stockholders, which are incorporated by reference herein: "Management's Discussion and Analysis," "Report of Independent Auditors," "Consolidated Financial Statements," "Notes to Consolidated Financial Statements" and "Selected Financial Data" on pages 33 - 98; and "Other Stockholder Information" on page 100.
21.01*	List of the Registrant's Subsidiaries
23.01*	Consent of Ernst & Young LLP
24.01*	Powers of Attorney
99.01*	Statement of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.02* Statement of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith

† Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c)

(b) The following Current Reports on Form 8-K were filed during the Registrant's 2002 fourth fiscal quarter ended November 30, 2002:

1. Form 8-K dated September 24, 2002, Items 5 and 7

   Financial Statements:

   Exhibit 99.2 Consolidated Statement of Income (Three Months Ended August 31, 2002) (Preliminary and Unaudited)

   Exhibit 99.3 Consolidated Statement of Income (Nine Months Ended August 31, 2002) (Preliminary and Unaudited)

   Exhibit 99.4 Segment Net Revenue Information (Three and Nine Months Ended August 31, 2002) (Preliminary and Unaudited)

   Exhibit 99.5 Selected Statistical Information (Preliminary and Unaudited)

2. Form 8-K dated September 27, 2002, Item 7.

3. Form 8-K dated October 2, 2002, Item 7.

4. Form 8-K dated October 18, 2002, Item 7.

5. Form 8-K dated November 13, 2002, Item 7.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

LEHMAN BROTHERS HOLDINGS INC.
(REGISTRANT)

February 28, 2003

By: /s/ DAVID GOLDFARB
David Goldfarb
Chief Financial Officer and
Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD S. FULD, JR. Richard S. Fuld, Jr.	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	February 28, 2003
/s/ DAVID GOLDFARB David Goldfarb	Chief Financial Officer and Executive Vice President (principal financial and accounting officer)	February 28, 2003
/s/ MICHAEL L. AINSLIE Michael L. Ainslie	Director	February 28, 2003
/s/ JOHN F. AKERS John F. Akers	Director	February 28, 2003
/s/ ROGER S. BERLIND Roger S. Berlind	Director	February 28, 2003
/s/ THOMAS H. CRUIKSHANK Thomas H. Cruikshank	Director	February 28, 2003
/s/ HENRY KAUFMAN Henry Kaufman	Director	February 28, 2003
/s/ JOHN D. MACOMBER John D. Macomber	Director	February 28, 2003
/s/ DINA MERRILL Dina Merrill	Director	February 28, 2003

CERTIFICATIONS

I, Richard S. Fuld, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Lehman Brothers Holdings Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/S/ RICHARD S. FULD, JR.
Richard S. Fuld, Jr.
Chairman and Chief Executive Officer

I, David Goldfarb, certify that:

1. I have reviewed this annual report on Form 10-K of Lehman Brothers Holdings Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 28, 2003

/S/ DAVID GOLDFARB
David Goldfarb
Chief Financial Officer and Executive Vice President

LEHMAN BROTHERS HOLDINGS INC. and SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Schedule I

LEHMAN BROTHERS HOLDINGS INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Statement of Operations

(Parent Company Only)

(In millions)

	Twelve Months Ended November 30,		
	2002	2001	2000
Revenues			
Interest and dividends	$2,137	$4,162	$2,667
Principal transactions and other	(34)	404	247
Total revenues	2,103	4,566	2,914
Interest expense	2,476	4,364	2,813
Net revenues	(373)	202	101
Equity in net income of subsidiaries	1,229	1,218	1,894
Non-interest expenses	188	29	455
September 11th related (recoveries)/expenses, net	(108)	76	-
Other real estate reconfiguration charge	2	-	-
Income before taxes	774	1,315	1,540
Provision/(benefit) for income taxes	(201)	60	(235)
Net income	$ 975	$1,255	$1,775
Net income applicable to common stock	$ 906	$1,161	$1,679

See notes to condensed financial information of Registrant.

Schedule I

LEHMAN BROTHERS HOLDINGS INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Balance Sheet

(Parent Company Only)

(In millions, except for per share data)

	November 30,	
	2002	2001
ASSETS		
Cash and cash equivalents	$ 1,980	$ 566
Securities and other financial instruments owned (includes $4,218 in 2002 and $7,057 in 2001 pledged as collateral)	8,865	11,296
Securities purchased under agreements to resell	9,326	5,899
Equity in net assets of subsidiaries	8,029	7,737
Receivables and accrued interest	1,024	494
Due from subsidiaries	30,566	36,908
Other assets	2,934	1,802
Total assets	$62,724	$64,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Commercial paper and short-term debt	$ 1,567	$ 1,858
Securities and other financial instruments sold but not yet purchased	416	984
Securities sold under agreements to repurchase	11,111	9,611
Other secured financing	1,163	1,200
Accrued liabilities, due to subsidiaries and other payables	8,841	11,676
Senior notes	29,952	29,982
Subordinated indebtedness	732	932
Total liabilities	53,782	56,243
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock	700	700
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2002 and 2001;		
Shares issued: 258,791,416 in 2002 and 256,178,907 in 2001;		
Shares outstanding: 231,131,043 in 2002 and 237,534,091 in 2001	25	25
Additional paid-in capital	3,628	3,562
Accumulated other comprehensive income (net of tax)	(13)	(10)
Retained earnings	5,608	4,798
Other stockholders' equity, net	949	746
Common stock in treasury, at cost: 27,660,373 shares in 2002 and 18,644,816 shares in 2001	(1,955)	(1,362)
Total stockholders' equity	8,942	8,459
Total liabilities and stockholders' equity	$62,724	$64,702

See notes to condensed financial information of Registrant.

Schedule I

LEHMAN BROTHERS HOLDINGS INC.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

Statement of Cash Flows

(Parent Company Only)

(In millions)

	Twelve Months Ended November 30,		
	2002	**2001**	**2000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 975	$1,255	$1,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in net income of subsidiaries	(1,229)	(1,628)	(1,894)
Tax benefit from issuance of stock based awards	347	549	373
Amortization of deferred stock compensation	570	544	520
September 11th related (recoveries)/expenses	(108)	127	-
Other adjustments	167	103	(104)
Net change in:			
Securities and other financial instruments owned	3,413	(2,998)	278
Accounts receivable and accrued interest, due from subsidiaries and other assets	4,925	(12,627)	2,734
Securities and other financial instruments sold but not yet purchased	(568)	740	24
Accrued liabilities, due to subsidiaries and other payables	(2,760)	2,677	664
Net cash provided by (used in) operating activities	5,732	(11,258)	4,370
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior notes	5,592	6,794	10,020
Principal payments of senior notes	(6,666)	(5,163)	(6,629)
Principal repayments of subordinated indebtedness	(200)	-	-
Payments for commercial paper and short-term debt, net	(291)	(2,310)	81
Resale agreements net of repurchase agreements	(1,926)	12,959	(8,456)
Payments for repurchase of preferred stock	-	(100)	(88)
Payments for treasury stock purchases, net	(1,303)	(1,676)	(1,203)
Dividends paid	(165)	(163)	(149)
Issuances of common stock under employee award programs	61	54	99
Issuances of preferred stock	-	-	250
Net cash provided by (used in) financing activities	(4,898)	10,395	(6,075)
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividends received	1,085	1,252	634
Purchases of property, equipment and leasehold improvements, net	(424)	(103)	-
Return of capital from subsidiaries	302	-	244
Capital contributions to subsidiaries	(383)	(170)	(204)
Net cash provided by (used in) investing activities	580	979	674
Net change in cash and cash equivalents	1,414	116	(1,031)
Cash and cash equivalents, beginning of period	566	450	1,481
Cash and cash equivalents, end of period	$1,980	$ 566	$ 450

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions)

Interest paid totaled $2,444 in 2002, $3,138 in 2001 and $2,151 in 2000. Income taxes received totaled $233 in 2002, $481 in 2001 and $418 in 2000.

NON-CASH INVESTING AND FINANCING ACTIVITIES IN 2000 (in millions)

Assets assumed from affiliate	$8,185
Liabilities assumed from affiliate	$8,836

See notes to condensed financial information of Registrant.

LEHMAN BROTHERS HOLDINGS INC.
NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(Parent Company Only)

Note 1. Basis of Presentation

The condensed financial statements of Lehman Brothers Holdings Inc. ("Holdings") should be read in conjunction with the consolidated financial statements of Lehman Brothers Holdings Inc. and subsidiaries (collectively, the "Company") and the notes thereto.

Certain prior period amounts reflect reclassifications to conform to the current period's presentation.

Note 2. September 11 Related (Recoveries)/Expenses, Net

As a result of the September 11, 2001 terrorist attack, Holdings' leased facilities in the World Trade Center ("WTC") were destroyed and its leased and owned facilities in the World Financial Center ("WFC") complex (including the 3 World Financial Center building owned jointly with American Express) were significantly damaged. All employees and operations in the downtown New York area were displaced. Key business activities and necessary support functions were quickly relocated to back-up facilities in New Jersey and to various other temporary sites.

Holdings had insurance in place to cover the losses resulting from the terrorist attack, including a policy covering damage to the core and shell of the 3 WFC building and a separate policy covering the property damage at the WTC and WFC facilities, losses resulting from business interruption and extra expenses associated with the Company's relocation to, and occupancy of, the temporary facilities.

During the fourth quarter of 2002, Holdings settled its insurance claim for $700 million, the policy limit, with its insurance carriers. This resulted in the recording of a net pre-tax recovery of $108 million ($60 million after-tax) in the fourth quarter of 2002. The net gain of $108 million in fiscal 2002 included insurance recoveries of approximately $166 million, costs associated with exiting certain of Holdings' New York area facilities of $37 million, and $21 million of other costs resulting from the events of September 11th (primarily technology restoration and other costs associated with unusable facilities). Insurance recoveries recorded in 2002 represent Holdings' settlement of $700 million offset by Holdings' insurance recoveries previously recognized during 2001 ($120 million), and insurance recoveries allocated to affiliates of Holdings of approximately $240 million during 2001 and $174 million during 2002.

During the fourth quarter of 2001, Holdings purchased a new building in midtown Manhattan located at 745 7th Avenue and entered into long-term leases in Jersey City, New Jersey and midtown Manhattan, as uncertainties continued to persist associated with the Company's ability to utilize its previous downtown headquarters at 3 World Financial Center. During the fourth quarter of 2002, after further consideration of maintaining real estate in both downtown and midtown New York City locations, Holdings decided to completely exit its downtown area facilities and dispose of certain other excess New York City area space acquired as a result of the events of September 11th, resulting in a charge of approximately $37 million.

During 2001, Holdings' recognized a pre-tax charge of $76 million ($42 million after-tax) associated with the net losses stemming from the events of September 11, 2001. The losses and costs include the write-off of property damaged, destroyed or abandoned at the Company's downtown facilities (approximately $127 million), compensation paid to employees in lieu of utilizing external consultants for business recovery efforts and to employees for the time they were idled (approximately $39 million), and other costs associated with redeployment of the Company's workforce to the temporary facilities (approximately $30 million). The losses and costs were offset by estimated insurance recoveries of $120 million in 2001. The insurance recovery recorded through November 30, 2001 was limited to the net historical book value of assets believed damaged, destroyed or abandoned and the out-of-pocket costs for certain extra expenses incurred during the period.

Note 3. Long-Term Debt

	U.S. Dollar		Non-U.S. Dollar		November 30,	
(in millions)	**Fixed Rate**	**Floating Rate**	**Fixed Rate**	**Floating Rate**	**2002**	**2001**
Senior Notes						
Maturing in Fiscal 2002	$ -	$ -	$ -	$ -	$ -	$ 5,791
Maturing in Fiscal 2003	2,213	2,863	603	510	6,189	5,643
Maturing in Fiscal 2004	1,579	2,979	1,160	797	6,515	4,365
Maturing in Fiscal 2005	2,137	588	176	941	3,842	3,556
Maturing in Fiscal 2006	3,056	44	545	437	4,082	3,817
Maturing in Fiscal 2007	1,567	177	660	403	2,807	2,126
December 1, 2007 and thereafter	5,928	98	52	439	6,517	4,684
Senior Notes	16,480	6,749	3,196	3,527	29,952	29,982
Subordinated Indebtedness						
December 1, 2007 and thereafter	732	-	-	-	732	932
Long-Term Debt	**$17,212**	**$6,749**	**$3,196**	**$3,527**	**$30,684**	**$30,914**

Of Holdings' long-term debt outstanding as of November 30, 2002, $636 million is repayable prior to maturity at the option of the holder, at par value. These obligations are reflected in the above table at their put dates, which range from fiscal 2003 to fiscal 2004, rather than at their contractual maturities, which range from fiscal 2004 to fiscal 2022. In addition, $1,384 million of Holdings long-term debt is redeemable prior to maturity at the option of the Company under various terms and conditions. These obligations are reflected in the above table at their contractual maturity dates.

As of November 30, 2002, Holdings' U.S. dollar debt portfolio included approximately $682 million of debt for which the interest rates and/or redemption values have been linked to various indices including industry baskets of stocks or commodities. Generally, such rates 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 interest rate and currency swaps.

At November 30, 2002 and 2001, Subordinated Indebtedness includes $710 million, which has been classified as "Preferred Securities subject to Mandatory Redemption" on the Company's Consolidated Statement of Financial Condition.

End User Derivative Activities

Holdings utilizes interest rate swaps as an end user to modify the interest rate characteristics of its long-term debt portfolio and certain secured financing activities. Effective 2001, Holdings adopted SFAS No. 133, and as such all end user derivatives are recorded at fair value on the balance sheet (see Note 1 of the Company's consolidated financial statements for more information). Holdings adjusted the carrying value of a substantial portion of the fixed rate debt to a modified mark-to-market value in accordance with SFAS No. 133, as the debt was designated as the hedged item in a fair value hedge.

At November 30, 2002 and November 30, 2001, the notional values of Holdings' interest rate and currency swaps related to its long-term debt obligations were approximately $37.7 billion and $25.9 billion, respectively. In terms of notional amounts outstanding, these derivative products mature as follows:

(in millions)	Fair Value Hedge U.S. Dollar	Fair Value Hedge Non-U.S. Dollar	Cross-Currency	Other[2] U.S. Dollar	Other[2] Non-U.S. Dollar	November 30 2002	November 30 2001
Maturing in Fiscal 2002	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,313
Maturing in Fiscal 2003	2,163	602	123	3,577	733	7,198	3,895
Maturing in Fiscal 2004	1,497	752	549	3,896	932	7,626	4,113
Maturing in Fiscal 2005	1,950	151	812	2,450	253	5,616	3,007
Maturing in Fiscal 2006	2,834	525	561	1,713	538	6,171	4,100
Maturing in Fiscal 2007	1,369	740	524	899	838	4,370	2,476
December 1, 2007 and thereafter	5,018	36	345	922	421	6,742	5,043
Total	$14,831	$2,806	$2,914	$13,457	$3,715	$37,723	$25,947
Weighted-average rate(1)							
Receive rate	7.11%	4.65%	3.88%	1.97%	3.15%	4.46%	5.93%
Pay rate	2.43%	3.62%	2.46%	1.69%	3.46%	2.36%	3.03%

(1) Weighted-average interest rates were calculated utilizing non-U.S. dollar interest rates, where applicable.

(2) Other derivatives include basis swaps and hedges of embedded derivatives.

Holdings' end user derivative activities resulted in the following changes to the mix of fixed and floating rate debt and effective weighted-average rates of interest:

November 30, 2002	Long-Term Debt Before End User Activities	Long-Term Debt After End User Activities	Weighted-Average[1] Contractual Interest Rate	Weighted-Average[1] Effective Rate After End User Activities
USD Obligations				
Fixed Rate	$17,212	$ 1,213		
Floating Rate	6,749	25,732		
Total USD	23,961	26,945	5.41%	2.36%
Non-USD Obligations	6,723	3,739		
Total	$30,684	$30,684	5.03%	2.45%

November 30, 2001	Long-Term Debt Before End User Activities	Long-Term Debt After End User Activities	Weighted-Average[1] Contractual Interest Rate	Weighted-Average[1] Effective Rate After End User Activities
USD Obligations				
Fixed Rate	$17,738	$ 1,158		
Floating Rate	6,987	26,950		
Total USD	24,725	28,108	5.71%	2.94%
Non-USD Obligations	6,189	2,806		
Total	$30,914	$30,914	5.39%	2.96%

(1) Weighted-average interest rates were calculated utilizing non-US dollar interest rates, where applicable.

Note 4. Securities Pledged as Collateral

Holdings enters into secured borrowing and lending transactions to finance trading inventory positions, obtain securities for settlement, and meet customers' needs. Holdings primarily receives collateral in connection with resale agreements. Holdings is generally permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements or deliver to counterparties to cover short positions. Holdings carries secured financing agreements for financial reporting purposes on a net basis when permitted under the provisions of Financial Accounting Standards Board No. 41 ("FIN 41"). At November 30, 2002 and 2001, the fair value of securities received as collateral and securities owned that have not been sold, repledged or otherwise encumbered totaled approximately $4.5 billion and $2.1 billion, respectively. At November 30, 2002 and 2002, the gross fair value of securities received as collateral where Holdings was permitted to sell or repledge the securities was approximately $11.0 billion and $6.1 billion, respectively. Of this collateral, approximately $8.5 billion and $4.0 billion at November 30, 2002 and 2001, respectively, has been sold or repledged, generally as collateral under repurchase agreements or to cover securities and other financial instruments sold but not yet purchased.

Holdings also pledges its own assets, principally to collateralize certain financing arrangements. These pledged securities, where the counterparty has the right, by contract or custom, to rehypothecate the financial instruments are disclosed as Securities and other financial instruments owned (pledged as collateral), on Holdings' Balance Sheet as required by Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of SFAS No. 125."

In addition, the carrying value of securities and other financial instruments owned that have been pledged to counterparties where those counterparties do not have the right to sell or repledge were approximately $1.0 billion and $1.7 billion at November 30, 2002 and 2001, respectively.

Note 5. Financial Instruments

Securities and other financial instruments owned and Securities and other financial instruments sold are recorded at fair value and were comprised of the following:

(in millions)	November 30, 2002	November 30, 2001
Mortgages and mortgaged-backed	$5,718	$ 8,355
Derivatives and other contractual agreements	1,691	1,722
Corporate debt and other	1,456	1,219
Total	$8,865	$11,296

Note 6. Commitments and Contingencies

Holdings has guaranteed certain of its subsidiaries unsecured lines of credit and other contractual obligations.

Note 7. Related Party Transactions

In the normal course of business, Holdings engages in various securities trading and financing activities with many of its subsidiaries (the "Related Parties"). Various charges, such as compensation and benefits, occupancy, administration and computer processing are allocated between the Related Parties, based upon specific identification and other allocation methods.

In addition, Holdings and subsidiaries of Holdings raise money through short- and long-term funding in capital markets, which is used to fund the operations of certain of the Company's wholly owned subsidiaries. Advances from Holdings to affiliates were approximately $30.6 billion and $36.9 billion at November 30, 2002 and 2001, respectively. In addition, Holdings had advances from subsidiaries aggregating $7.5 billion and $10.7 billion at November 30, 2002 and 2001, respectively.

At November 30, 2002, Holdings had $6.6 billion of securities purchased under agreements to resell and $10.0 billion of securities sold under agreements to repurchase with Related Parties.

Holdings believes that amounts arising through related party transactions, including those allocated expenses referred to above, are reasonable and approximate the amounts that would have been recorded if Holdings operated as an unaffiliated entity.

Dividends and capital distributions declared to Holdings by its subsidiaries and affiliates were $1,085 million in 2002, $1,252 million in 2001 and $878 million in 2000.

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. At November 30, 2002, approximately $5.4 billion of net assets of subsidiaries were restricted as to the payment of dividends to Holdings.

EXHIBIT 12.01

LEHMAN BROTHERS HOLDINGS INC. and SUBSIDIARIES
COMPUTATION of RATIOS of EARNINGS to FIXED CHARGES and
to COMBINED FIXED CHARGES and PREFERRED STOCK DIVIDENDS
(Dollars in millions)
(Unaudited)

	For the Twelve Months Ended November 30				
	1998	**1999**	**2000**	**2001**	**2002**
Pre-tax earnings from continuing operations	$ 1,052	$ 1,631	$ 2,579	$ 1,748	$ 1,399
Add: Fixed charges (excluding capitalized interest)	15,813	13,681	18,778	15,724	10,709
Pre-tax earnings before fixed charges	16,865	15,312	21,357	17,472	12,108
Fixed charges:					
Interest	15,781	13,649	18,740	15,656	10,626
Other(a)	47	71	57	78	103
Total fixed charges	15,828	13,720	18,797	15,734	10,729
Preferred stock and trust preferred dividend requirements	124	174	195	192	155
Total combined fixed charges and preferred stock dividends	$15,952	$13,894	$18,992	$15,926	$10,884
RATIO OF EARNINGS TO FIXED CHARGES	1.07	1.12	1.14	1.11	1.13
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	1.06	1.10	1.12	1.10	1.11

(a) Other fixed charges consist of the interest factor in rentals and capitalized interest.

EXHIBIT 99.01

**STATEMENT OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Richard S. Fuld, Jr., certify that:

1. The Annual Report on Form 10-K for the fiscal year ended November 30, 2002 (the "Report") of Lehman Brothers Holdings Inc. (the "Company"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2003

/S/ RICHARD S. FULD, JR.
Richard S. Fuld, Jr.
Chairman and Chief Executive Officer

EXHIBIT 99.02

STATEMENT OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, David Goldfarb, certify that:

1. The Annual Report on Form 10-K for the fiscal year ended November 30, 2002 (the "Report") of Lehman Brothers Holdings Inc. (the "Company"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2003

/S/ DAVID GOLDFARB

David Goldfarb
Chief Financial Officer and
Executive Vice President

Report of Independent Auditors

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

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2002 and 2001, 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, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New York, New York
January 10, 2003

Consolidated Statement of Income

In millions, except per share data *Twelve months ended November 30*	*2002*	*2001*	*2000*
Revenues			
Principal transactions	$ 1,951	$ 2,779	$ 3,713
Investment banking	1,771	2,000	2,216
Commissions	1,286	1,091	944
Interest and dividends	11,728	16,470	19,440
Other	45	52	134
Total revenues	16,781	22,392	26,447
Interest expense	10,626	15,656	18,740
Net revenues	6,155	6,736	7,707
Non-Interest Expenses			
Compensation and benefits	3,139	3,437	3,931
Technology and communications	552	501	341
Brokerage and clearance	329	308	264
Occupancy	287	198	135
Business development	146	183	182
Professional fees	129	152	184
Other	74	82	91
September 11th related (recoveries)/expenses, net	(108)	127	–
Other real estate reconfiguration charge	128	–	–
Regulatory settlement	80	–	–
Total non-interest expenses	4,756	4,988	5,128
Income before taxes and dividends on trust preferred securities	1,399	1,748	2,579
Provision for income taxes	368	437	748
Dividends on trust preferred securities	56	56	56
Net income	$ 975	$ 1,255	$ 1,775
Net income applicable to common stock	$ 906	$ 1,161	$ 1,679
Earnings per common share			
Basic	$ 3.69	$ 4.77	$ 6.89
Diluted	$ 3.47	$ 4.38	$ 6.38

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition

In millions *November 30*	2002	2001
Assets		
Cash and cash equivalents	$ 3,699	$ 2,561
Cash and securities segregated and on deposit for regulatory and other purposes	2,803	3,289
Securities and other financial instruments owned: (includes $22,211 in 2002 and $28,517 in 2001 pledged as collateral)	119,278	119,362
Collateralized short-term agreements:		
Securities purchased under agreements to resell	94,341	83,278
Securities borrowed	20,497	17,994
Receivables:		
Brokers, dealers and clearing organizations	3,775	3,455
Customers	8,279	12,123
Others	1,910	1,479
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of $590 in 2002 and $424 in 2001)	2,075	1,495
Other assets	3,466	2,613
Excess of cost over fair value of net assets acquired (net of accumulated amortization of $155 in 2002 and $151 in 2001)	213	167
Total assets	$ 260,336	$ 247,816

See Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Condition *continued*

In millions, except per share data *November 30*	*2002*	*2001*
Liabilities and Stockholders' Equity		
Commercial paper and short-term debt	$ 2,369	$ 3,992
Securities and other financial instruments sold but not yet purchased	69,034	51,330
Collateralized short-term financing:		
Securities sold under agreements to repurchase	94,725	102,104
Securities loaned	8,137	12,541
Other secured borrowings	11,844	7,784
Payables:		
Brokers, dealers and clearing organizations	1,787	2,805
Customers	17,477	13,831
Accrued liabilities and other payables	6,633	5,959
Long-term debt:		
Senior notes	36,283	35,373
Subordinated indebtedness	2,395	2,928
Total liabilities	250,684	238,647
Commitments and contingencies		
Preferred securities subject to mandatory redemption	710	710
Stockholders' Equity		
Preferred stock	700	700
Common stock, $0.10 par value;		
Shares authorized: 600,000,000 in 2002 and 2001;		
Shares issued: 258,791,416 in 2002 and 256,178,907 in 2001;		
Shares outstanding: 231,131,043 in 2002 and 237,534,091 in 2001	25	25
Additional paid-in capital	3,628	3,562
Accumulated other comprehensive income (net of tax)	(13)	(10)
Retained earnings	5,608	4,798
Other stockholders' equity, net	949	746
Common stock in treasury, at cost: 27,660,373 shares in 2002 and 18,644,816 shares in 2001	(1,955)	(1,362)
Total stockholders' equity	8,942	8,459
Total liabilities and stockholders' equity	$ 260,336	$ 247,816

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity

In millions *Twelve months ended November 30*	2002	2001	2000
Preferred Stock			
5% Cumulative Convertible Voting, Series A and B:			
Beginning balance	$ –	$ –	$ 238
Shares subject to redemption	–	–	(150)
Shares repurchased	–	–	(88)
Ending balance	–	–	–
5.94% Cumulative, Series C:			
Beginning and ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	250	250	–
Shares issued	–	–	250
Ending balance	250	250	250
Redeemable Voting:			
Beginning and ending balance	–	–	–
Total Preferred Stock, ending balance	700	700	700
Common Stock [1]	25	25	25
Additional Paid-In Capital [1]			
Beginning balance	3,562	3,589	3,374
RSUs exchanged for Common Stock	63	(13)	(54)
Employee stock-based awards	53	53	101
Shares issued to RSU Trust	(401)	(628)	(210)
Tax benefits from the issuance of stock-based awards	347	549	373
Other, net	4	12	5
Ending balance	$ 3,628	$ 3,562	$ 3,589

[1] Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity *continued*

In millions *Twelve months ended November 30*	2002	2001	2000
Accumulated Other Comprehensive Income			
Beginning balance	$ (10)	$ (8)	$ (2)
Translation adjustment, net[(2)]	(3)	(2)	(6)
Ending balance	(13)	(10)	(8)
Retained Earnings			
Beginning balance	4,798	3,713	2,094
Net income	975	1,255	1,775
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	–	(1)	(9)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(18)	(18)	(12)
Redeemable Voting Preferred Stock	(25)	(50)	(50)
Common Stock	(96)	(75)	(59)
Ending balance	5,608	4,798	3,713
Common Stock Issuable			
Beginning balance	2,933	2,524	1,768
RSUs exchanged for Common Stock	(463)	(215)	(247)
Deferred stock awards granted	407	624	1,003
Other, net	(55)	–	–
Ending balance	2,822	2,933	2,524
Common Stock Held in RSU Trust			
Beginning balance	(827)	(647)	(717)
Shares issued to RSU Trust	(297)	(403)	(231)
RSUs exchanged for Common Stock	387	223	301
Other, net	(17)	–	–
Ending balance	(754)	(827)	(647)
Deferred Stock Compensation			
Beginning balance	(1,360)	(1,280)	(797)
Deferred stock awards granted	(407)	(624)	(1,003)
Amortization of deferred compensation, net	570	544	520
Other, net	78	–	–
Ending balance	(1,119)	(1,360)	(1,280)
Common Stock In Treasury, at Cost			
Beginning balance	(1,362)	(835)	(150)
Treasury stock purchased	(1,510)	(1,676)	(1,203)
RSUs exchanged for Common Stock	–	5	–
Shares issued for preferred stock conversion	–	44	–
Employee stock-based awards	219	69	77
Shares issued to RSU Trust	698	1,031	441
Ending balance	(1,955)	(1,362)	(835)
Total stockholders' equity	$ 8,942	$ 8,459	$ 7,781

[(2)] Net of income taxes of $(1) in 2002, $(1) in 2001 and $(8) in 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Cash Flows From Operating Activities			
Net Income	$ 975	$ 1,255	$ 1,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	258	174	102
Deferred tax provision (benefit)	(670)	(643)	(169)
Tax benefit from issuance of stock-based awards	347	549	373
Amortization of deferred stock compensation	570	544	520
September 11th (recoveries) expenses	(108)	356	–
Other real estate reconfiguration charge	128	–	–
Regulatory settlement	80	–	–
Other adjustments	92	(1)	65
Net change in:			
Cash and securities segregated and on deposit	486	(855)	(445)
Securities and other financial instruments owned	1,708	(13,219)	(16,148)
Securities borrowed	(2,503)	(376)	1,779
Other secured financing	4,060	3,805	3,979
Receivables from brokers, dealers and clearing organizations	(320)	(1,793)	12
Receivables from customers	3,844	(4,538)	1,747
Securities and other financial instruments sold but not yet purchased	17,704	16,045	(11,325)
Securities loaned	(4,404)	5,299	2,674
Payables to brokers, dealers and clearing organizations	(1,018)	883	738
Payables to customers	3,646	2,194	666
Accrued liabilities and other payables	277	(27)	1,262
Other operating assets and liabilities, net	(693)	(325)	(1,136)
Net cash provided by (used in) operating activities	24,459	9,327	(13,531)
Cash Flows From Financing Activities			
Proceeds from issuance of senior notes	8,415	9,915	14,225
Principal payments of senior notes	(9,014)	(7,646)	(8,353)
Principal payments of subordinated indebtedness	(715)	(204)	(192)
Net proceeds from (payments for) commercial paper and short-term debt	(1,623)	(1,808)	324
Resale agreements net of repurchase agreements	(18,442)	(8,957)	8,922
Payments for repurchases of preferred stock	–	(100)	(88)
Payments for treasury stock purchases, net	(1,303)	(1,676)	(1,203)
Dividends paid	(165)	(163)	(149)
Issuances of common stock	61	54	99
Issuance of preferred stock, net of issuance costs	–	–	250
Net cash provided by (used in) financing activities	(22,786)	(10,585)	13,835
Cash Flows From Investing Activities			
Purchases of property, equipment and leasehold improvements, net	(656)	(1,341)	(289)
Proceeds from the sale of 3 World Financial Center, net	152	–	–
Acquisition, net of cash acquired	(31)	–	(41)
Net cash used in investing activities	(535)	(1,341)	(330)
Net change in cash and cash equivalents	1,138	(2,599)	(26)
Cash and cash equivalents, beginning of period	2,561	5,160	5,186
Cash and cash equivalents, end of period	$ 3,699	$ 2,561	$ 5,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions):			
Interest paid totaled $10,686 in 2002, $15,588 in 2001 and $18,500 in 2000.			
Income taxes paid totaled $436 in 2002, $654 in 2001 and $473 in 2000.			

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

CONTENTS

Note 1 Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Lehman Brothers Holdings Inc. ("Holdings") and subsidiaries (collectively, the "Company" or "Lehman Brothers"). Lehman Brothers is one of the leading global investment banks serving institutional, corporate, government and high-net-worth individual clients and customers. The Company's worldwide headquarters in New York and regional headquarters in London and Tokyo are complemented by offices in additional locations in North America, Europe, the Middle East, Latin America and the Asia Pacific region. The Company is engaged primarily in providing financial services. The principal U.S. subsidiary of Holdings is Lehman Brothers Inc. ("LBI"), a registered broker-dealer. All material intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements are prepared in conformity with generally accepted accounting principles which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management estimates are required to be utilized in determining the valuation of trading inventory particularly in the area of OTC derivatives, certain high yield positions, private equity securities and mortgage loan positions. Additionally, management estimates are required in assessing the realizability of deferred tax assets, the outcome of litigation and determining the components of the September 11th related (recoveries)/expenses, net and the other real estate reconfiguration charge. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

The Company uses the trade date basis of accounting.

Certain prior period amounts reflect reclassifications to conform to the current year's presentation.

SECURITIES AND OTHER FINANCIAL INSTRUMENTS

Securities and other financial instruments owned and Securities and other financial instruments sold but not yet purchased are valued at market or fair value, as appropriate, with unrealized gains and losses reflected in Principal transactions in the Consolidated Statement of Income. Market value is generally based on listed market prices. If listed market prices are not available, or if liquidating the Company's position is reasonably expected to affect market prices, fair value is determined based on broker quotes, internal valuation models which take into account time value and volatility factors underlying the financial instruments or management's estimate of the amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

As of November 30, 2002 and 2001, all firm-owned securities pledged to counterparties where the counterparty has the right, by contract or custom, to sell or repledge the securities are classified as Securities owned (pledged as collateral) as required by Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of SFAS No.125" ("SFAS 140").

DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is typically defined as an instrument whose value is "derived" from an underlying instrument, index or rate, such as a future, forward, swap, or option contract, or other financial instrument with similar characteristics. A derivative contract generally represents future commitments to exchange interest payment streams or currencies based on the contract or notional amount or to purchase or sell other financial instruments at specified terms on a specified date.

Derivatives are recorded at market or fair value in the Consolidated Statement of Financial Condition on a net by counterparty basis where a legal right of set-off exists and are netted across products when such provisions are stated in the master netting agreement. Derivatives are often referred to as off-balance-sheet instruments since neither their notional amounts nor the underlying instruments are reflected as assets or liabilities of the Company. Instead, the market or fair value related to the derivative transactions is reported in the Consolidated Statement of Financial Condition as an asset or liability in Derivatives and other contractual agreements, as applicable. Margin on futures contracts is included in receivables and payables from/to brokers, dealers and clearing organizations, as applicable. Changes in fair values of derivatives are recorded as Principal transactions revenues in the current period. Market or fair value is generally determined by either quoted market prices (for exchange-traded futures and options) or pricing models (for swaps, forwards and options). Pricing models utilize a series of market inputs to determine the present value of future cash flows, with adjustments, as required for credit risk and liquidity risk. Further valuation adjustments may be recorded, as deemed appropriate for new or complex products or for positions with significant concentrations. These adjustments are integral components of the mark-to-market process. Credit-related valuation adjustments incorporate business and economic conditions, historical experience, concentrations, estimates of expected losses and the character, quality and performance of credit sensitive financial instruments.

As an end-user, the Company primarily utilizes derivatives to modify the interest rate characteristics of its long-term debt and secured financing activities. The Company also utilizes equity derivatives to hedge its exposure to equity price risk embedded in certain of its debt obligations and foreign exchange forwards to manage the currency exposure related to its net monetary investment in non-U.S. dollar functional currency operations (collectively, "end-user derivative activities").

Effective December 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively, "SFAS 133"), which requires that all derivative instruments be reported on the Consolidated Statement of Financial Condition at fair value.

Under SFAS 133, the accounting for end-user derivative activities is dependent upon the nature of the hedging relationship. In certain hedging relationships, both the derivative and the hedged item will be marked-to-market through earnings for changes in fair value ("fair value hedge"). In many instances, the hedge relationship is fully effective so that the mark-to-market on the derivative and the hedged item will offset. In other hedging relationships, the derivative will be marked-to-market with the offsetting gains or losses recorded in Accumulated other comprehensive income, a component of Stockholder's Equity, until the related hedged item is realized in earnings ("cash flow hedge"). SFAS 133 also requires certain derivatives embedded in long-term debt to be bifurcated and marked-to-market through earnings.

SFAS 133 changed the accounting treatment for the hedged item in a fair value hedge (e.g., long-term debt or secured financing activities) from what was an accrual basis to a modified mark-to-market value. The hedged item's carrying value may differ from a full mark-to-market value since SFAS 133 requires that the hedged item be adjusted only for changes in fair value associated with the designated risks being hedged during the hedge period.

The Company principally utilizes fair value hedges to convert a substantial portion of the Company's fixed rate debt and certain long-term secured financing activities to floating interest rates. Any hedge ineffectiveness in these relationships is recorded as a component of Interest expense on the Company's Consolidated Statement of Income. Gains or losses from revaluing foreign exchange contracts associated with hedging the Company's net investments in foreign affiliates are reported within Accumulated other comprehensive income in Stockholder's Equity. Unrealized receivables/payables resulting from the mark-to-market on end-user derivatives are included in Securities and other financial instruments owned or sold but not yet purchased.

The adoption of SFAS 133, as of December 1, 2000, did not have a material effect on the Company's Consolidated Statement of Financial Condition or the results of operations, as most of the Company's derivative transactions are entered into for trading-related activities for which the adoption of SFAS 133 had no impact. Prior year amounts have not been restated to conform with the current SFAS 133 accounting treatment. Therefore, end-user derivative activities for all periods prior to December 1, 2000 are recorded on an accrual basis provided that the derivative was designated and deemed to be a highly effective hedge. For periods prior to fiscal 2001, realized gains or losses on early terminations of derivatives that were designated as hedges were deferred and amortized to interest income or interest expense over the remaining life of the instrument being hedged.

SECURED FINANCING ACTIVITIES

Repurchase and Resale Agreements Securities purchased under agreements to resell and Securities sold under agreements to repurchase, which are treated as financing transactions for financial reporting purposes, are collateralized primarily by government and government agency securities and are carried net by counterparty, when permitted, at the amounts at which the securities will be subsequently resold or repurchased plus accrued interest. It is the policy of the Company to take possession of securities purchased under agreements to resell. The Company monitors the market value of the underlying positions on a daily basis as compared to the related receivable or payable balances, including accrued interest. The Company requires counterparties to deposit additional collateral or return collateral pledged as necessary, to ensure that the market value of the underlying collateral remains sufficient. Securities and other financial instruments owned that are financed under repurchase agreements are carried at market value with changes in market value reflected in the Consolidated Statement of Income.

The Company utilizes interest rate swaps as an end-user to modify the interest rate exposure associated with certain fixed rate resale and repurchase agreements. In accordance with SFAS No. 133, the Company adjusted the carrying value of these secured financing transactions that have been designated as the hedged item.

Securities Borrowed and Loaned Securities borrowed and securities loaned are carried at the amount of cash collateral advanced or received plus accrued interest. It is the Company's policy to value the securities borrowed and loaned on a daily basis, and to obtain additional cash as necessary to ensure such transactions are adequately collateralized.

Other Secured Borrowings Other secured borrowings are recorded at contractual amounts plus accrued interest.

PRIVATE EQUITY INVESTMENTS

The Company carries its private equity investments, including its partnership interests, at fair value based upon the Company's assessment of each underlying investment.

INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). The Company recognizes 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.

In this regard, deferred tax assets are recognized for temporary differences that will result in deductible amounts in future years and for tax loss carry-forwards, if in the opinion of management, it is more likely than not that the deferred tax asset will be realized. SFAS 109 requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the "more likely than not" criterion for realization. Deferred tax liabilities are recognized for temporary differences that will result in taxable income in future years.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the statement of financial condition date. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, are included in Accumulated other comprehensive income, a separate component of Stockholders' Equity. Gains or losses resulting from foreign currency transactions are included in the Company's Consolidated Statement of Income.

PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized on a straight-line basis over the estimated useful lives. Buildings are depreciated up to a maximum of 40 years. Leasehold improvements are amortized over the lesser of their economic useful lives or the terms of the underlying leases, ranging up to 30 years. Equipment, furniture and fixtures are depreciated over periods of up to 15 years. Internal use of software which qualifies for capitalization under American Institute of Certified Public Accountants ("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 3 years, with a maximum of 7 years.

LONG-LIVED ASSETS

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" the Company reviews assets, such as property, equipment and leasehold improvements for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, then an impairment loss would be recognized to the extent that the carrying value of such asset exceeded its fair value.

GOODWILL

As of December 1, 2001, the Company adopted SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under SFAS 142, intangible assets with indefinite lives and goodwill are no longer required to be amortized. Instead, these assets are evaluated annually for impairment. The Company adopted the provisions of SFAS 142 at the beginning of fiscal year 2002 and the change did not have a material impact to the Company's financial position or its results of operations. Prior to December 1, 2001, the Company amortized goodwill using the straight-line method over periods not exceeding 35 years. Goodwill is reduced upon the recognition of certain acquired net operating loss carryforward benefits.

STOCK-BASED AWARDS

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), established financial accounting and reporting standards for stock-based employee compensation plans. SFAS 123 permits companies either to continue accounting for stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25") or using the fair value method prescribed by SFAS 123. The Company continues to follow APB 25 and its related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for stock option awards because the exercise price was at or above the fair market value of the Company's common stock on the grant date.

STATEMENT OF CASH FLOWS

For purposes of the Consolidated Statement of Cash Flows, the Company defines cash equivalents as highly liquid investments with original maturities of three months or less, other than those held for sale in the ordinary course of business.

EARNINGS PER COMMON SHARE

The Company computes earnings per common share in accordance with SFAS No. 128, "Earnings per Share" ("EPS"). Basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the assumed conversion of all dilutive securities. All share and per share amounts have been restated for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective October 20, 2000. See Notes 9 and 11 of Notes to Consolidated Financial Statements for more information.

CONSOLIDATION ACCOUNTING POLICIES

Operating Companies The Company follows SFAS No. 94, "Consolidation of All Majority-Owned Subsidiaries" and consolidates operating entities when the Company has a controlling financial interest over the business activities of such entities. Non-controlled operating entities are accounted for under the equity method when the Company is able to exercise significant influence over the business activities of such entities. The cost method is applied when the ability to exercise significant influence is not present.

Special Purpose Entities For those entities which do not meet the definition of conducting a business, often referred to as special purpose entities ("SPEs"), the Company follows the accounting guidance under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of FASB No. 125," and

Emerging Issues Task Force ("EITF") Topic D-14, "Transactions Involving Special-Purpose Entities," to determine whether or not such SPEs are required to be consolidated. The majority of the Company's involvement with SPEs relates to securitization transactions meeting the SFAS 140 definition of a qualifying special purpose entity ("QSPE"). A QSPE can generally be described as an entity with significantly limited powers which are intended to limit it to passively holding financial assets and distributing cash flows based upon predetermined criteria. Based upon the guidance in SFAS 140, the Company does not consolidate such QSPEs. Rather, the Company accounts for its involvement with such QSPEs under a financial components approach in which the Company recognizes only its retained involvement with the QSPE. The Company accounts for such retained interests at fair value.

Certain special purpose entities do not meet the QSPE criteria due to their permitted activities not being sufficiently limited, or because the assets are not deemed qualifying financial instruments (e.g., real estate). In the instances in which the Company is either the sponsor of or transferor of assets to a non-qualifying SPE, the Company follows the accounting guidance provided by EITF Topic D-14 to determine whether consolidation is required. Under this guidance, the Company would not consolidate such SPE if a third party investor made a substantial equity investment in the SPE (minimum of 3%), was subject to first dollar risk of loss of such SPE, and had a controlling financial interest.

Transfers of Financial Assets The Company accounts for transfers of financial assets in accordance with SFAS 140. In accordance with this guidance, the Company recognizes the transfer of financial assets as sales provided that control has been relinquished. Control is deemed to be relinquished only when all of the following conditions have been met; i) the assets have been isolated from the transferor even in bankruptcy or other receivership (true sale opinions are required), ii) the transferee has the right to pledge or exchange the assets received and iii) the transferor has not maintained effective control over the transferred assets (e.g., through a unilateral ability to repurchase a unique or specific asset).

REVENUE RECOGNITION POLICIES

Principal Transactions Securities and other financial instruments owned and Securities and other financial instruments sold but not yet purchased (both of which are recorded on a trade date basis) are valued at market or fair value, as appropriate, with unrealized gains and losses reflected in Principal transactions in the Consolidated Statement of Income. Market value is generally based on listed market prices. If listed market prices are not available, or if liquidating the Company's position is reasonably expected to affect market prices, fair value is determined based on broker quotes, internal valuation pricing models which take into account time value and volatility factors underlying the financial instruments, or management's estimate of the amounts that could be realized under current market conditions, assuming an orderly liquidation over a reasonable period of time.

Investment Banking Underwriting revenues and fees for merger and acquisition advisory services are recognized when services for the transactions are determined to be completed. Underwriting expenses are deferred and recognized at the time the related revenues are recorded.

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

Interest Revenue/Expense The Company recognizes contractual interest on Securities and other financial instruments owned and Securities and other financial instruments sold but not yet purchased on an accrual basis as a component of Interest and dividends revenues and Interest expense, respectively. Interest flows on the Company's derivative transactions are included as part of the Company's mark-to-market valuation of these contracts within Principal transactions and are not recognized as a component of interest revenue/expense.

The Company accounts for its secured financing activities and short and long-term borrowings on an accrual basis with related interest recorded as interest revenue or interest expense, as applicable.

Note 2 September 11th Related (Recoveries)/ Expenses, Net

As a result of the September 11th, 2001 terrorist attack, the Company's leased facilities in the World Trade Center were destroyed and its leased and owned facilities in the World Financial Center ("WFC") complex (including the 3 World Financial Center building owned jointly with American Express) were significantly damaged. All employees and operations in the downtown New York area were displaced. Key business activities and necessary support functions were quickly relocated to the Company's back-up facilities in New Jersey and to various other temporary sites.

The Company had insurance in place to cover the losses resulting from the terrorist attack, including a policy covering damage to the core and shell of the 3 WFC building and a separate policy covering the property damage at the WTC and WFC facilities, losses resulting from business interruption and extra expenses associated with the Company's relocation to, and occupancy of, the temporary facilities.

During the fourth quarter of 2002, the Company settled its insurance claim for $700 million, the policy limit, with its insurance carriers. This resulted in the recording of a net pre-tax recovery of $108 million ($60 million after-tax) in the fourth quarter of 2002.

The net gain of $108 million in fiscal 2002 included insurance recoveries of approximately $340 million, costs associated with exiting certain of the Company's New York area facilities of $189 million, and $43 million of other costs resulting from the events of September 11th (primarily technology restoration and other costs associated with unusable facilities). Insurance recoveries represent the Company's settlement of $700 million offset by insurance recoveries previously recognized of approximately $360 million during 2001.

During the fourth quarter of 2001, the Company purchased a new building in midtown Manhattan located at 745 7th Avenue and entered into long-term leases in Jersey City, New Jersey and midtown Manhattan, as uncertainties continued to persist associated with the Company's ability to utilize its previous downtown headquarters at 3 World Financial Center. During the fourth quarter of 2002, after further consideration of maintaining real estate in both downtown and midtown New York City locations, the Company decided to completely exit its downtown area facilities and dispose of certain other excess New York City area space acquired as a result of the events of September 11th, resulting in a charge of approximately $189 million. This charge is comprised of the estimated costs to dispose of facilities at the World Financial Center, Jersey City, New Jersey and midtown Manhattan.

During 2001, the Company recognized a pre-tax charge of $127 million ($71 million after-tax) associated with the net losses stemming from the events of September 11, 2001. These losses and costs included the write-off of property damaged, destroyed or abandoned at the Company's downtown facilities (approximately $340 million), compensation paid to employees in lieu of utilizing external consultants for business recovery efforts and to employees for the time they were idled (approximately $100 million), costs incurred to maintain the facilities while they were unusable (approximately $16 million), and other costs associated with redeployment of the Company's workforce to the temporary facilities (approximately $31 million). The losses and costs in 2001 were offset by estimated insurance recoveries of $360 million. All expenses associated with the Company's use of temporary facilities during this period have been reflected as part of Occupancy (approximately $18 million) or Technology and communications expenses (approximately $4 million) in the accompanying Consolidated Statement of Income. The insurance recovery recorded through November 30, 2001 was limited to the net historical book value of assets believed damaged, destroyed or abandoned and the out-of-pocket costs for certain extra expenses incurred during the period.

Note 3 Other Real Estate Reconfiguration Charge

During 2002, the Company recorded a pre-tax charge of approximately $128 million ($82 million after-tax) for costs associated with reconfiguring certain of its global real estate facilities utilized by the Company in conducting its on-going business activities. The charge resulted from management's analysis of the Company's global real estate needs and subsequent decisions made by management to no longer utilize certain facilities in Europe, Asia and the U.S.

Approximately $115 million of the charge relates to estimated sublease losses associated with the Company's decision to exit its primary London office facilities at Broadgate and move its European headquarters to a new facility just outside the city of London, beginning in the fourth quarter of 2003. The remaining portion of the charge relates to the Company's decision to consolidate certain branch locations.

Note 4 Regulatory Settlement

In the fourth quarter of 2002, the Company recorded a pre-tax charge of $80 million ($56 million after-tax) associated with a proposed agreement reached with various Federal and State regulatory authorities to settle inquiries related to alleged conflicts of interest involving equity research analysts. This agreement in principal was signed on December 20, 2002 and included certain organizational structural reforms, including providing independent research to clients in the future, as well as the payment of $80 million, including $50 million in retrospective relief, $5 million for investor education and $25 million (over the course of five years) to purchase independent research.

Note 5 Short-Term Financings

The Company obtains short-term financing on both a secured and unsecured basis. Secured financing is obtained through the use of repurchase agreements and securities loaned agreements, which are primarily collateralized by government, government agency and equity securities. The unsecured financing is generally obtained through short-term debt and the issuance of commercial paper.

The Company's commercial paper and short-term debt financing is comprised of the following:

Short-Term Debt

November 30 *In millions*	*2002*	*2001*
Commercial paper	$ 1,622	$ 1,986
Short-term debt		
Secured bank loans	457	672
Payables to banks	95	502
Other short-term debt[1]	195	832
Commercial paper & short-term debt[2]	$ 2,369	$ 3,992

(1) Includes master notes, corporate loans and other short-term financings.
(2) At November 30, 2002 and 2001, the weighted-average interest rates for short-term borrowings, including commercial paper, were 1.7% and 2.9%, respectively. Includes $116 million and $827 million of short-term debt as of November 30, 2002 and 2001, respectively, related to non-U.S. dollar obligations.

CREDIT FACILITIES

Holdings maintains a Revolving Credit Agreement (the "Credit Agreement") with a syndicate of banks. Under the Credit Agreement, the banks have committed to provide up to $1 billion through April 2005. The Credit Agreement contains covenants that require, among other things, that the Company maintain a specified level of tangible net worth. The Company views the Credit Agreement as one of its many sources of liquidity available through its funding framework, and as such the Company utilizes this liquidity for general business purposes from time to time.

The Company also maintains a backstop $750 million Committed Securities Repurchase Facility (the "Facility") for LBIE, the Company's major operating entity in Europe. The Facility provides secured multi-currency financing for a broad range of collateral types. Under the terms of the Facility, the bank group has agreed to provide funding for up to one year on a secured basis. Any loans outstanding on the commitment termination date may be extended for up to an additional year at the option of LBIE. The Facility contains covenants which require, among other things, that LBIE maintain specified levels of tangible net worth. This commitment expires at the end of October 2003.

There were no borrowings outstanding under either the Credit Agreement or the Facility at November 30, 2002. The Company has maintained compliance with the applicable covenants for both the Credit Agreement and the Facility at all times.

Note 6 Long-Term Debt

Long-Term Debt

In millions *November 30*	*U.S. Dollar* Fixed Rate	*U.S. Dollar* Floating Rate	*Non-U.S. Dollar* Fixed Rate	*Non-U.S. Dollar* Floating Rate	*2002*	*2001*
Senior Notes						
Maturing in Fiscal 2002	$ –	$ –	$ –	$ –	$ –	$ 8,051
Maturing in Fiscal 2003	2,213	3,634	786	851	7,484	5,952
Maturing in Fiscal 2004	1,579	3,076	1,245	1,346	7,246	4,706
Maturing in Fiscal 2005	2,142	724	311	1,003	4,180	3,822
Maturing in Fiscal 2006	3,057	468	629	637	4,791	4,080
Maturing in Fiscal 2007	1,568	294	1,409	935	4,206	2,612
December 1, 2007 and thereafter	5,627	601	534	1,614	8,376	6,150
Senior Notes	$ 16,186	$ 8,797	$ 4,914	$ 6,386	$ 36,283	$ 35,373
Subordinated Indebtedness						
Maturing in Fiscal 2002	$ –	$ –	$ –	$ –	$ –	$ 483
Maturing in Fiscal 2003	487	–	–	–	487	475
Maturing in Fiscal 2004	210	234	–	–	444	191
Maturing in Fiscal 2005	106	–	9	–	115	101
Maturing in Fiscal 2006	337	–	–	–	337	300
Maturing in Fiscal 2007	339	–	8	–	347	307
December 1, 2007 and thereafter	665	–	–	–	665	1,071
Subordinated Indebtedness	2,144	234	17	–	2,395	2,928
Long-Term Debt	$ 18,330	$ 9,031	$ 4,931	$ 6,386	$ 38,678	$ 38,301

Of the Company's long-term debt outstanding as of November 30, 2002, $837 million is repayable prior to maturity at the option of the holder, at par value. These obligations are reflected in the above table as maturing at their put dates, which range from fiscal 2003 to fiscal 2004, rather than at their contractual maturities, which range from fiscal 2004 to fiscal 2026. In addition, $720 million of the Company's long-term debt is redeemable prior to maturity at the option of the Company under various terms and conditions. These obligations are reflected in the above table at their contractual maturity dates.

As of November 30, 2002, the Company's U.S. dollar and non-U.S. dollar debt portfolios included approximately $1,416 million and $2,972 million, respectively, of debt for which the interest rates and/or redemption values have been linked to the performance of various indices including industry baskets of stocks, commodities or 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 interest rate, currency and equity swaps.

END-USER DERIVATIVE ACTIVITIES

The Company utilizes a variety of derivative products including interest rate, currency and equity swaps as an end-user to modify the interest rate characteristics of its long-term debt portfolio. The Company utilizes interest rate swaps to convert a substantial portion of the Company's 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, the Company utilizes cross-currency swaps to hedge its exposure to foreign currency risk as a result of its non-U.S. dollar debt obligations, after consideration of non-U.S. dollar assets which are funded with long-term debt obligations in the same currency. In certain instances, two or more derivative contracts may be utilized by the Company to manage the interest rate nature and/or currency exposure of an individual long-term debt issuance.

Effective fiscal 2001, the Company adopted SFAS 133 and as such all end-user derivatives at November 30, 2001 are recorded at fair value on the balance sheet (see Note 1: Significant Accounting Policies–Derivative Financial Instruments). The Company adjusted the carrying value of its hedged fixed rate debt to a modified mark-to-market value in accordance with SFAS 133, as such debt was designated as the hedged item of a fair value hedge.

At November 30, 2002 and 2001, the notional amounts of the Company's interest rate, currency and equity swaps related to its long-term debt obligations were approximately $49.1 billion and $35.1 billion, respectively. In terms of notional amounts outstanding, these derivative products mature as follows:

Notional Amounts of End-User Derivative Activities

In millions November 30	*Fair Value Hedge U.S. Dollar*	*Fair Value Hedge Non-U.S. Dollar*	*Cross-Currency*	*Other[2] U.S. Dollar*	*Other[2] Non-U.S. Dollar*	*2002*	*2001*
Maturing in Fiscal 2002	$ –	$ –	$ –	$ –	$ –	$ –	$ 4,684
Maturing in Fiscal 2003	2,638	693	192	4,159	978	8,660	4,580
Maturing in Fiscal 2004	1,688	832	690	4,118	1,070	8,398	4,731
Maturing in Fiscal 2005	2,048	282	852	2,690	338	6,210	3,442
Maturing in Fiscal 2006	3,135	604	598	1,779	903	7,019	4,778
Maturing in Fiscal 2007	1,669	1,459	1,176	1,099	1,999	7,402	3,727
December 1, 2007 and thereafter	5,629	498	923	1,704	2,626	11,380	9,135
Total	$ 16,807	$ 4,368	$ 4,431	$ 15,549	$ 7,914	$ 49,069	$ 35,077
Weighted-average interest rate at November 30[1]							
Receive rate	7.14%	5.03%	3.65%	2.16%	2.98%	4.39%	5.32%
Pay rate	2.41%	3.56%	2.35%	1.75%	3.44%	2.47%	2.81%

(1) Weighted-average interest rates were calculated utilizing non-U.S. dollar interest rates, where applicable.
(2) Other derivatives include basis swaps and hedges of embedded derivatives.

In addition, the Company's end-user derivative activities resulted in the following changes to the Company's mix of fixed and floating rate debt and effective weighted-average rates of interest:

Effective Weighted-Average Interest Rates of Long-Term Debt

In millions November 30, 2002	*Long-Term Debt Before End-User Activities*	*Long-Term Debt After End-User Activities*	*Weighted-Average[1] Contractual Interest Rate*	*Weighted-Average[1] Effective Rate After End-User Activities*
USD Obligations				
Fixed rate	$ 18,330	$ 170		
Floating rate	9,031	31,729		
Total USD	27,361	31,899	5.25%	2.14%
Non-USD Obligations	11,317	6,779		
Total	$ 38,678	$ 38,678	4.73%	2.29%

In millions November 30, 2001	*Before End-User Activities*	*After End-User Activities*	*Contractual Interest Rate*	*Effective Rate After End-User Activities*
USD Obligations				
Fixed rate	$ 19,674	$ 537		
Floating rate	9,287	32,702		
Total USD	28,961	33,239	5.55%	2.79%
Non-USD Obligations	9,340	5,062		
Total	$ 38,301	$ 38,301	5.19%	2.89%

(1) Weighted-average interest rates were calculated using non-U.S. dollar interest rates, where applicable.

In March 2002, the Company issued $575 million of floating rate convertible notes. These notes bear an interest rate equivalent to LIBOR minus 90 basis points per annum (subject to adjustment in certain events) and mature on April 1, 2022. The notes are convertible at $96.10 per share (resulting in approximately 6 million shares), in certain circumstances. These circumstances include Holdings' common stock trading at or about $120.125 for a specified number of trading days, as well as the trading price of the notes declining to certain levels, a significant downgrade in the ratings of the notes below a specified level and other events. Holdings has the option to repurchase these notes on or after April 1, 2004. The holders of the notes may cause Holdings to repurchase the notes at par on April 1, 2004, 2007, 2012 or 2017, or upon a change of control of Holdings. In such instances, the Company may elect to redeem these notes for stock.

Note 7 Preferred Securities Subject to Mandatory Redemption

Preferred securities subject to mandatory redemption are comprised of the following issues:

Preferred Securities Subject to Mandatory Redemption

In millions *November 30*	*2002*	*2001*
Lehman Brothers Holdings Capital Trust I	$ 325	$ 325
Lehman Brothers Holdings Capital Trust II	385	385
Total	$ 710	$ 710

The following table summarizes the financial structure of each such trust at November 30, 2002:

TRUST PREFERRED SECURITIES SUBJECT TO MANDATORY REDEMPTION

During 1999, the Company formed two Delaware business trusts for the purposes of: (a) issuing trust securities representing ownership interests in the assets of the trust; (b) investing the gross proceeds of the trust securities in junior subordinated debentures of the Company; and (c) engaging in activities necessary or incidental thereto. The Company owns the residual equity of the trusts and as such these trusts are consolidated. The loans from the trust to the Company represented by the junior subordinated debentures are eliminated in consolidation. To date, the two trusts have issued redeemable equity securities having an aggregate liquidation value of $710 million. Dividends on the trust preferred securities are presented on a basis consistent with minority interest in the income of subsidiaries and are shown as a reduction to the Company's income from continuing operations, net of tax in accordance with EITF Issue 86-32.

	Lehman Brothers Holdings Capital Trust I	*Lehman Brothers Holdings Capital Trust II*
Trust Securities		
Issuance date	January 1999	April 1999
Preferred securities issued	13,000,000 Series I	15,400,000 Series J
Liquidation preference per security	$ 25	$ 25
Liquidation value *(in millions)*	$ 325	$ 385
Coupon rate	8%	7.875%
Distributions payable	Quarterly	Quarterly
Distributions guaranteed by	Lehman Brothers Holdings Inc.	Lehman Brothers Holdings Inc.
Mandatory redemption date	March 31, 2048	June 30, 2048
Redeemable by issuer on or after	March 31, 2004	June 30, 2004
Junior Subordinated Debentures		
Principal amount outstanding *(in millions)*	$ 325	$ 385
Coupon rate	8%	7.875%
Interest payable	Quarterly	Quarterly
Maturity date	March 31, 2048	June 30, 2048
Redeemable by issuer on or after	March 31, 2004	June 30, 2004

Note 8 Preferred Stock

Holdings is authorized to issue a total of 38,000,000 shares of preferred stock. At November 30, 2002, Holdings had 590,000 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.

SERIES C

On May 11, 1998, Holdings issued 5,000,000 Depository Shares, each representing 1/10th of a share of 5.94% Cumulative Preferred Stock, Series C ("Series C Preferred Stock"), $1.00 par value. The shares of Series C Preferred Stock have a redemption price of $500 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series C Preferred Stock beginning on May 31, 2008. The $250 million redemption value of the shares outstanding at November 30, 2002 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

SERIES D

On July 21, 1998, Holdings issued 4,000,000 Depository Shares, each representing 1/100th of a share of 5.67% Cumulative Preferred Stock, Series D ("Series D Preferred Stock"), $1.00 par value. The shares of Series D Preferred Stock have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series D Preferred Stock beginning on August 31, 2008. The $200 million redemption value of the shares outstanding at November 30, 2002 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

SERIES E

On March 28, 2000, Holdings issued 5,000,000 Depository 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 is 7.115% per annum through May 31, 2005; thereafter the rate will be the higher of either the three-month U.S. Treasury Bill rate, the 10-year Treasury constant maturity rate or the 30-year U.S. Treasury constant maturity rate, in each case plus 1.15%, but in any event not less than 7.615% nor greater than 13.615%. The shares of Series E Preferred Stock have a redemption price of $5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series E Preferred Stock beginning on May 31, 2005. The $250 million redemption value of the shares outstanding at November 30, 2002 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

REDEEMABLE VOTING

In 1994, Holdings issued the Redeemable Voting Preferred Stock to American Express and Nippon Life for $1,000. The holders of the Redeemable Voting Preferred Stock were entitled to receive annual dividends through May 31, 2002, in an amount equal to 50% of the amount, if any, by which the Company's net income for each fiscal year exceeded $400 million, up to a maximum of $50 million per year ($25 million on a pro-rated basis, for the last dividend period, which ran from December 1, 2001 to May 31, 2002). For the years ended November 30, 2002, 2001 and 2000, the Company's net income resulted in the recognition of dividends in those years in the amounts of $25 million, $50 million and $50 million respectively, on the Redeemable Voting Preferred Stock. On the final dividend payment date, July 15, 2002, Holdings redeemed all of the Redeemable Preferred Stock, for a total of $1,000.

Note 9 Common Stock

In October 2000, Lehman Brothers' Board of Directors declared a two-for-one common stock split, effected in the form of a 100% stock dividend. All share and per share data presented in this Annual Report to Stockholders reflect the effect of the split.

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

During the years ended November 30, 2002, 2001 and 2000, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately $1,510 million, $1,676 million and $1,203 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options or for tax withholding obligations on RSU issuance or option exercises.

Changes in shares of Holdings' common stock outstanding are as follows:

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2002, 2001 and 2000, 9.3 million, 16.0 million and 11.8 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2002, approximately 36.6 million shares were held in the RSU Trust with a total value of approximately $754 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

Common Stock

November 30	*2002*	*2001*	*2000*
Shares outstanding, beginning of period	237,534,091	236,395,332	239,825,620
Exercise of stock options and other share issuances	10,455,954	8,369,721	10,015,048
Treasury stock purchases	(26,159,002)	(23,230,962)	(25,245,336)
Issuances of shares to the RSU Trust	9,300,000	16,000,000	11,800,000
Shares outstanding, end of period	231,131,043	237,534,091	236,395,332

Note 10 Incentive Plans

EMPLOYEE STOCK PURCHASE PLAN

The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of $25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2002 and 2001, 5.8 million shares and 5.5 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

1994 MANAGEMENT OWNERSHIP PLAN

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of restricted stock units ("RSUs"), performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2002, RSU, PSU and stock option awards with respect to 31.2 million shares of Common Stock have been made under the 1994 Plan of which 1.5 million are outstanding and 29.7 million have been converted to freely transferable Common Stock.

1996 MANAGEMENT OWNERSHIP PLAN

During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2002, RSU, PSU and stock option awards with respect to 34.8 million shares of Common Stock have been made under the 1996 Plan of which 19.2 million are outstanding and 15.6 million have been converted to freely transferable Common Stock.

EMPLOYEE INCENTIVE PLAN

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 246.0 million shares of Common Stock which may be subject to awards. At November 30, 2002, awards with respect to 186.7 million shares of Common Stock have been made under the EIP of which 132.2 million are outstanding and 54.5 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

Restricted Stock Units	*Total*
Balance, November 30, 1999	83,065,780
Granted	22,220,829
Canceled	(3,416,523)
Exchanged for stock without restrictions	(19,247,545)
Balance, November 30, 2000	82,622,541
Granted	15,292,447
Canceled	(3,268,825)
Exchanged for stock without restrictions	(18,189,092)
Balance, November 30, 2001	76,457,071
Granted	9,178,667
Canceled	(1,750,479)
Exchanged for stock without restrictions	(14,547,191)
Balance, November 30, 2002	69,338,068

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

The Company has repurchased approximately 47 million shares to offset the future delivery requirements associated with the above RSUs. These shares have either been transferred to the RSU trust (see Note 9 Common Stock) or are held as Treasury stock.

In 2002, the Company delivered 10.9 million shares of its Common Stock to current and former employees in satisfaction of RSUs awarded in 1997. Substantially all of the shares delivered were funded from the RSU Trust. The Company also received 3.4 million shares from current and former employees in satisfaction of applicable tax withholding requirements. Shares received were recorded as Treasury stock at an aggregate value of $207 million.

Of the RSUs outstanding at November 30, 2002, approximately 46.7 million RSUs were amortized, approximately 9.4 million RSUs will be amortized during fiscal 2003, and the remaining RSUs will be amortized subsequent to November 30, 2003.

Included in the previous table are PSUs the Company has awarded to certain senior officers. The number of PSUs which may be earned is dependent upon the achievement of certain performance levels within predetermined performance periods. During the performance period these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs which then vest in three or more years. As of November 30, 2002, approximately 10.4 million PSUs have been awarded to date, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Total compensation cost recognized during 2002, 2001 and 2000 for the Company's stock-based awards was approximately $570 million, $544 million and $520 million, respectively.

At November 30, 2002 and 2001, approximately 13.0 million and 14.8 million stock options, respectively, were exercisable at weighted-average prices of $29.95 and $25.04, respectively. The weighted-average remaining contractual life of the stock options outstanding at November 30, 2002 is 6.52 years. The exercise price for all stock options awarded has been equal to the market price of Common Stock on the day of grant.

Stock Options	Total	Weighted-Average Exercise Price	Expiration Dates
Balance, November 30, 1999	44,278,756	$ 22.15	6/00-11/09
Granted	25,107,075	$ 34.89	
Exercised	(9,476,558)	$ 17.04	
Canceled	(5,341,634)	$ 24.89	
Balance, November 30, 2000	54,567,639	$ 28.62	2/01-11/10
Granted	21,529,844	$ 53.28	
Exercised	(6,261,030)	$ 16.49	
Canceled	(1,442,239)	$ 27.01	
Balance, November 30, 2001	68,394,214	$ 37.53	1/02-11/11
Granted	26,211,500	$ 54.94	
Exercised	(9,652,041)	$ 25.02	
Canceled	(1,413,181)	$ 43.20	
Balance, November 30, 2002	83,540,492	$ 44.21	11/03-11/12

The disclosure requirements of SFAS 123 require companies which elect not to record the fair value of stock-based compensation awards in the Consolidated Statement of Income to provide pro forma disclosures of net income and earnings per share in the Notes to the Consolidated Financial Statements as if the fair value of stock-based compensation had been recorded. The Company utilized the Black-Scholes option-pricing model to quantify the pro forma effects on net income and earnings per common share of the fair value of the stock options granted and outstanding during 2002, 2001 and 2000. Based on the results of the model, the weighted-average fair value of the stock options granted was $19.07, $13.54 and $9.91 for 2002, 2001 and 2000, respectively. The weighted-average assumptions which were used for 2002, 2001 and 2000 included risk-free interest rates of 3.26%, 4.16% and 6.27%, an expected life of 5.3 years, 4.5 years and 3.6 years, and expected volatility of 35%, 30% and 35%, respectively. In addition, annual dividends of $0.36, $0.28 and $0.22 were used for the 2002, 2001 and 2000 options, respectively.

Under the retroactive alternative to SFAS 123, the Company's 2002, 2001 and 2000 pro forma net income would have been $830 million, $1,183 million and $1,725 million, respectively, compared to actual net income of $975 million, $1,255 million and $1,775 million, respectively. Pro forma earnings per common share for 2002, 2001 and 2000 would have been $2.95, $4.20 and $6.32, respectively, compared to actual earnings per common share of $3.47, $4.38 and $6.38, respectively. The pro forma amounts reflect the effects of the Company's stock option grants and the 15% purchase discount from market value offered to the Company's employees who participate in the ESPP.

Had the Company elected to expense its stock options in fiscal 2002 under the prospective alternative to SFAS 123, net income and earnings per share would have decreased by $81 million and $0.31 per share, respectively.

The following table provides further details relating to Holdings' stock options outstanding as of November 30, 2002:

Stock Options	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Number Exercisable	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)
$ 9.00–$ 9.99	357,880	$ 9.00	1.49	357,880	$ 9.00	1.49
$10.00–$19.99	27,308	$ 19.88	2.00	27,308	$ 19.88	2.00
$20.00–$29.99	15,685,323	$ 22.96	3.26	4,955,278	$ 21.61	2.27
$30.00–$39.99	15,644,540	$ 33.67	3.68	6,733,809	$ 33.84	3.27
$40.00–$49.99	13,572,883	$ 47.87	8.01	588,904	$ 48.25	4.43
$50.00–$59.99	28,233,102	$ 53.76	8.82	28,867	$ 57.23	6.19
$60.00–$69.99	10,019,456	$ 63.40	7.75	339,247	$ 63.40	4.98
Balance, November 30, 2002	83,540,492	$ 44.21	6.52	13,031,293	$ 29.95	2.94

Note 11 Earnings Per Common Share

Earnings per share was calculated as follows:

Earnings Per Common Share *Fiscal year ended* *In millions, except for per share data*	*2002*	*2001*	*2000*
Numerator:			
Net income	$ 975	$ 1,255	$ 1,775
Preferred stock dividends	69	94	96
Numerator for basic earnings per share—income available to common stockholders	$ 906	$ 1,161	$ 1,679
Convertible preferred stock dividends	–	–	8
Numerator for diluted earnings per share—income available to common stockholders (adjusted for assumed conversion of preferred stock)	$ 906	$ 1,161	$ 1,687
Denominator:			
Denominator for basic earnings per share—weighted-average shares	245.4	243.1	243.8
Effect of dilutive securities:			
Employee stock options	12.4	16.2	13.0
Restricted stock units	3.4	6.0	5.0
Preferred shares assumed converted into common	–	–	2.4
Dilutive potential common shares	15.8	22.2	20.4
Denominator for diluted earnings per share—adjusted weighted-average shares	261.2	265.3	264.2
Basic Earnings Per Share	$ 3.69	$ 4.77	$ 6.89
Diluted Earnings Per Share	$ 3.47	$ 4.38	$ 6.38

For 2000, Convertible Voting Preferred Shares were convertible into common shares at a conversion price of approximately $61.50 per share. However, for purposes of calculating dilutive earnings per share, preferred shares were assumed to be converted into common shares when basic earnings per share exceed preferred dividends per share obtainable upon conversion (approximately $3.08 on an annualized basis).

Note 12 Capital Requirements

The Company operates globally through a network of subsidiaries, with several subject to regulatory requirements. In the United States, LBI, as a registered broker-dealer, is subject to the Securities and Exchange Commission ("SEC") Rule 15c3-1, the Net Capital Rule, which requires LBI to maintain net capital of not less than the greater of 2% of aggregate debit items arising from customer transactions, as defined, or 4% of funds required to be segregated for customers' regulated commodity accounts, as defined. At November 30, 2002, LBI's regulatory net capital, as defined, of $1,485 million exceeded the minimum requirement by $1,357 million.

LBIE, a United Kingdom registered broker-dealer and subsidiary of Holdings, is subject to the capital requirements of the Financial Services Authority ("FSA") of the United Kingdom. Financial resources, as defined, must exceed the total financial resources requirement of the FSA. At November 30, 2002, LBIE's financial resources of approximately $2,648 million exceeded the minimum requirement by approximately $801 million. Lehman Brothers Japan Inc.'s Tokyo branch, a regulated broker-dealer, is subject to the capital requirements of the Financial Services Agency and at November 30, 2002, had net capital of approximately $386 million which was approximately $132 million in excess of the specified levels required. Lehman Brothers Bank, FSB (the "Bank"), the Company's thrift subsidiary, is regulated by the Office of Thrift Supervision ("OTS"). The Bank exceeds all regulatory capital requirements and is considered well capitalized by the OTS. Certain other non-U.S. 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, 2002, these other subsidiaries were in compliance with their applicable local capital adequacy requirements. In addition, the Company's "AAA" rated derivatives subsidiaries, Lehman Brothers Financial Products Inc. ("LBFP") and

Lehman Brothers Derivative Products Inc. ("LBDP"), have established certain capital and operating restrictions which are reviewed by various rating agencies. At November 30, 2002, LBFP and LBDP each had capital which exceeded the requirement of the most stringent rating agency by approximately $60 million and $35 million, respectively.

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. At November 30, 2002, approximately $5.4 billion of net assets of subsidiaries were restricted as to the payment of dividends to Holdings.

Note 13 Employee Benefit Plans

The Company provides various pension plans for the majority of its employees worldwide. In addition, the Company provides certain other postretirement benefits, primarily health care and life insurance, to eligible employees. The following summarizes these plans:

Employee Benefit Plans

In millions, Except for weighted-average	*Pension Benefits November 30*		*Postretirement Benefits November 30*	
	2002	*2001*	*2002*	*2001*
Change in Benefit Obligation				
Benefit obligation at beginning of year	$ 776	$ 667	$ 53	$ 50
Service cost	23	15	1	1
Interest cost	54	49	4	3
Plan amendment	–	4	–	–
Actuarial loss	72	67	15	3
Benefits paid	(27)	(24)	(5)	(4)
Foreign currency exchange rate changes	19	(2)	–	–
Projected Benefit obligation at end of year	$ 917	$ 776	$ 68	$ 53
Change in Plan Assets				
Fair value of plan assets at beginning of year	$ 803	$ 914		
Actual return on plan assets, net of expenses	(100)	(88)		
Employer contribution	177	2		
Benefits paid	(27)	(24)		
Foreign currency exchange rate changes	14	(1)		
Fair value of plan assets at end of year	$ 867	$ 803		
(Underfunded) funded status	(50)	$ 27	$ (68)	$ (53)
Unrecognized net actuarial loss (gain)	512	284	(3)	(19)
Unrecognized prior service cost (credit)	18	20	(4)	(4)
Prepaid (accrued) benefit cost	$ 480	$ 331	$ (75)	$ (76)
Weighted-Average Assumptions				
Discount rate	6.44%	6.89%	6.75%	7.25%
Expected return on plan assets	8.92%	10.81%		
Rate of compensation increase	4.60%	4.82%	5.00%	5.00%

At November 30, 2002 plan assets exceeded the accumulated benefit obligation by approximately $21 million.

Components of Net Periodic Cost/(Benefit)

In millions	*Pension Benefits Twelve Months Ended November 30*			*Postretirement Benefits Twelve Months Ended November 30*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
Service cost	$ 24	$ 15	$ 14	$ 1	$ 1	$ 1
Interest cost	54	49	46	4	3	4
Expected return on plan assets	(72)	(97)	(96)	–	–	–
Recognized net actuarial loss (gain)	18	–	1	(1)	(1)	(2)
Recognized prior service cost	2	1	1			
Net periodic cost (benefit)	$ 26	$ (32)	$ (34)	$ 4	$ 3	$ 3

For measurement purposes, the annual health care cost trend rate was assumed to be 12.0% for the year ending November 30, 2003. The rate was assumed to decrease 1.0% per year until it reaches 5.0% and remain at that level thereafter.

Assumed health care cost trend rates have an effect on the amount reported for postretirement benefits. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

In millions	*1% Point Increase*	*1% Point Decrease*
Effect on total service and interest cost components in fiscal 2002	$0.4	$(0.1)
Effect on postretirement benefit obligation at November 30, 2002	$3.6	$(3.2)

Note 14 Income Taxes

The Company files 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:

Income Taxes *In millions* *Twelve months ended November 30*	*2002*	*2001*	*2000*
Current			
Federal	$ 371	$ 491	$ 295
State	208	148	45
Foreign	459	441	577
	1,038	1,080	917
Deferred			
Federal	(462)	(406)	(114)
State	(166)	(65)	(54)
Foreign	(42)	(172)	(1)
	(670)	(643)	(169)
Provision for income taxes	$ 368	$ 437	$ 748

Income before taxes included $406 million, $(50) million and $1,287 million that has also been subject to income taxes of foreign jurisdictions for 2002, 2001 and 2000, respectively.

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

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
Federal income taxes at statutory rate	$ 490	$ 612	$ 903
State and local taxes	27	54	(6)
Tax-exempt income	(180)	(176)	(130)
Amortization of goodwill	–	2	2
Foreign operations	–	(55)	(15)
Other, net	31	–	(6)
Provision for income taxes	$ 368	$ 437	$ 748

The increase in the Company's effective tax rate in 2002 from 2001 was primarily due to a less favorable mix of geographic earnings, which is partially offset by a greater impact of permanent differences, including tax-exempt income. The decrease in the effective tax rate in 2001 from 2000 was primarily due to a greater impact of permanent differences due to a decrease in the level of pre-tax income, an increase in tax-exempt income and a higher level of income from foreign operations.

Income tax benefits of approximately $347 million, $549 million and $373 million were allocated to Additional paid-in capital related to various employee compensation plans for 2002, 2001 and 2000. In addition, the Company recorded $(1) million, $(1) million and $(8) million of tax (benefits)/provisions from the translation of foreign currencies, which was recorded directly in Accumulated other comprehensive income, for the fiscal years 2002, 2001 and 2000, respectively. These benefits will reduce the amount of current income taxes payable.

At November 30, 2002 and 2001 the deferred tax assets and liabilities consisted of the following:

The Company permanently reinvested its earnings in certain foreign subsidiaries. As of November 30, 2002, $178 million of the Company's accumulated earnings were permanently reinvested. At current tax rates, additional federal income taxes (net of available tax credits) of $70 million would become payable if such income were to be repatriated.

Deferred income taxes are provided for the differences between the tax basis 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. The Company provides for deferred income taxes on undistributed earnings of foreign subsidiaries which are not permanently reinvested.

The net deferred tax assets are included in Other assets in the accompanying Consolidated Statement of Financial Condition.

Deferred Tax Assets and Liabilities

In millions *November 30*	*2002*	*2001*
Deferred Tax Assets		
Liabilities/accruals not currently deductible	$ 698	$ 459
Deferred compensation	898	782
Unrealized trading activity	336	101
Foreign tax credits including carryforwards	284	309
NOL carryforwards	53	148
Other	214	168
	$ 2,483	$ 1,967
Less: Valuation allowance	(25)	(18)
Total deferred tax assets net of valuation allowance	$ 2,458	$ 1,949
Deferred Tax Liabilities		
Excess tax over financial depreciation, net	$ 2	$ (119)
Pension and retirement costs	(128)	(96)
Other	(7)	(55)
Total deferred tax liabilities	$ (133)	$ (270)
Net Deferred Tax Assets	$ 2,325	$ 1,679

The Company has approximately $151 million of net operating loss carryforwards associated with foreign subsidiaries, all of which have no expiration date. The Company utilized $168 million of foreign tax credit carryforwards during 2002. The carryforward limitation period for the remaining foreign tax credits has not begun.

As of November 30, 2002, $18 million of the valuation allowance relates to temporary differences resulting from the 1988 acquisition of E.F. Hutton Group, Inc. (now known as LB I Group Inc.) which are subject to separate company limitations. If future circumstances permit the recognition of the acquired tax benefit, then goodwill will be reduced.

Note 15 Derivative Financial Instruments

Derivatives are financial instruments whose value is based upon an underlying asset (e.g., Treasury bond), index (e.g., S&P 500) or reference rate (e.g., LIBOR). 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.

In the normal course of business, the Company enters into derivative transactions both in a trading capacity and as an end-user. The Company's derivative activities (both trading and end-user) are recorded at fair value on the Company's Consolidated Statement of Financial Condition. Acting in a trading capacity, the Company enters into derivative transactions to satisfy the needs of its clients and to manage the Company's own exposure to market and credit risks resulting from its trading activities (collectively, "Trading-Related Derivative Activities"). As an end-user, the Company primarily enters into interest rate swap and option contracts to adjust the interest rate nature of its funding sources from fixed to floating rates, and to change the index upon which floating interest rates are based (e.g., Prime to LIBOR) (collectively, "End-User Derivative Activities"). There is an extensive range of derivative products available in the marketplace, which can vary from a simple forward foreign exchange contract to a complex derivative instrument with multiple risk characteristics involving the aggregation of the risk characteristics of a number of derivative product types including swap products, options and forwards. Listed below are examples of various derivative product types along with a brief discussion of the performance mechanics of certain specific derivative instruments.

SWAP PRODUCTS

Swap products include interest rate and currency swaps, leveraged swaps, swap options, other interest rate option products including caps, collars and floors, and credit default swaps. An interest rate swap is a negotiated OTC contract in which two parties agree to exchange periodic interest payments for a defined period, calculated based upon a predetermined notional amount. Interest payments are usually exchanged on a net basis throughout the duration of the swap contract. A currency swap is an OTC agreement to exchange a fixed amount of one currency for a specified amount of a second currency at the outset and completion of the swap term. Leveraged swaps involve the multiplication of the interest rate factor upon which the interest payment streams are based (e.g., Party A pays three times the six-month LIBOR). Caps are contractual commitments that require the writer to pay the purchaser the amount by which an interest reference rate exceeds a defined contractual rate, if any, at specified times during the contract. Conversely, a floor is a contractual commitment that requires the writer to pay the amount by which a defined contractual rate exceeds an interest reference rate at specified times over the life of the contract, if any. Equity swaps are contractual agreements whereby one party agrees to receive the appreciation (or depreciation) value over a strike price on an equity investment in return for paying another rate, which is usually based upon equity index movements or interest rates. Commodity swaps are contractual commitments to exchange the fixed price of a commodity for a floating price (which is usually the prevailing spot price) throughout the swap term. Credit derivatives are contractual agreements that provide insurance against a credit event of one or more referenced credits. The nature of the credit event is established by the buyer and seller at the inception of the transaction, and such events include bankruptcy, insolvency, rating agency downgrade and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a contingent payment by the seller (insurer) following a credit event. The Company acts as both a buyer and seller of credit derivatives.

OPTIONS

Option contracts provide the option purchaser (holder) with the right but not the obligation to buy or sell a financial instrument, commodity or currency at a predetermined exercise price (strike price) during a defined period (American Option) or at a specified date (European Option). The option purchaser pays a premium to the option seller (writer) for the right to exercise the option. The option seller is obligated to buy (put) or sell (call) the item underlying the contract at a set price, if the option purchaser chooses to exercise. Option contracts also exist for various indices and are similar to options on a security or other instrument except that, rather than physical settling with delivery of the underlying instrument, they are cash settled. As a purchaser of an option contract, the Company is subject to credit risk, since the counterparty is obligated to make payments under the terms of the option contract, if the Company exercises the option. As the writer of an option contract, the Company is not subject to credit risk but is subject to market risk, since the Company is obligated to make payments under the terms of the option contract if exercised.

Option contracts may be exchange-traded or OTC. Exchange-traded options are the obligations of the exchange and generally have standardized terms and performance mechanics. In contrast, all of the terms of an OTC option including the method of settlement, term, strike price, premium and security are determined by negotiation of the parties.

FUTURES AND FORWARDS

Futures contracts are exchange-traded contractual commitments to either receive (purchase) or deliver (sell) a standard amount or value of a financial instrument or commodity at a specified future date and price. Maintaining a futures contract requires the Company to deposit with the exchange an amount of cash or other specified assets as security for its obligation. Therefore, the potential for losses from exchange-traded products is limited. As of November 30, 2002 the Company had approximately $2.2 billion on deposit with futures exchanges consisting of cash and securities (customer and proprietary). Additionally, futures exchanges generally require the daily cash settlement of unrealized gains/losses on open contracts with the futures exchange. Therefore, futures contracts provide a reduced funding alternative to purchasing the underlying cash position in the marketplace. Futures contracts may be settled by physical delivery of the underlying asset or cash settlement (for index futures) on the settlement date or by entering into an offsetting futures contract with the futures exchange prior to the settlement date.

Forwards are OTC contractual commitments to purchase or sell a specified amount of a financial instrument, foreign currency or commodity on a future date at a predetermined price. TBAs are forward contracts which give the purchaser/seller an obligation to obtain/deliver mortgage securities in the future. Therefore, TBAs subject the holder to both interest rate risk and principal prepayment risk.

TRADING-RELATED DERIVATIVE ACTIVITIES

Derivatives are subject to various risks similar to other financial instruments including market, credit and operational risk. In addition, the Company may be exposed to legal risks related to its derivative activities including the possibility that a transaction may be unenforceable under applicable law. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with the Company's other trading-related activities. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firmwide risk management policies.

Derivatives are generally based upon notional amounts. Notional amounts are not recorded on-balance sheet, but rather are utilized solely as a basis for determining future cash flows to be exchanged. Therefore, notional amounts provide a measure of the Company's involvement with such instruments, but are not indicative of actual or potential risk.

As of November 30, 2002 and 2001, the Company had total notional/contract amounts of trading related derivative activities of $7,488 billion and $5,394 billion, respectively. Of the total notional amounts, approximately $7,116 billion and $4,917 billion are over-the-counter and $372 billion and $477 billion are exchange-traded as of November 30, 2002 and 2001, respectively. The total weighted-average maturity at November 30, 2002, for over-the-counter and exchange-traded contracts was 4.2 years and 0.7 years, respectively. Approximately $2,445 billion of the notional/contract amount of the Company's Trading-Related Derivative Activities mature within the year ending November 30, 2003.

The Company records its Trading-Related Derivative Activities on a mark-to-market basis with realized and unrealized gains and losses recognized currently in Principal transactions in the Consolidated Statement of Income. Unrealized gains and losses on derivative contracts are recorded on a net basis in the Consolidated Statement of Financial Condition for those transactions with counterparties executed under a legally enforceable master netting agreement and are netted across products when such provisions are stated in the master netting agreement. The Company offers equity, fixed income and foreign exchange products to its customers. Because of the integrated nature of the market for such products, each product area trades cash instruments as well as derivative products.

Listed in the following table is the fair value of the Company's Trading-Related Derivative Activities as of November 30, 2002 and 2001.

Assets included in the following table represent the Company's unrealized gains, net of unrealized losses for situations in which the Company has a master netting agreement. Similarly,

Fair Value of Trading-Related Derivative Financial Instruments *In millions*	*Fair Value* November 30, 2002* Assets	Liabilities	*Fair Value* November 30, 2001* Assets	Liabilities
Interest rate, currency and credit default swaps and options *(including caps, collars and floors)*	$ 9,046	$ 7,087	$ 6,482	$ 6,485
Foreign exchange forward contracts and options	814	1,157	740	1,111
Other fixed income securities contracts *(including futures contracts, options and TBAs)*	602	215	747	226
Equity contracts *(including equity swaps, warrants and options)*	3,400	1,667	3,586	2,502
	$ 13,862	$ 10,126	$ 11,555	$ 10,324

*Amounts represent carrying value (exclusive of collateral) and do not include receivables or payables related to exchange-traded futures contracts.

liabilities represent net amounts owed to counterparties. The fair value of assets/liabilities related to derivative contracts at November 30, 2002 and 2001 represents the Company's net receivable/payable for derivative financial instruments before consideration of collateral. Included within the $13,862 million fair value of assets at November 30, 2002 was $12,846 million related to swaps and other OTC contracts and $1,016 million related to exchange-traded option and warrant contracts. Included within the $11,555 million fair value of assets at November 30, 2001 was $10,555 million related to swaps and other OTC contracts and $1,000 million related to exchange-traded option and warrant contracts.

The primary difference in risks between OTC and exchange-traded contracts is credit risk. OTC contracts contain credit risk for unrealized gains from various counterparties for the duration of the contract, net of collateral. With respect to OTC contracts, including swaps, the Company views its net credit exposure to third-parties to be $8,223 million at November 30, 2002, representing the fair value of the Company's OTC contracts in an unrealized gain position, after consideration of collateral.

Counterparties to the Company's OTC derivative products are primarily financial intermediaries (U.S. and foreign banks), securities firms, corporations, governments and their agencies, finance companies, insurance companies, investment companies and pension funds. Collateral held related to OTC contracts generally includes cash and U.S. government and federal agency securities. Presented below is an analysis of the Company's net credit exposure at November 30, 2002 for OTC contracts based upon actual ratings made by external rating agencies or by equivalent ratings established and utilized by the Company's Credit Risk Management Department.

Counterparty Risk Rating	*S&P/ Moody's Equivalent*	*Net Credit Exposure*
1	AAA/Aaa	15%
2	AA-/Aa3 or higher	30%
3	A-/A3 or higher	33%
4	BBB-/Baa3 or higher	17%
5	BB-/Ba3 or higher	4%
6	B+/B1 or lower	1%

The Company's net credit exposure from OTC contracts, by maturity, is set forth below:

Counterparty Risk Rating	*Less than 1 Year*	*2-5 Years*	*5-10 Years*	*Greater than 10 Years*	*Total*
1	3%	3%	6%	3%	15%
2	7%	7%	8%	8%	30%
3	7%	12%	6%	8%	33%
4	4%	5%	3%	5%	17%
5	–	–	3%	1%	4%
6	1%	–	–	–	1%
Total	22%	27%	26%	25%	100%

The Company is also subject to credit risk related to its exchange-traded derivative contracts. Exchange-traded contracts, including futures and certain options, are transacted directly on exchanges. To protect against the potential for a default, all exchange clearinghouses impose net capital requirements for their membership. Additionally, exchange clearinghouses require counterparties to futures contracts to post margin upon the origination of the contracts and for any changes in the market value of the contracts on a daily basis (certain foreign exchanges provide for settlement within three days). Therefore, the potential for losses from exchange-traded products is limited.

END-USER DERIVATIVE ACTIVITIES

The Company utilizes a variety of derivative products for non-trading purposes as an end-user to modify the interest rate characteristics of its long-term debt portfolio and certain secured financing activities. In this regard, the Company primarily enters into fair value hedges utilizing interest rate swaps to convert a substantial portion of the Company's fixed rate long-term debt and certain term fixed rate secured financing activities to a floating interest rate. The ineffective portion of the fair value hedges were included in Interest expense on the Consolidated Statement of Income and were not material to the Company's results for the fiscal years ended November 30, 2002 and 2001.

At November 30, 2002 and 2001, the notional amounts of the Company's end-user derivative activities related to its long-term debt obligations were approximately $49.1 billion and $35.1 billion, respectively. (For a further discussion of the Company's long-term debt related end-user derivative activities see Note 6.)

The Company also utilizes derivative products as an end-user to modify its interest rate exposure associated with its secured financing activities, including Securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured borrowings. As with the Company's long-term debt, its secured financing activities expose the Company to interest rate risk. The Company, as an end-user, manages the interest rate risk related to these activities by utilizing derivative financial instruments, including interest rate swaps and purchased options. The Company designates certain specific derivative transactions against specific assets and liabilities with matching maturities. At November 30, 2002 and 2001, the Company, as an end-user, utilized derivative financial instruments with an aggregate notional amount of $6.9 billion and $8.8 billion, respectively, to modify the interest rate characteristics of its secured financing activities. The total notional amount of these agreements had a weighted-average maturity of 5.3 years and 5.1 years as of November 30, 2002 and 2001, respectively.

Note 16 Securitizations

The Company is a market leader in mortgage- and asset-backed securitizations and other structured financing arrangements. In connection with these activities, the Company utilizes special purpose entities principally for (but not only limited to) the securitization of commercial and residential mortgages, home equity loans, government and corporate bonds, and lease and trade receivables. The Company derecognizes financial assets transferred in securitizations provided that the Company has relinquished control over such assets. For further information regarding the accounting for securitization transactions, refer to Note 1, Basis of Presentation – Consolidation Accounting Policies – Transfers of Financial Assets. The Company may retain an interest in the financial assets it securitizes ("retained interests"), which may include assets in the form of residual interests in the special purpose entities established to facilitate the securitization. Any retained interests are included in Securities and other financial instruments owned (principally Mortgages and mortgage-backed) within the Company's Consolidated Statement of Financial Condition. During fiscal 2002 and 2001, the Company securitized approximately $155 billion and $110 billion of financial assets, including: $108 billion and $50 billion of residential mortgages, $15 billion and $11 billion of commercial mortgages and $32 billion and $49 billion of other asset-backed financial instruments, respectively.

As of November 30, 2002 and November 30, 2001, the Company had approximately $1.1 billion and $1.6 billion, respectively, of non-investment grade retained interests from its securitization activities (principally junior security interests in securitizations) including $0.5 billion and $1.0 billion of commercial mortgages, $0.4 billion and $0.3 billion of residential mortgages, and $0.2 billion and $0.3 billion of other asset-backed financial instruments, respectively. The Company records its trading assets on a mark-to-market basis, including those assets held prior to securitization, as well as any retained interests post securitization. Mark-to-market gains or losses are recorded in "Principal transactions" in the Consolidated Statement of Income. Fair value is determined based upon market prices, if available. When market prices are not available, fair value is determined based on valuation pricing models which take into account relevant factors such as discount, credit and prepayment assumptions, and also considers comparisons to similar market transactions.

The tables below outline the key economic assumptions used in measuring the fair value of retained interests:

At November 30, 2002:	*Residential Mortgages*	*Commercial Mortgages*	*Other Asset Backed*
Weighted-average life	3 years	1 year	5 years
Annual prepayment rate	4 – 65 CPR	0 – 15 CPR	8 – 15 CPR
Credit loss assumption	.5 – 6%	2 – 17%	3 – 10%
Weighted-average discount rate	17%	20%	5%

At November 30, 2001:	*Residential Mortgages*	*Commercial Mortgages*	*Other Asset Backed*
Weighted-average life	4 years	1 year	2 years
Annual prepayment rate	6 – 45 CPR	0 – 10 CPR	6 – 12 CPR
Credit loss assumption	.5 – 6%	2 – 17%	3 – 10%
Weighted-average discount rate	19%	20%	8%

The table below outlines the sensitivity of the fair value of the retained interests to immediate 10% and 20% adverse changes in the above assumptions:

	At November 30, 2002			*At November 30, 2001*		
In millions	*Residential Mortgages*	*Commercial Mortgages*	*Other Asset Backed*	*Residential Mortgages*	*Commercial Mortgages*	*Other Asset Backed*
Prepayment speed:						
Impact of 10% adverse change	$ 4	$ –	$ 1	$ 9	$ –	$ –
Impact of 20% adverse change	$ 8	$ –	$ 2	$ 17	$ –	$ 1
Assumed credit losses:						
Impact of 10% adverse change	$ 17	$ –	$ 12	$ 16	$ –	$ 3
Impact of 20% adverse change	$ 33	$ 12	$ 24	$ 32	$ –	$ 5
Discount rate:						
Impact of 10% adverse change	$ 17	$ –	$ 12	$ 26	$ 2	$ 2
Impact of 20% adverse change	$ 34	$ –	$ 24	$ 52	$ 5	$ 5

The sensitivity analysis in the preceding table is hypothetical and should be used with caution as the above stresses are performed without consideration of the impact of hedges, which serve to reduce the Company's actual risk. In addition, 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 (for example, changes in discount rates will often impact expected prepayment speeds). Further, changes in the fair value based upon 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.

The following table summarizes cash flows from securitization trusts for the fiscal year ended November 30, 2002:

In millions	*Residential Mortgages*	*Commercial Mortgages*	*Other Asset Backed*
Purchases of delinquent loans	$ –	$ (22)	$ –
Cash flows received on retained interests	$ 240	$ 73	$ 133

Note 17 Fair Value of Financial Instruments

SFAS No. 107 "Disclosures about Fair Value of Financial Instruments" requires the Company to report the fair value of financial instruments, as defined. Assets and liabilities that are carried at fair value include all of the Company's trading assets and liabilities including derivative financial instruments used for trading purposes as described in Note 1, which are recorded as Securities and other financial instruments owned and Securities and other financial instruments sold but not yet purchased.

Assets and liabilities, which are recorded at contractual amounts, that approximate market or fair value include cash and cash equivalents, cash and securities segregated and on deposit for regulatory and other purposes, receivables, certain other assets, commercial paper and short-term debt and payables. The market value of such items is not materially sensitive to shifts in market interest rates because of the limited term to maturity of these instruments and their variable interest rates.

In 2002 and 2001, the Company's long-term debt was recorded at historical amounts, unless designated as the hedged item in a fair value hedge under SFAS 133. The Company carries such hedged debt on a modified mark-to-market basis, which amount could differ from fair value.

The following table provides a summary of the fair value of the Company's long-term debt and related end-user derivative activities. The fair value of the Company's long-term debt was estimated using either quoted market prices or discounted cash flow analyses based on the Company's current borrowing rates for similar types of borrowing arrangements.

Fair Value of Long-Term Debt

In millions	*2002*	*2001*
Carrying value of long-term debt	$ 38,678	$ 38,301
Fair value of long-term debt	$ 38,968	$ 38,458
Unrecognized net (loss) on long-term debt	$ (290)	$ (157)

The Company carries its secured financing activities, including Securities purchased under agreements to resell, Securities borrowed, Securities sold under agreements to repurchase, Securities loaned and Other secured borrowings, at their original contract amount plus accrued interest. As the majority of such financing activities are short-term in nature, carrying value approximates fair value. At November 30, 2002 and 2001, the Company had $230 billion and $224 billion, respectively, of such secured financing activities. As with the Company's long-term debt, its secured financing activities expose the Company to interest rate risk.

At November 30, 2002 and 2001, the Company, as an end user, utilized derivative financial instruments with an aggregate notional amount of $6.9 billion and $8.8 billion, respectively, to modify the interest rate characteristics of its secured financing activities. At November 30, 2002 and 2001, the carrying value of these secured financing activities designated as a fair value hedge approximated its fair value. Additionally, at November 30, 2002 and 2001, the Company had approximately $30 million and $20 million, respectively, of unrecognized losses related to approximately $3.9 billion and $8.5 billion, respectively, of long-term fixed rate repurchase agreements.

Note 18 Financial Instruments

Securities and other financial instruments owned and Securities and other financial instruments sold but not yet purchased are recorded at fair value and were comprised of the following:

In millions	*November 30, 2002*	*November 30, 2001*
Securities and other financial instruments owned:		
Mortgages and mortgage-backed	$ 34,431	$ 33,210
Government and agencies	28,543	26,697
Derivatives and other contractual agreements	13,862	11,555
Corporate debt and other	15,620	20,969
Corporate equities	21,252	23,480
Certificates of deposits and other money market instruments	5,570	3,451
	$ 119,278	$ 119,362
Securities and other financial instruments sold but not yet purchased:		
Government and agencies	$ 40,852	$ 25,547
Derivatives and other contractual agreements	10,126	10,324
Corporate debt and other	8,927	6,482
Corporate equities	9,129	8,977
	$ 69,034	$ 51,330

Note 19 Securities Pledged as Collateral

The Company enters into secured borrowing and lending transactions to finance trading inventory positions, obtain securities for settlement and meet customers' needs. The Company primarily receives collateral in connection with resale agreements, securities borrowed transactions, customer margin loans and certain other loans. The Company is generally permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, enter into securities lending transactions or deliver to counterparties to cover short positions. The Company carries secured financing agreements for financial reporting purposes on a net basis when permitted under the provisions of Financial Accounting Standards Board Interpretation No. 41 ("FIN 41").

At November 30, 2002 and 2001, the fair value of securities received as collateral and securities owned that have not been sold, repledged or otherwise encumbered totaled approximately $51 billion and $38 billion, respectively. At November 30, 2002 and 2001, the gross fair value of securities received as collateral where the Company was permitted to sell or repledge the securities was approximately $345 billion and $245 billion, respectively. Of this collateral, approximately $338 billion and $234 billion at November 30, 2002 and 2001, respectively, has been sold or repledged, generally as collateral under repurchase agreements or to cover securities and other financial instruments sold but not yet purchased.

The Company also pledges its own assets, principally to collateralize certain financing arrangements. These pledged securities, where the counterparty has the right, by contract or custom, to rehypothecate the financial instruments are classified as Securities and other financial instruments owned, (pledged as collateral), on the Company's Consolidated Statement of Financial Condition as required by SFAS 140.

In addition, the carrying value of securities and other financial instruments owned that have been pledged to counterparties where those counterparties do not have the right to sell or repledge were approximately $39 billion and $52 billion at November 30, 2002 and November 30, 2001, respectively.

Note 20 Other Commitments And Contingencies

As of November 30, 2002 and 2001, the Company was contingently liable for $0.8 billion and $1.1 billion, respectively, of letters of credit, primarily used to provide collateral for securities and commodities borrowed and to satisfy margin deposits at option and commodity exchanges.

In connection with its financing activities, the Company had outstanding commitments under certain lending arrangements of approximately $1.5 billion and $2.1 billion at November 30, 2002 and 2001, 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 the above lending arrangements are typically at variable interest rates and generally provide for over-collateralization based upon the borrowers' creditworthiness. At November 30, 2002, the Company had commitments to enter into forward starting reverse repurchase agreements and repurchase agreements, principally secured by government and government agency collateral, of approximately $89.9 billion and $50.3 billion, respectively, as compared to $52.3 billion and $26.5 billion, respectively, at November 30, 2001.

The Company, through its high grade and high yield sales, trading and underwriting activities, makes commitments to extend credit in loan syndication transactions. The Company utilizes various hedging and funding strategies to actively manage its market, credit and liquidity exposures on these commitments. In addition, total commitments are not indicative of actual risk or funding requirements, as the commitments may not be drawn or fully utilized. These commitments and any related draw downs of these facilities typically have fixed maturity dates and are contingent upon certain representations, warranties and contractual conditions applicable to the borrower.

The Company had credit risk associated with lending commitments to investment grade borrowers (after consideration of hedges) of $3.2 billion and $4.1 billion at November 30, 2002 and November 30, 2001, respectively. In addition, the Company had credit risk associated with lending commitments to non-investment grade borrowers (after consideration of hedges) of $1.7 billion and $1.4 billion at November 30, 2002 and November 30, 2001, respectively. Before consideration of hedges, the Company had commitments to investment and non-investment grade borrowers of $7.1 billion and $1.8 billion as compared to $5.9 billion and $1.4

billion at November 30, 2002 and November 30, 2001, respectively. The Company had available undrawn borrowing facilities with third parties of approximately $5.2 billion and $4.9 billion at November 30, 2002 and November 30, 2001, respectively, which can be drawn upon to provide funding for these commitments. These funding facilities contain limits for certain concentrations of counterparty, industry or credit ratings of the underlying loans.

In addition, the Company provided high yield contingent commitments related to acquisition financing of approximately $2.8 billion and $0.6 billion at November 30, 2002 and 2001, respectively. The Company's intent is, and its past practice has been, to sell down significantly all the credit risk associated with these loans, if closed, through loan syndications consistent with the Company's credit facilitation framework. These commitments are not indicative of the Company's actual risk as the borrower's ability to draw is subject to there being no material adverse change in either market conditions or the borrower's financial condition, among other factors. In addition, these commitments contain certain flexible pricing features in order to adjust for changing market conditions prior to closing.

As of November 30, 2002 and 2001, the Company had pledged securities, primarily fixed income, having a market value of approximately $41.6 billion and $31.8 billion, respectively, as collateral for securities borrowed having a market value of approximately $40.6 billion and $31.2 billion, respectively.

Securities and other financial instruments sold but not yet purchased represent obligations of the Company to purchase the securities at prevailing market prices. Therefore, the future satisfaction of such obligations may be for an amount greater or less than the amount recorded. The ultimate gain or loss is dependent upon the price at which the underlying financial instrument is purchased to settle the Company's obligation under the sale commitment.

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

At November 30, 2002 and 2001, the Company had commitments to invest up to $672 million and $555 million, respectively, directly and through partnerships in private equity related investments. These commitments will be funded as required through the end of the respective investment periods, principally expiring in 2004.

Subsidiaries of the Company, as general partner, are contingently liable for the obligations of certain public and private limited partnerships organized as pooled investment funds or engaged primarily in real estate activities. In the opinion of the Company, contingent liabilities, if any, for the obligations of such partnerships will not, in the aggregate, have a material adverse effect on the Company's consolidated financial position or results of operations.

In the normal course of its business, the Company has been named a defendant in a number of lawsuits and other legal proceedings. After considering all relevant facts, and established reserves, in the opinion of the Company such litigation will not, in the aggregate, have a material adverse effect on the Company's consolidated financial position or cash flows, but may be material to the Company's operating results for any particular period, depending on the level of income for such period.

CONCENTRATIONS OF CREDIT RISK

As a leading global investment bank, the Company is actively involved in securities underwriting, brokerage, distribution and trading. These and other related services are provided on a worldwide basis to a large and diversified group of clients and customers, including multinational corporations, governments, emerging growth companies, financial institutions and individual investors.

A substantial portion of the Company's securities and commodities transactions are collateralized and are executed with, and on behalf of, commercial banks and other institutional investors, including other brokers and dealers. The Company's exposure to credit risk associated with the non-performance of these customers and counterparties in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile or illiquid trading markets, which may impair the ability of customers and counterparties to satisfy their obligations to the Company.

Securities and other financial instruments owned by the Company include U.S. government and agency securities, and securities issued by non-U.S. governments, which in the aggregate, represented 10% of the Company's total assets at November 30, 2002. In addition, collateral held by the Company for resale agreements represented approximately 36% of total assets at November 30, 2002, and primarily consisted of securities issued by the U.S. government, federal agencies or non-U.S. governments. The Company's 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 the Company's business.

LEASE COMMITMENTS

The Company leases office space and equipment throughout the world. Total rent expense for 2002, 2001 and 2000 was $148 million, $98 million and $47 million, respectively. Certain leases on office space contain escalation clauses providing for additional payments based upon maintenance, utility and tax increases.

Minimum future rental commitments under non-cancelable operating leases (net of subleases of $74 million) are as follows:

Minimum Future Rental Commitments Under Operating Lease Agreements

In millions

Fiscal 2003	$ 139
Fiscal 2004	109
Fiscal 2005	122
Fiscal 2006	124
Fiscal 2007	121
December 1, 2007 and thereafter	1,272
	$ 1,887

Included in the above table are rental commitments of approximately $991 million associated with properties that have been or will be vacated resulting from the Company's decision to exit certain of its New York City facilities (resulting from occupancy actions taken after the events of September 11th), and the consolidation of certain U.S. and foreign branches (See Notes 2 and 3 for additional information regarding September 11th Related (Recoveries)/Expenses, Net and Other Real Estate Reconfiguration Charge).

The Company has entered into a lease for its new European headquarters being constructed at Canary Wharf in London. This lease qualifies for capital lease treatment under SFAS No. 13 "Accounting for Leases." The Company's lease at Canary Wharf expires in September 2033. Occupancy is scheduled to begin late in 2003. The Company has capitalized approximately $440 million in construction in progress as of November 30, 2002.

Minimum Future Commitments Under The Capital Lease Agreement

In millions

Fiscal 2003	$ –
Fiscal 2004	–
Fiscal 2005	51
Fiscal 2006	51
Fiscal 2007	51
December 1, 2007 and thereafter	2,315
Total minimum lease payments	2,468
Less: Amounts of these payments which represent interest	1,605
Present value of future minimum capital lease payments	$ 863

OTHER OFF-BALANCE-SHEET ARRANGEMENTS

SPEs are corporations, trusts or partnerships which are established for a limited purpose. SPEs by their nature generally do not provide equity owners with significant voting powers, as the SPE documents govern all material decisions. The Company's primary involvement with SPEs relates to securitization transactions in which transferred assets, including mortgages, loans, receivables and other assets, are sold to an SPE and repackaged into securities (i.e. securitized). SPEs may also be utilized by the Company to create securities with a unique risk profile desired by investors, and as a means of intermediating financial risk. In summary, in the normal course of business, the Company may establish SPEs; sell assets to SPEs; underwrite, distribute and make a market in securities issued by SPEs; transact derivatives with SPEs; own securities or residual interests in SPEs; and provide liquidity or other guarantees for SPEs.

The Company follows the consolidation accounting guidance under SFAS 140 and EITF Topic D-14 to determine whether or not an SPE is required to be consolidated. The majority of the Company's involvement with SPEs relates to securitization transactions meeting the SFAS 140 definition of a qualifying special purpose entity ("QSPE"). A QSPE can generally be described as an entity with significantly limited powers which are intended to limit it to passively holding financial assets and distributing cash flows based upon pre-set terms. Based upon the guidance in SFAS 140, the Company is not required to and does not consolidate such QSPEs. Rather the Company accounts for its involvement with QSPEs under a financial components approach in which the Company recognizes only its retained involvement with the QSPE.

The Company is a market leader in mortgage (both residential and commercial), municipal and other asset-backed securitizations which are principally transacted through QSPEs. The Company securitized approximately $155 billion of financial assets during fiscal 2002 including $108 billion of residential, $15 billion of commercial and $32 billion of municipal and other financial assets. As of November 30, 2002 and 2001, the Company had approximately $1.1 billion and $1.6 billion of non-investment grade retained interests from its securitization activities, respectively. The Company accounts for such retained interests at fair value with changes in fair value reported in earnings. In addition to these retained interests, the Company also provides certain liquidity commitments to QSPEs, particularly with respect to its municipal securitizations. At November 30, 2002, the Company had liquidity commitments of approximately $4.4 billion related to trust certificates issued by SPEs, backed by investment grade municipal securities, as compared to $3.6 billion at November 30, 2001. The Company's obligation under such liquidity commitments is generally less than one year and is further limited by the fact that the Company's obligation ceases if the underlying assets are downgraded below investment grade or default. (For a further discussion of the Company's securitization activities, see Note 16 Securitizations.)

Certain special purpose entities do not meet the QSPE criteria due to their permitted activities not being sufficiently limited, or because the assets are not deemed qualifying financial instruments (e.g. real estate). In instances in which the Company is either the sponsor of or transferor to a non-qualifying SPE, the Company follows the accounting guidance provided by EITF Topic D-14 to determine whether consolidation is required. Under this guidance, the Company would not be required to, and does not consolidate such SPE if a third party investor made a substantive equity investment in the SPE (minimum of 3%), was subject to first dollar risk of loss of such SPE, and had a controlling financial interest. The Company's principal involvement with non-QSPEs relates to CDOs, synthetic credit transactions and other structured financing transactions to facilitate customers' investment and/or funding needs.

With respect to CDO transactions, in which a diversified portfolio of securities and/or loans are owned by a SPE and managed by an independent asset manager, the Company's role is principally limited to acting as structuring and placement agent, warehouse provider, underwriter and market maker in the related CDO securities. In a typical CDO, at the direction of the asset manager, the Company will warehouse securities and/or loans on its balance sheet pending the transfer to the SPE once capital markets permanent financing is completed. During 2002, the Company acted as structuring and placement agent for approximately $3.1 billion of CDO transactions. At November 30, 2002, the Company did not have any significant continuing involvement in the CDOs arranged by the Company other than acting as market maker.

The Company is a dealer in credit default swaps and, as such, makes a market in buying and selling credit protection on single issuers as well as on portfolios of credit exposures. One of the financial instruments used by the Company to mitigate credit risk is synthetic credit transactions entered into with SPEs. In these transactions, the Company purchases credit protection in the form of a credit default swap from the SPE on referenced obligations (single issuer or portfolio). The Company pays a premium to the SPE for this protection and is secured by high quality collateral purchased by the SPE. Third party investors in these SPEs are subject to default risk associated with the referenced obligations under the default swap as well as credit risk to the assets held by the SPE. The Company's maximum loss associated with its involvement with such synthetic credit transactions is the present value of the premium paid by the Company to purchase the related credit protection from investors in such SPEs. At November 30, 2002, the carrying value of the Company's credit default swaps with such SPEs approximated $731 million (however, the collateral held by such SPEs approximated $5.1 billion).

The Company also enters into certain structured financing transactions with SPEs to facilitate customers' investment and/or funding needs. The Company's involvement in these transactions is generally limited to providing liquidity or other default protection to investors. At November 30, 2002 and 2001, the Company had approximately $5.0 billion and $0.7 billion, respectively, of such commitments, which were principally overcollateralized with investment grade collateral.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51," ("Interpretation No. 46"). This interpretation provides new consolidation accounting guidance for entities involved with SPEs. This guidance does not impact the accounting for securitizations transacted through QSPEs, but rather will replace EITF Topic D-14 as it is applied to non-QSPEs. This interpretation will require a primary beneficiary, defined as an entity which participates in either a majority of the risks or rewards of such SPE, to consolidate the SPE. An SPE would not be subject to this interpretation if such entity has sufficient voting equity capital (presumed to require a minimum of 10%), such that the entity is able to finance its activities without the additional subordinated financial support from other parties. The interpretation will be effective for all existing transactions with SPEs beginning in the Company's fourth quarter of 2003. While the Company has not yet completed its analysis of the impact of the new interpretation, the Company does not anticipate that the adoption of this interpretation will have a material impact on the Company's financial condition or its results of operations.

Note 21 Segments

Lehman Brothers operates in three segments: Investment Banking, Capital Markets, and Client Services.

The Investment Banking Division provides advice to corporate, institutional and government clients throughout the world on mergers, acquisitions and other financial matters. This Division also raises capital for clients by underwriting public and private offerings of debt and equity securities.

The Capital Markets Division includes the Company's institutional sales, trading, research and financing activities in equity and fixed income cash and derivatives products. Through this Division, the Company is a global market-maker in numerous equity and fixed income products, including U.S., European and Asian equities, government and agency securities, money market products, corporate high grade, high yield and emerging market securities, mortgage- and asset-backed securities, municipal securities, bank loans, foreign exchange and derivatives products. This Division also includes the Company's risk arbitrage and secured financing businesses, as well as realized and unrealized gains and losses related to the Company's private equity investments. The financing business manages the Company's equity and fixed income matched book activities, supplies secured financing to institutional clients and customers, and provides secured funding for the Company's inventory of equity and fixed income products.

Client Services revenues reflect earnings from the Company's Private Client and Private Equity businesses. Private Client revenues reflect the Company's high-net-worth retail customer flow activities as well as asset management fees earned from these clients. Private Equity revenues include the management and incentive fees earned in the Company's role as general partner for thirty-three Private Equity partnerships.

The Company's segment information for the years ended November 30, 2002, November 30, 2001 and November 30, 2000 is prepared utilizing the following methodologies:

- Revenues and expenses directly associated with each segment are included in determining pre-tax earnings.
- Expenses not directly associated with specific segments are allocated based upon the most relevant measures applicable, including each segment's revenues, headcount and other factors.
- Net revenues include allocations of interest revenue and interest expense to securities and other positions in relation to the cash generated by, or funding requirements of, the underlying positions.
- Segment assets include an allocation of indirect corporate assets which have been fully allocated to the Company's business segments, generally based on each segment's respective headcount figures.

Segments

In millions	*Investment Banking*	*Capital Markets*	*Client Services*	*Total*
November 30, 2002				
Gross revenues	$ 1,731	$ 14,225	$ 825	$ 16,781
Interest expense	–	10,605	21	10,626
Net revenues	1,731	3,620	804	6,155
Depreciation and amortization expense	45	188	25	258
Other expenses	1,276	2,534	588	4,398
Earnings before taxes[(1)(2)]	$ 410	$ 898	$ 191	$ 1,499
Segment assets (billions)	$ 1.6	$ 253.7	$ 5.0	$ 260.3
November 30, 2001				
Gross revenues	$ 1,925	$ 19,605	$ 862	$ 22,392
Interest expense	–	15,581	75	15,656
Net revenues	1,925	4,024	787	6,736
Depreciation and amortization expense	25	134	15	174
Other expenses	1,527	2,568	592	4,687
Earnings before taxes [(1)(3)]	$ 373	$ 1,322	$ 180	$ 1,875
Segment assets (billions)	$ 1.7	$ 240.3	$ 5.8	$ 247.8
November 30, 2000				
Gross revenues	$ 2,179	$ 23,290	$ 978	$ 26,447
Interest expense	-	18,601	139	18,740
Net revenues	2,179	4,689	839	7,707
Depreciation and amortization expense	20	73	9	102
Other expenses	1,660	2,815	551	5,026
Earnings before taxes [(1)]	$ 499	$ 1,801	$ 279	$ 2,579
Segment assets (billions)	$ 1.3	$ 218.3	$ 5.1	$ 224.7

(1) Before dividends on preferred securities.
(2) Excludes the impact of the real estate reconfiguration charge of $128 million, September 11th related (recoveries)/expenses, net gain of ($108) million and regulatory settlement charge of $80 million.
(3) Excludes the impact of September 11th related expenses, net of $127 million.

Net Revenues by Geographic Region

In millions *Twelve months ended November 30*	*2002*	*2001*	*2000*
U.S.	$ 3,869	$ 4,241	$ 4,492
Europe	1,674	1,955	2,389
Asia Pacific	612	540	826
Total	$ 6,155	$ 6,736	$ 7,707

The following information describes the Company's methods of allocating consolidated net revenues to geographic regions. Net revenues, if origination or trading-related, have been distributed based upon the location where the primary or secondary position was fundamentally risk managed; if fee-related, by the location of the senior coverage banker; if commission-related, by the location of the salespeople. In addition, certain revenues associated with domestic products and services which resulted from relationships with international clients and customers have been reclassified as international revenues using an allocation consistent with the Company's internal reporting.

Note 22 Quarterly Information (unaudited)

The following information represents the Company's unaudited quarterly results of operations for 2002 and 2001. Certain amounts reflect reclassifications to conform to the current period's presentation. These quarterly results reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results. Revenues and earnings of the Company can vary significantly from quarter to quarter due to the nature of the Company's business activities.

Quarterly Information (unaudited)

In millions Except per share amounts	2002 *Nov. 30*	*Aug. 31*	*May 31*	*Feb. 28*	2001 *Nov. 30*	*Aug. 31*	*May 31*	*Feb. 28*
Total revenues	$ 4,133	$ 4,075	$ 4,347	$ 4,226	$ 4,300	$ 5,057	$ 6,284	$ 6,752
Interest expense	2,594	2,728	2,684	2,620	3,097	3,429	4,262	4,869
Net revenues	1,539	1,347	1,663	1,606	1,203	1,628	2,022	1,883
Non-interest expenses:								
Compensation and benefits	785	687	848	819	615	830	1,032	960
Nonpersonnel expenses	400	391	379	347	345	363	365	350
September 11th related (recoveries)/expenses, net	(108)	–	–	–	127	–	–	–
Other real estate reconfiguration charge	128	–	–	–	–	–	–	–
Regulatory settlement	80	–	–	–	–	–	–	–
Total non-interest expenses	1,285	1,078	1,227	1,166	1,087	1,193	1,397	1,310
Income before taxes and dividends on trust preferred securities	254	269	436	440	116	435	625	573
Provision for income taxes	53	61	126	128	(28)	112	181	172
Dividends on trust preferred securities	14	14	14	14	14	14	14	14
Net income	$ 187	$ 194	$ 296	$ 298	$ 130	$ 309	$ 430	$ 387
Net income applicable to common stock	$ 176	$ 183	$ 285	$ 262	$ 119	$ 298	$ 369	$ 375
Weighted-average shares								
Basic	243.9	246.7	245.8	245.3	241.9	240.4	243.9	246.2
Diluted	255.1	261.0	263.5	265.2	261.5	261.8	266.9	270.7
Earnings per common share								
Basic	$ 0.72	$ 0.74	$ 1.16	$ 1.07	$ 0.49	$ 1.24	$ 1.51	$ 1.52
Diluted	$ 0.69	$ 0.70	$ 1.08	$ 0.99	$ 0.46	$ 1.14	$ 1.38	$ 1.39
Dividends per common share	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.07	$ 0.07	$ 0.07	$ 0.07
Book value per common share (at period end)	$ 34.15	$ 33.49	$ 33.22	$ 32.47	$ 31.81	$ 30.83	$ 29.93	$ 28.90

The following table summarizes certain consolidated financial information included in the audited consolidated financial statements.

Selected Financial Data *In millions, except per share data, other data and financial ratios* *Twelve months ended November 30*	*2002*	*2001*	*2000*	*1999*	*1998*
Consolidated Statement Of Income					
Revenues:					
Principal transactions	$ 1,951	$ 2,779	$ 3,713	$ 2,341	$ 1,373
Investment banking	1,771	2,000	2,216	1,682	1,441
Commissions	1,286	1,091	944	651	513
Interest and dividends	11,728	16,470	19,440	14,251	16,542
Other	45	52	134	64	25
Total revenues	16,781	22,392	26,447	18,989	19,894
Interest expense	10,626	15,656	18,740	13,649	15,781
Net revenues	6,155	6,736	7,707	5,340	4,113
Non-interest expenses:					
Compensation and benefits	3,139	3,437	3,931	2,707	2,086
Nonpersonnel expenses	1,517	1,424	1,197	1,002	975
September 11th related (recoveries)/expenses, net	(108)	127	–	–	–
Other real estate reconfiguration charge	128	–	–	–	–
Regulatory settlement	80	–	–	–	–
Total non-interest expenses	4,756	4,988	5,128	3,709	3,061
Income before taxes and dividends on trust preferred securities	1,399	1,748	2,579	1,631	1,052
Provision for income taxes	368	437	748	457	316
Dividends on trust preferred securities	56	56	56	42	–
Net income	$ 975	$ 1,255	$ 1,775	$ 1,132	$ 736
Net income applicable to common stock	$ 906	$ 1,161	$ 1,679	$ 1,037	$ 649
Consolidated Statement Of Financial Condition *(at period end)*					
Total assets	$260,336	$247,816	$224,720	$192,244	$153,890
Total assets excluding matched book [(a)]	165,995	164,538	143,478	130,022	111,509
Long-term debt [(b)]	38,678	38,301	35,233	30,691	27,341
Preferred securities *(subject to mandatory redemption)*	710	710	860	710	–
Total stockholders' equity	8,942	8,459	7,781	6,283	5,413
Total capital [(c)]	48,330	47,470	43,874	37,684	32,754
Per Share Data[(d)]					
Net Income [(e)]	$ 3.47	$ 4.38	$ 6.38	$ 4.08	$ 2.60
Dividends declared per common share	$ 0.36	$ 0.28	$ 0.22	$ 0.18	$ 0.15
Book value per common share (at period end) [(f)]	$ 34.15	$ 31.81	$ 28.78	$ 22.75	$ 18.53
Other Data *(at period end)*					
Ratio of total assets to total stockholders' equity and preferred securities	27.0x	27.0x	26.0x	27.5x	28.4x
Ratio of total assets excluding matched book to total stockholders' equity and preferred securities [(a)]	17.2x	17.9x	16.6x	18.6x	20.6x
Employees	12,343	13,090	11,326	8,893	8,873
Financial Ratios (%)					
Compensation and benefits/net revenues	51.0	51.0	51.0	50.7	50.7
Pretax operating margin [(g)]	22.7	26.0	33.5	30.5	25.6
Effective tax rate [(h)]	26.3	25.0	29.0	28.0	30.0
Return on average common equity [(i)]	11.2	15.9	26.6	20.8	15.2
Return on average common equity *(annualized, excluding redeemable preferred dividend)*[(i)(j)]	11.5	16.5	27.4	21.8	16.3

(a) Matched book represents "securities purchased under agreements to resell" ("reverse repos") to the extent that such balance is less than "securities sold under agreements to repurchase" ("repos") as of the statement of financial condition date. Several nationally recognized rating agencies consider such reverse repos to be a proxy for matched book assets when evaluating the Company's capital strength and financial ratios. Such agencies consider matched book assets to have a low risk profile and exclude such amounts in the calculation of leverage (total assets divided by total stockholders' equity and trust preferred securities). Although there are other assets with similar risk characteristics on the Company's Consolidated Statement of Financial Condition, the exclusion of reverse repos from total assets in this calculation reflects the fact that these assets are matched against liabilities of a similar nature, and therefore require minimal amounts of capital support. Accordingly, the Company believes the ratio of total assets excluding matched book to total stockholders' equity and trust preferred securities to be a more meaningful measure of the Company's leverage.
(b) Long-term debt includes senior notes and subordinated indebtedness.
(c) Total capital includes long-term debt, stockholders' equity and preferred securities subject to mandatory redemption.
(d) All share and per share data have been restated for the two-for-one common stock split effective October 2000.
(e) Diluted EPS was reduced by $0.30 in 2002, as a result of the real estate reconfiguration charge, September 11th related (recoveries)/expenses, net and regulatory settlement charge. Diluted EPS was reduced by $0.26 in 2001 as a result of September 11th related expenses, net.
(f) The book value per common share calculation includes restricted stock units granted under Lehman Brothers Stock Award Programs included in stockholders' equity.
(g) Pre-tax operating margin was reduced by approximately 1.7% in 2002, as a result of the real estate reconfiguration charge, September 11th related (recoveries)/expenses, net and regulatory settlement charge. Pre-tax operating margin was reduced by approximately 1.8% in 2001, as a result of September 11th related expenses, net.
(h) The effective tax rate increased by approximately 0.3% in 2002, as a result of the real estate reconfiguration charge, September 11th related (recoveries)/expenses, net and regulatory settlement charge. The effective tax rate decreased by approximately 1.3% in 2001, as a result of September 11th related expenses, net.
(i) The Company's return on common equity was reduced by 1.0% in 2002, as a result of the real estate reconfiguration charge, September 11th related (recoveries)/expenses, net and regulatory settlement charge. The Company's return on common equity was reduced by 1.0% in 2001, as a result of September 11th related expenses, net.
(j) Return on common equity calculated using net income before adjusting for special preferred dividends of $25 million in 2002 and $50 million in years 1998-2001. These dividends have been excluded on an adjusted basis, as they will no longer be recurring after 2002.