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May 16, 2003

AOR
2003-21

Via Hand Delivery

Lawrence H. Norton, Esq.
General Counsel
Federal Election Commission
999 E Street, NW
Washington, D.C. 20463

RE: Advisory Opinion Request

Dear Mr. Norton:

We are submitting this advisory opinion request ("AOR") on behalf of Lehman Brothers Inc. ("Lehman") concerning the application of the Federal Election Campaign Act of 1971, as amended, ("FECA") and Federal Election Commission ("Commission" or "FEC") regulations to Lehman's separate segregated fund ("SSF"), the Action Fund of Lehman Brothers Holdings Inc. ("Lehman PAC"), and Peabody Energy Corporation's ("Peabody's") SSF, the Peabody Energy Corporation Political Action Committee ("Peabody PAC"). In particular, due to Lehman and its affiliates'[1] ownership of less than 30% of Peabody (before the effect of dilution from stock options), we request that the Commission confirm that the two SSFs are no longer affiliated under the FEC's affiliation rules set forth in 11 C.F.R. §110.3(a)(3)(ii).

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[1] Lehman Brothers Merchant Banking Partners II LP holds approximately 95% of the investment and Lehman owns approximately 5%. Lehman is an investor in the aforementioned entity.

I. Statement of Facts

In May 1998, Lehman, through its affiliate, Lehman Brothers Merchant Banking Partners II LP, purchased 87.5% of the shares of Peabody in a leveraged buy-out. This purchase was solely for investment purposes and Lehman did not actively participate in the day-to-day operations of Peabody. However, because of the high percentage of ownership, Lehman PAC and Peabody PAC were treated as affiliated SSFs. Today, Lehman and its affiliates own less than 30% of Peabody's shares (before the effect of dilution from stock options). The remaining Peabody shares are publicly held.[2]

Lehman and Peabody are separate publicly traded companies that engage in different, non-overlapping businesses. Specifically, Lehman is a global investment bank and Peabody is a coal company. The two companies do not engage in business with each other and they retain separate operations, except that Lehman provides certain financial advisory and Investment Banking services to Peabody. Furthermore, there is no overlap in the governance of the two companies except that one of Peabody's eleven-member board of directors is also a Lehman employee.

As for their SSFs, there is no formal or informal relationship between Lehman PAC and Peabody PAC, except that they are currently listed as affiliated SSFs on their FEC Statement of Organization. Indeed, there is no overlap between the officers or directors of Lehman PAC and Peabody PAC. Each SSF was organized without the involvement of the other or its connected company. Rather, the SSFs became affiliated solely due to the leveraged buy-out, which occurred in 1998. Neither company provides administrative support to the other company's SSF and there are no transfers of funds between the SSFs. Furthermore, each SSF maintains a completely different contributor base—Peabody PAC receives contributions from Peabody employees and Lehman PAC receives contributions from Lehman employees.

II. Lehman PAC and Peabody PAC Should Be Treated As Disaffiliated SSFs

In determining whether the Lehman PAC and Peabody PAC are affiliated, one must look to the factors of affiliation as set forth in 11 C.F.R. §110.3(a)(3)(ii). The factors in this case overwhelmingly support the conclusion that the PACs are not affiliated.

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2 In May 2001, Peabody completed an initial public offering of common stock in which Lehman and affiliates' interest was diluted due to the primary offering and reduced to 59.3%. In April 2002, Lehman and affiliates sold stock, reducing its holdings to 40.9%. On May 1, 2003, Lehman and affiliates sold additional stock, reducing its holdings to 29.9%.

(A) Lehman Does Not Own a Controlling Interest in the Voting Stock of Peabody

Lehman does not own a majority or controlling interest in Peabody. Specifically, Lehman currently owns less than 30% interest in Peabody (before the effect of dilution from stock options). With such holdings, Lehman may not take unilateral action with regard to Peabody's corporate actions. Indeed, Peabody's governing documents (i.e., Articles of Organization and By-Laws) require an affirmative vote of a majority of the stockholders for the stockholders to take action, including appointing Peabody's board members. Please note that Peabody's Articles of Organization and By-laws do not include provisions that effectively maximize Lehman's control and minimize the control of other stockholders, such as requiring unanimous or super-majority stockholder votes to take certain corporate actions. See FEC Advisory Opinion 1987-21 (concluding that two entities were affiliated based in part on the fact that the governing documents of the spun-off company contained provisions perpetuating the parent's control, such as supermajority stockholder approval for certain corporate actions). Thus, while Lehman and its affiliates may conceivably influence such corporate decisions because of its less than 30% ownership, it does not have the authority to control such decisions since it does not own a majority of Peabody's shares. In the past, the Commission has found owners of a 40% interest in an entity to be unaffiliated with that entity. See FEC Advisory Opinion 2001-18, 1994-11 and 1984-36.

(B) There Is Minimal Overlap Between Lehman and Peabody and Lehman Does Not Otherwise Control or Direct Peabody

There is no overlap between the boards or employees of Lehman and Peabody except that one Lehman employee is also a member of Peabody's eleven-member board of directors. This insignificant overlap is insufficient for Lehman or its employees to control or direct Peabody in that a majority of the board members' votes is required for the board to make a decision, including the decision to hire, appoint or demote officers or other decisionmaking employees of Peabody. Indeed, such overlap is less than the overlap at issue in past FEC Advisory Opinions where the Commission found disaffiliation between the PACs. For instance, in FEC Advisory Opinion 1996-23, the Commission found disaffiliation despite the fact that there was an overlap of three members on a company's eight-member board.

Please note that three other Peabody board members are former Lehman employees. This insignificant number of former Lehman employees currently involved with Peabody further indicates the lack of a formal or ongoing relationship between the two companies. See Advisory Opinion 2001-7.

Lehman also lacks the ability to control or direct the governance of Peabody through other formal or informal practices or procedures. Indeed, Lehman did not have a role in the formation of Peabody, as Lehman acquired Peabody as an already-existing company. Moreover, Lehman does not provide any funds or goods to Peabody. As mentioned, the two companies remain completely separate business operations and Lehman does not provide any financial support to Peabody, except that Lehman provides certain financial advisory and Investment Banking services to Peabody.

(C) There Is No Overlap and No Control or Direction Between Lehman PAC and Peabody PAC

Peabody PAC registered with the FEC on June 14, 1979 and Lehman PAC registered with the FEC on May 6, 1980. Following Lehman's leveraged buy-out of Peabody in May 1998, both SSFs filed amended Statements of Organization with the FEC listing each other as affiliated committees. Accordingly, Lehman did not have a role in the formation of Peabody PAC, as Peabody PAC was already in existence at the time Lehman acquired Peabody.

There are also no overlapping officers, directors or personnel between Lehman PAC and Peabody PAC. Furthermore, neither Lehman nor Lehman PAC directs or participates in any way in the governance of Peabody PAC. Rather, Peabody PAC is governed exclusively by Peabody's directors, officers and employees and Lehman does not have any authority to appoint or select any of Peabody PAC's officers or directors. Lehman also does not have the authority to, nor is Lehman involved in, the hiring, appointing, demoting or controlling any officer or director of Peabody PAC.

Lehman PAC and Peabody PAC do not conduct any joint fundraising activities nor do they transfer any funds to each other. Rather, Lehman PAC and Peabody PAC have separate contributor bases -- each PAC only solicits contributions from their own respective executive and administrative personnel. Also, Lehman and Peabody are in different businesses and thus make contributions to a wide variety of candidates who support specific issues of concern to each company. Lehman PAC and Peabody PAC do not coordinate their contributions except for tracking contributions for purposes of complying with applicable federal contribution limits. Lehman also does not pay for Peabody PAC's administrative expenses. Rather, each SSF's connected company pays for its own SSF's administrative expenses.

III. Conclusion

For the reasons described above, we request that the Commission issue an advisory opinion confirming that Lehman PAC and Peabody PAC are disaffiliated under FECA and FEC regulations.

Please call with any questions regarding this letter or if you need any further information.

Sincerely,

Kenneth A. Gross
Skadden, Arps, Slate, Meagher & Flom LLP

Ki P. Hong
Skadden, Arps, Slate, Meagher & Flom LLP

FEDERAL ELECTION COMMISSION

Washington, DC 20463

May 23, 2003

Kenneth A. Gross
Ki P. Hong
Skadden, Arps, Meagher, Slate & Flom, LLP
1440 New York Avenue, N.W.
Washington, D.C. 20005-2111

Dear Messrs. Gross and Hong:

This refers to your letter dated May 16, 2003, concerning the application of the Federal Election Campaign Act of 1971, as amended ("the Act"), and Commission regulations to the possible disaffiliation of the separate segregated funds ("SSFs") of Lehman Brothers, Inc. ("Lehman") and Peabody Energy Corporation ("Peabody"). These SSFs are the Action Fund of Lehman Brothers Holdings, Inc. ("Lehman PAC") and the Peabody Energy Corporation Political Action Committee ("Peabody PAC").

You state that, in May 1998, Lehman, through its affiliate, Lehman Brothers Merchant Banking Partners II L.P., purchased 87.5 percent of Peabody in a leveraged buy-out solely for investment purposes, and that Lehman did not actively participate in the day-to-day operations of Peabody. Currently, however, Lehman and its affiliates own less than 30 percent of Peabody's shares (before the effect of dilution from stock options), and the remainder of Peabody's shares are publicly held. You assert that, with such holdings, Lehman may not act unilaterally with regard to Peabody's corporate activities. You also state that Peabody's Articles of Incorporation and Bylaws require a majority vote of the shareholders to take action, including the election of directors, and that those documents do not include provisions requiring supermajorities or unanimity for shareholder votes.

You state that Lehman and Peabody are separate publicly-traded companies that engage in different, non-overlapping businesses, and that Lehman had no role in Peabody's formation. You also state that there is no overlap between the board members and employees of Lehman and the corresponding group for Peabody except that one Lehman employee is also a member of Peabody's eleven-member board. You note that three other Peabody board members are former employees of Lehman but assert that this is an insignificant number. You also assert that Lehman does not provide any funds or goods to Peabody.

Neither SSF had a role in the formation of the other. You assert that there are no overlapping officers, directors, or personnel, between the SSFs, and that neither SSF (or its connected organization) participates in the governance of the other SSF or the selection of the other SSF's officers or directors. You also state that the SSFs do not jointly fundraise, that each SSF only solicits contributions from its connected organization's executive and administrative personnel, that they do not coordinate their contributions except to track such contributions for the purpose of complying with the Act's limits, and that each corporation pays for its own SSF's administrative expenses.

The Act authorizes the Commission to issue an advisory opinion request in response to a "complete written request" from any person with respect to a specific transaction or activity by the requesting person. 2 U.S.C. §437f(a). Commission regulations explain that such a request "shall include a complete description of all facts relevant to the specific transaction or activity with respect to which the request is made." 11 CFR 112.1(c). You make a number of factual assertions in support of a conclusion that the SSFs are no longer affiliated. You apply a number of the factors at 11 CFR 100.5(g)(4)(ii). Nevertheless, further information will be needed for your request to include a complete description of the relevant facts. For example, your description should make clear whether information as to the lack of board, officer, and personnel overlap or governance involvement applies to the relationship of Peabody to the rest of the companies in which Lehman has a substantial interest. Please provide responses to the following questions and requests for documents:

(1) Describe in detail the overlap between the group of directors, officers, and employees of Peabody and the group of directors, officers, and employees of all of the other affiliates of Lehman. (All references to affiliates in these questions refer to subsidiaries as well as other affiliates.)

(2) Please describe how the overlap between the group of directors, officers, and employees of Lehman and its affiliates and the corresponding group for Peabody has changed since January 2001, including how long the current state of overlap has existed.

(3) State whether Lehman and its affiliates have other ownership interests in Peabody, other than the ownership of approximately 30 percent of Peabody's common stock and describe such ownership. For example, do Lehman and its affiliates own any preferred stock in Peabody and, if so, what is the percentage of ownership?

(4) State whether Lehman and/or its affiliates have any shareholder, or other voting, agreements with other shareholders of Peabody whereby the voting or governance power of Lehman or its affiliates in Peabody's affairs is enhanced or otherwise affected. Describe all such agreements. Describe what you mean by the "effect of the dilution from stock options," and how that affects the voting or governance power of Lehman. Describe the provisions in the governing documents of Lehman and its affiliates or of Peabody that give rights to, or provide for responsibilities for, Lehman and its affiliates for having a specific amount of equity ownership in Peabody.

(5) You have stated generally that Lehman does not provide any funds or goods to Peabody. State whether Lehman or its affiliates provide, or cause or arrange for the provision of, funds or goods in a significant amount or an ongoing basis to Peabody State whether Peabody provides funds or goods to Lehman or its affiliates, or arranges for the provision funds or goods, to Lehman or its affiliates in a significant amount or on an ongoing basis. Describe such provisions or arrangement, including a general characterization of the amounts involved.

(6) You describe the current relationship of Lehman PAC with Peabody PAC. State how long it has been since there was: (i) overlap of current personnel, or a situation where an individual was with one PAC and subsequently with the other PAC; (ii) appointment or governance authority or participation in each other's PACs; (iii) joint solicitation or solicitation of each other's restricted class employees; (iv) transfers of funds between the PACs; (v) payment by one PAC for the expenses of the other PAC, and (vi) coordination of contributions.

Please provide a copy of the articles of incorporation and bylaws of Peabody, and a copy of those portions of the articles of incorporation or bylaws of Lehman or its affiliates that pertain to the control, governance, or ownership of Peabody. Please also provide a copy of the most recent prospectus or proxy statement for Peabody and for Lehman. If any responses to the above questions are addressed in these documents, please state where in those documents they are addressed. Please also enclose copies of any specific provisions described in your responses to the above questions that are not included in the aforementioned documents.

Upon receipt of your responses and the documents, this Office will give further consideration to your inquiry. If you have any questions about the advisory opinion process or this letter, please contact Jonathan Levin at 202-694-1650.

Sincerely,

Rosemary C Smith

Rosemary C. Smith
Acting Associate General Counsel

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

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2003 JUN 17 P 3: 00

June 17, 2003

<u>Via Hand-Delivery</u>

Rosemary C. Smith, Esq.
Acting Associate General Counsel
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

RE: <u>Advisory Opinion Request Follow-Up Responses</u>

Dear Ms. Smith:

This is in response to your letter, dated May 23, 2003, requesting additional information concerning the advisory opinion request ("AOR") we submitted on behalf of Lehman Brothers Inc. ("Lehman") on May 16, 2003. The following answers the questions presented in your letter. Moreover, find attached a copy of Peabody's Certificate of Incorporation and By-Laws and the most recent proxy statements for both Peabody and Lehman. Please note that there are no provisions of Lehman's articles of incorporation or by-laws that pertain to the governance or ownership of Peabody and thus, those articles and by-laws are not attached.

(1) Describe in detail the overlap between the group of directors, officers, and employees of Peabody and the group of directors, officers, and employees of all of the other affiliates of Lehman. (All references to affiliates in these questions refer to subsidiaries as well as other affiliates.)

The only current director, officer, or employee of Lehman or any of its affiliates who is also a director, officer, or employee of Peabody is Alan H. Washkowitz. Mr. Washkowitz has been a director of Peabody since 1998. He is also a Managing Director of Lehman and the former head of the firm's Merchant Banking Group, responsible for oversight of Lehman Brothers Merchant Banking Partners II L.P.

Although the following is outside the scope of this question and the analysis relating to overlapping directors, officers and employees, please note that Henry E. Lentz, who is a director and Vice President, Assistant Secretary of Peabody, is also an outside Consultant to Lehman's Merchant Banking Group. Moreover, James R. Schlesinger, who is a director of Peabody, serves as an outside Senior Advisor and Consultant to Lehman. Finally, Roger H. Goodspeed, who is a director of Peabody, serves as an outside consultant to Lehman.

(2) Please described how the overlap between the group of directors, officers, and employees of Lehman and its affiliates and the corresponding group for Peabody has changed since January 2001, including how long the current state of overlap has existed.

In addition to the information provided in response to Question 1, the only other overlap since 2001 between the groups of directors, officers, and employees of Lehman or its affiliates and Peabody are as follows:

Felix P. Herlihy served as a director of Peabody from July 2001 until January 2003. Until December 2002, he also served as a Managing Director of Lehman and was a principal of the firm's Merchant Banking Group. Mr. Herlihy is no longer a director, officer or employee of either Lehman or Peabody.

Prior to becoming an outside consultant to Lehman in May 2003, as described above in the response to Question 1, Roger H. Goodspeed was a Managing Director and then an Advisory Director at Lehman.

Prior to becoming an outside consultant to Lehman on January 1, 2003, as described above in the response to Question 1, Henry E. Lentz was a principal in Lehman's Merchant Banking Group.

(3) State whether Lehman and its affiliates have other ownership interest in Peabody, other than the ownership of approximately 30 percent of Peabody's common stock and describe such ownership. For example, do Lehman and its affiliates own any preferred stock in Peabody and, if so, what is the percentage of ownership?

Lehman and its affiliates do not have any other ownership interest in Peabody other than the ownership of approximately 29.8% of Peabody's common stock.

(4) (a) State whether Lehman and/or its affiliates have any shareholder, or other voting, agreements with other shareholders of Peabody whereby the voting or governance power of Lehman or its affiliates in Peabody's affairs is enhanced or otherwise affected. Describe all such agreements. (b) Describe what you mean by the "effect of the dilution from stock options," and how that affects the voting or governance power of Lehman. (c) Describe the provisions in the governing documents of Lehman and its affiliates or of Peabody that give rights to, or provide for responsibilities for, Lehman and its affiliates for having a specific amount of equity ownership in Peabody.

(a) Neither Lehman nor any of its affiliates has any agreement with other shareholders of Peabody whereby the voting or governance power of Lehman or its affiliates in Peabody's affairs is enhanced or otherwise affected.

(b) As of May 2003, Peabody had approximately 52.5 million shares of common stock outstanding. In addition, approximately 5.8 million shares are issuable to Peabody's employees upon the exercise of presently outstanding stock options under Peabody's 1998 Stock Purchase and Option Plan and Peabody's Long-Term Equity Incentive Plan. Shares acquired upon the exercise of vested options under Peabody's 1998 Stock Purchase and Option Plan for Key Employees became eligible for resale in May 2003. In addition, awards that have been granted under Peabody's Long-Term Equity Incentive Plan already have begun to vest. As a result, the approximately 15.9 million shares held by Lehman and its affiliates will represent a diminishing percentage of the outstanding shares as the stock options are exercised.

(c) None of the provisions in the governing documents of Lehman or its affiliates or of Peabody gives rights to, or provide for responsibilities for, Lehman or its affiliates for having a specific amount of equity ownership in Peabody.

5. You have stated generally that Lehman does not provide any funds or goods to Peabody. State whether Lehman or its affiliates provide, or cause or arrange for the provision of, funds or goods in a significant amount or on an ongoing basis to Peabody. State whether Peabody provides funds or goods to Lehman or its affiliates, or arranges for the provision of funds or goods, to Lehman or its affiliates in a significant amount or on an ongoing basis. Describe such provisions or arrangement, including a general characterization of the amounts involved.

Neither Lehman, nor any of its affiliates, provides, or causes or arranges for the provision of, funds or goods to Peabody and Peabody does not provide, or arrange for the provision of, funds or goods to Lehman or its affiliates. Rather, as mentioned in the

AOR, Lehman merely provides certain financial advisory and Investment Banking services to Peabody.

6. **You describe the current relationship of Lehman PAC with Peabody PAC. State how long it has been since there was (i) overlap of current personnel, or a situation where an individual was with one PAC and subsequently with the other PAC; (ii) appointment or governance authority or participation in each other's PACs; (iii) joint solicitation or solicitation of each other's restricted class employees; (iv) transfers of funds between the PACs; (v) payment by one PAC for the expenses of the other PAC, and (vi) coordination of contributions.**

Lehman PAC and Peabody PAC have never (i) had any overlap of current or former PAC personnel (ii) had any appointment or governance authority or participation in each other's PACs; (iii) conducted joint solicitations or solicitation of each other's restricted class employees; (iv) transferred funds to each other's PAC; (v) paid for the expenses of each other's PAC, or (vi) coordinated contributions, except for tracking contributions for purposes of complying with applicable federal contribution limits.

Please call with any questions regarding this letter or if you need any further information.

Sincerely,

Kenneth A. Gross
Skadden, Arps, Slate, Meagher & Flom LLP

Ki P. Hong
Skadden, Arps, Slate, Meagher & Flom LLP

Attachments

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<DESCRIPTION>FORM OF THIRD AMENDED & RESTATED
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EXHIBIT 3.1

THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

PEABODY ENERGY CORPORATION

PEABODY ENERGY CORPORATION (the "Corporation"), a corporation organized and existing under the laws of the State of Delaware, DOES HEREBY CERTIFY:

1. The name of the corporation is Peabody Energy Corporation. The date of the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was February 27, 1998 under the name of P&L Coal Holdings Corporation; the date of the filing of its Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware was May 15, 1998 under the name of P&L Coal Holdings Corporation; the date of the filing of its Second Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware was November 12, 1998; and the date of the filing of a Certificate of Amendment to its Second Amended and Restated Certificate of Incorporation, changing the Corporation's name to Peabody Energy Corporation, with the Secretary of State of the State of Delaware was April , 2001.

2. This Third Amended and Restated Certificate of Incorporation has been duly adopted in accordance with Sections 103, 242 and 245 of the General Corporation Law of the State of Delaware. The Corporation has received payment for its stock.

3. The Board of Directors of the Corporation, pursuant to a unanimous written action in lieu of a meeting pursuant to Section 141(f) of the General Corporation Law of the State of Delaware, adopted resolutions proposing and declaring advisable that the Corporation amend and restate its Amended and Restated Certificate of Incorporation to read in its entirety as follows:

First: The name of the corporation is Peabody Energy Corporation

Second: The registered office and registered agent of the Corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801.

Third: The purposes of the Corporation are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Fourth: (1) The total number of shares of all classes of stock that the Corporation shall have the authority to issue is 200,000,000, consisting of 150,000,000 shares of Common Stock, par value $0.01 per share (the "Common Stock"), 10,000,000 shares of Preferred Stock, par value $0.01 per share (the "Preferred Stock") and 40,000,000 shares of Series Common Stock, par value $0.01 per share ("Series Common Stock"). The number of authorized shares of any of the

Preferred Stock, the Common Stock or the Series Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority in voting power of the stock of the Corporation entitled to vote thereon irrespective of the provisions of Section 242(b)(2) of the General
<PAGE>

Corporation Law of the State of Delaware (or any successor provision thereto), and no vote of the holders of any of the Preferred Stock, the Common Stock or the Series Common Stock voting separately as a class shall be required therefor.

(2) The Board of Directors is hereby expressly authorized, by resolution or resolutions, to provide, out of the unissued shares of Preferred Stock, for series of Preferred Stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of Preferred Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

(3) The Board of Directors is hereby expressly authorized, by resolution or resolutions, to provide, out of the unissued shares of Series Common Stock, for series of Series Common Stock and, with respect to each such series, to fix the number of shares constituting such series and the designation of such series, the voting powers (if any) of the shares of such series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of such series. The powers, preferences and relative, participating, optional and other special rights of each series of Series Common Stock, and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other series at any time outstanding.

(4) (a) Each holder of Common Stock, as such, shall be entitled to one vote for each share of Common Stock held of record by such holder on all matters on which stockholders generally are entitled to vote; provided, however, that, except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Restated Certificate of Incorporation (including any certificate of designations relating to any series of Preferred Stock or Series Common Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock or Series Common Stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to this Certificate of Incorporation (including any certificate of designations relating to any series of Preferred Stock or Series Common Stock) or pursuant to the General Corporation Law of the State of Delaware.

(b) Except as otherwise required by law, holders of any series of Preferred Stock or Series Common Stock, as such, shall be entitled only to such voting rights, if any, as shall expressly be granted thereto by this Certificate of Incorporation (including any certificate of designations relating to such series).

(c) Subject to applicable law and the rights, if any, of the holders of any outstanding series of Preferred Stock or Series Common Stock or any class or series of stock having a preference over or the right to participate with the Common Stock with respect to the payment of dividends, dividends may be declared and paid on the Common Stock at such times and in such amounts as the Board of Directors in its discretion shall determine.

(d) Upon the dissolution, liquidation or winding up of the Corporation, subject to the rights, if any, of the holders of any outstanding series of Preferred Stock or Series Common Stock or any class or series of stock having a preference over or the right to participate
<PAGE>

with the Common Stock with respect to the distribution of assets of the Corporation upon such dissolution, liquidation or winding up of the Corporation, the holders of the Common Stock, as such, shall be entitled to receive the assets of the Corporation available for distribution to its stockholders ratably in proportion to the number of shares held by them.

Fifth: The Board of Directors shall be authorized to make, amend, alter, change, add to or repeal the By-Laws of the Corporation in any manner not inconsistent with the laws of the State of Delaware, subject to the power of the stockholders to amend, alter, change, add to or repeal the By-Laws made by the Board of Directors. Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 75 percent in voting power of all the shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required in order for the stockholders to alter, amend or repeal any provision of the By-Laws which is to the same effect as Article Fifth, Article Seventh, and Article Eighth of this Certificate of Incorporation or to adopt any provision inconsistent therewith.

Sixth: To the fullest extent permitted by the laws of the State of Delaware:

(1) The Corporation shall indemnify any person (and such person's heirs, executors or administrators) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (brought in the right of the Corporation or otherwise), whether civil, criminal, administrative or investigative, and whether formal or informal, including appeals, by reason of the fact that such person is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, for and against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person or such heirs, executors or administrators in connection with such action, suit or proceeding, including appeals. Notwithstanding the preceding sentence, the Corporation shall be required to indemnify a person described in such sentence in connection with any action, suit or proceeding (or part thereof) commenced by such person only if the commencement of such action, suit or proceeding (or part thereof) by such person was authorized by the Board of Directors of the Corporation. The Corporation may indemnify any person (and such person's heirs, executors or administrators) who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding (brought in the right of the Corporation or otherwise), whether civil, criminal, administrative or investigative, and whether formal or informal, including appeals, by reason of the fact that such person is or was an employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust, limited liability company or other enterprise, for and against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person or such heirs, executors or administrators in connection with such action, suit or proceeding, including appeals.

(2) The Corporation shall promptly pay expenses incurred by any person

described in the first sentence of Section (1) of this Article SIXTH in defending any action, suit or proceeding in advance of the final disposition of such action, suit or proceeding, including appeals, upon presentation of appropriate documentation.
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(3) The Corporation may purchase and maintain insurance on behalf of any person described in Section (1) of this Article SIXTH against any liability asserted against such person, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article SIXTH or otherwise.

(4) The provisions of this Article SIXTH shall be applicable to all actions, claims, suits or proceedings made or commenced after the adoption hereof, whether arising from acts or omissions to act occurring before or after its adoption. The provisions of this Article SIXTH shall be deemed to be a contract between the Corporation and each director or officer who serves in such capacity at any time while this Article SIXTH and the relevant provisions of the laws of the State of Delaware and other applicable law, if any, are in effect, and any repeal or modification hereof shall not affect any rights or obligations then existing with respect to any state of facts or any action, suit or proceeding then or theretofore existing, or any action, suit or proceeding thereafter brought or threatened based in whole or in part on any such state of facts. If any provision of this Article SIXTH shall be found to be invalid or limited in application by reason of any law or regulation, it shall not affect the validity of the remaining provisions hereof. The rights of indemnification provided in this Article SIXTH shall neither be exclusive of, nor be deemed in limitation of, any rights to which an officer, director, employee or agent may otherwise be entitled or permitted by contract, this Third Amended and Restated Certificate of Incorporation, vote of stockholders or directors or otherwise, or as a matter of law, both as to actions in such person's official capacity and actions in any other capacity while holding such office, it being the policy of the Corporation that indemnification of any person whom the Corporation is obligated to indemnify pursuant to the first sentence of Section (1) of this Article SIXTH shall be made to the fullest extent permitted by law.

(5) For purposes of this Article SIXTH, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries.

(6) A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

Seventh: (1) The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors consisting of not less than three directors, the exact number of directors to be determined from time to time by resolution adopted by affirmative vote of a majority of the Board of Directors. The directors shall be divided into three classes designated Class I, Class II and Class III. Each class shall consist, as nearly as possible, of one-

third of the total number of directors constituting the entire Board of Directors. Class I directors shall be originally elected for a term expiring at the succeeding annual meeting of stockholders, Class II directors shall be originally elected for a term expiring at the second succeeding annual meeting of stockholders, and Class III directors shall be originally elected for a term expiring at the third succeeding annual meeting of stockholders. At each succeeding annual meeting of
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stockholders following 2001, successors to the class of directors whose term expires at that annual meeting shall be elected for a term expiring at the third succeeding annual meeting. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a newly created directorship resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case shall a decrease in the number of directors remove or shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until his successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any newly created directorship on the Board of Directors that results from an increase in the number of directors and any vacancy occurring in the Board of Directors shall be filled only by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If any applicable provision of the General Corporation Law of the State of Delaware expressly confers power on stockholders to fill such a directorship at a special meeting of stockholders, such a directorship may be filled at such meeting only by the affirmative vote of at least 75 percent of the voting power of all shares of the Corporation entitled to vote generally in the election of directors voting as a single class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Directors may be removed only for cause, and only by the affirmative vote of at least 75 percent in voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting as a single class.

(2) Notwithstanding the foregoing, whenever the holders of any one or more series of Preferred Stock or Series Common Stock issued by the Corporation shall have the right, voting separately as a series or separately as a class with one or more such other series, to elect directors at an annual or special meeting of stockholders, the election, term of office, removal, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation (including any certificate of designations relating to any series of Preferred Stock or Series Common Stock) applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article Seventh unless expressly provided by such terms.

(3) Unless and except to the extent that the By-Laws of the Corporation shall so require, the election of the directors of the Corporation need not be by written ballot.

Eighth: Any action required or permitted to be taken by the holders of the Common Stock of the Corporation must be effected at a duly called annual or special meeting of such holders and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of Preferred Stock or Series Common Stock, special meetings of stockholders of the Corporation may be called only by the Chief Executive Officer of the Corporation or by the Board of Directors pursuant to a resolution approved by the Board of Directors. Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws of the Corporation may provide. The books of the Corporation may be kept outside the State of Delaware at such place or places as may be designated by the Board of Directors or in the By-Laws of the Corporation.

Ninth: Notwithstanding anything contained in this Certificate of Incorporation to the contrary, the affirmative vote of the holders of at least 75 percent in voting power of all the shares of the Corporation entitled to vote generally in the election of directors, voting together as
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a single class, shall be required to alter, amend or repeal Article Fifth, Article Seventh, Article Eighth or this Article Ninth or to adopt any provision inconsistent therewith.

* * *

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IN WITNESS WHEREOF, the undersigned has executed this Third Amended and Restated Certificate of Incorporation this __th day of _______ 2001.

PEABODY ENERGY CORPORATION

By:

Name: Irl F. Engelhardt
Title: Chairman and Chief Executive Officer

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EXHIBIT 3.2

AMENDED AND RESTATED BY-LAWS OF PEABODY ENERGY CORPORATION

ARTICLE I

MEETING OF STOCKHOLDERS

Section 1.1. Place of Meeting. Meetings of the stockholders of the Corporation shall be held at such place either within or without the State of Delaware as the Board of Directors may determine.

Section 1.2. Annual Meetings. (A) Annual meetings of stockholders shall be held, at a date, time and place fixed by the Board of Directors and stated in the notice of meeting, to elect a Board of Directors and to transact such other business as may properly come before the meeting.

(B) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (1) pursuant to the Corporation's notice of meeting delivered pursuant to Article I, Section 4 of these By-Laws, (2) by or at the direction of the Chairman of the Board or (3) by any stockholder of the Corporation who is entitled to vote at the meeting, who complied with the notice procedures set forth in subparagraphs (B) and (C) of this Section 2 and who was a stockholder of record at the time such notice is delivered to the Secretary of the Corporation.

(C) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (3) of paragraph (B) of these By-Laws, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, and, in the case of business other than nominations, such other business must be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred and twenty (120) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than twenty (20) days, or delayed by more than seventy (70) days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than one hundred and twenty (120) days prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (1) as to each person whom the stockholder proposes to nominate for election or re-election as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (2) as to any other business that the

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stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (3) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (a) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (b) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(D) Notwithstanding anything in the second sentence of paragraph (C) of these By-Laws to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

Section 1.3. Special Meetings. (A) Except as otherwise required by law, special meetings of the stockholders may be called pursuant to the provisions of the Third Amended and Restated Certificate of Incorporation of the Corporation, filed with the Delaware Secretary of State on May 21, 2001 (the "Charter").

(B) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting pursuant to Article I, Section 4 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (1) by or at the direction of the Board of Directors or (2) by any stockholder of the Corporation who is entitled to vote at the meeting, who complies with the notice procedures set forth in these By-Laws and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (C) of Section 2 shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of the seventieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

Section 1.4. Notice. Except as otherwise provided by law, at least ten (10) and not more than sixty (60) days before each meeting of stockholders, written notice of the time, date and place of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be given to each stockholder.

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Section 1.5. Quorum. At any meeting of stockholders, the holders of record, present in person or by proxy, of a majority of the Corporation's issued and outstanding capital stock shall constitute a quorum for the transaction of business, except as otherwise provided by law. In the absence of a quorum, any officer entitled to preside at or to act as secretary of the meeting shall have power to adjourn the meeting from time to time until a quorum is present.

Section 1.6. Voting. Except as otherwise provided by law or by the Charter, all matters submitted to a meeting of stockholders shall be decided by vote of the holders of record of a majority of the Corporation's issued and outstanding capital stock present in person or by proxy.

Section 1.7. General. (A) Only persons who are nominated in accordance with the procedures set forth in these By-Laws shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in these By-Laws. Except as otherwise provided by law, the Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with these By-Laws, to declare that such defective nomination shall be disregarded or that such proposed business shall not be transacted.

(B) For purposes of these By-Laws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or disclosure in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(C) For purposes of this By-Law, no adjournment nor notice of adjournment of any meeting shall be deemed to constitute a new notice of such meeting for purposes of this Article, and in order for any notification required to be delivered by a stockholder pursuant to this Article to be timely, such notification must be delivered within the periods set forth above with respect to the originally scheduled meeting. Subject to applicable law, the Board of Directors may elect to postpone any previously scheduled meeting of stockholders.

(D) Notwithstanding the foregoing provisions of this Article, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in these By-Laws. Nothing in these By-Laws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

ARTICLE II

DIRECTORS

Section 2.1. Number, Election and Removal of Directors. The number of Directors that shall constitute the Board of Directors shall be not less than three nor more than

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15. Within the limits specified in the Charter, the number of Directors shall be determined by the Board of Directors or by the stockholders. The Directors shall be elected by the stockholders at their annual meeting in the manner set forth in the Charter. Vacancies and newly created directorships resulting from any increase in the number of Directors may be filled pursuant to the terms of the Charter. Directors may be removed only for cause, and only by the affirmative vote of at least 75 percent in voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting as a single class.

Section 2.2. Meetings. Regular meetings of the Board of Directors shall be held at such times and places as may from time to time be fixed by the Board of Directors or as may be specified in a notice of meeting. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman or President and shall be called by the President or Secretary if directed by a majority of the Directors. Telegraphic or written notice of each special meeting of the Board of Directors shall be sent to each Director not less than two days before such meeting. A meeting of the Board of Directors may be held without notice immediately after the annual meeting of the stockholders. Notice need not be given of regular meetings of the Board of Directors.

Section 2.3. Quorum. One-third of the entire Board of Directors shall constitute a quorum for the transaction of business. If a quorum is not present at any meeting of the Board of Directors, the Directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until such a quorum is present. Except as otherwise provided by law, the Certificate of Incorporation of the Corporation, these By-Laws or any contract or agreement to which the Corporation is a party, the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Section 2.4. Committees of Directors. The Board of Directors may, by resolution adopted by a majority of the entire Board, designate one or more committees, including without limitation an Executive Committee, to have and exercise such power and authority as the Board of Directors shall specify. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another Director to act at the meeting in place of any such absent or disqualified member.

ARTICLE III

OFFICERS

Section 3.1. General. The officers of the Corporation shall consist of a Chairman of the Board of Directors, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other additional officers with such titles (including, without limitation, a Chief Operating Officer and a Chief Financial Officer) as the Board of Directors shall from time to time determine, all of whom shall be elected by and shall serve at the pleasure of the Board of Directors. Subject to applicable law, an officer may hold more than one office, if so elected by the Board of Directors. Such officers shall have the usual powers and shall perform all the usual duties incident to their respective offices. Such officers shall also

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have such powers and duties as from time to time may be conferred by the Board of Directors. All officers shall be subject to the supervision and direction of the Board of Directors. The Chairman of the Board shall be chosen from among the directors. The Board of Directors may from time to time elect, or the Chief Executive Officer or President may appoint, such other officers (including one or more Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers, and Assistant Controllers) and such agents, as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as may be prescribed by the Board of Directors or by the Chief Executive Officer or President, as the case may be. The officers of the Corporation need not be stockholders of the Corporation nor, except in the case of the Chairman of the Board, need such officers be directors of the Corporation.

Section 3.2. Election and Term of Office. The officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after the annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign, but any officer may be removed from office at any time as provided in Section 3.3.

Section 3.3. Removal. Any officer elected, or agent appointed, by the Board of Directors may be removed by the affirmative vote of a majority of the entire Board of Directors whenever, in their judgment, the best interests of the Corporation would be served thereby. Any officer or agent appointed by the Chief Executive Officer or the President may be removed by the Chief Executive Officer or the President, as the case may be, whenever, in such officer's judgment, the best interests of the Corporation would be served thereby. Such removal shall be without prejudice to the contractual rights, if any, of the person so removed; provided that no elected officer shall have any contractual rights against the Corporation for compensation beyond the date of the election of his successor, his death, his resignation or his removal, whichever event shall first occur, except as otherwise provided in an employment contract or under an employee deferred compensation plan.

Section 3.4. Vacancies. A newly created elected office and a vacancy in any elected office because of death, resignation, or removal may be filled by the Board of Directors for the unexpired portion of the term at any meeting of the Board of Directors. Any vacancy in an office appointed by the Chief Executive Officer or the President because of death, resignation, or removal may be filled by the Chief Executive Officer or the President.

ARTICLE IV

INDEMNIFICATION

To the fullest extent permitted by the Delaware General Corporation Law, the Corporation shall indemnify any current or former Director or officer of the Corporation and may, at the discretion of the Board of Directors, indemnify any current or former employee or agent of the Corporation against all expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any threatened, pending or

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completed action, suit or proceeding brought by or in the right of the Corporation or otherwise, to which he was or is a party or is threatened to be made a party by reason of his current or former position with the Corporation or by reason of the fact that he is or was serving, at the request of the Corporation, as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

ARTICLE V

GENERAL PROVISIONS

Section 5.1. Notices. Whenever any statute, the Certificate of Incorporation or these By-Laws require notice to be given to any Director or stockholder, such notice may be given in writing by mail, addressed to such Director or stockholder at his address as it appears on the records of the Corporation, with postage thereon prepaid. Such notice shall be deemed to have been given when it is deposited in the United States mail. Notice to Directors may also be given by telegram.

Section 5.2. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

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LEHMAN BROTHERS HOLDINGS INC.

745 Seventh Avenue
New York, New York 10019

February 28, 2003

PROXY STATEMENT

INTRODUCTION

Vote by Proxy. This proxy statement (the "Proxy Statement") is furnished in connection with the solicitation of proxies by the Board of Directors of Lehman Brothers Holdings Inc. (the "Company" and, together with its subsidiaries, the "Firm") for use at the 2003 Annual Meeting of Stockholders of the Company to be held on Tuesday, April 8, 2003 at 10:30 a.m. (New York time), or any adjournment thereof (the "Annual Meeting"). The Company expects to mail this Proxy Statement and the accompanying proxy card to the Company's common stockholders of record at the close of business on February 14, 2003 (the "Stockholders") on or about February 28, 2003.

You are cordially invited to attend the Annual Meeting. Whether or not you expect to attend in person, you are urged to complete, sign and date the enclosed proxy card and return it as promptly as possible in the enclosed, prepaid envelope, or to vote your shares online or by telephone according to the instructions on the proxy card. Stockholders have the right to revoke their proxies at any time prior to the time their shares are actually voted by (i) giving written notice to the Corporate Secretary of the Company, (ii) subsequently filing a later dated proxy or (iii) attending the Annual Meeting and voting in person. Please note that attendance at the meeting will not by itself revoke a proxy.

The enclosed proxy indicates on its face the number of shares of common stock registered in the name of each Stockholder at the close of business on February 14, 2003 (the "Record Date"). Proxies furnished to Company employees also indicate the number of shares, if any, (i) held by the employee under the Lehman Brothers Holdings Inc. Employee Stock Purchase Plan (the "ESPP"), (ii) that relate to the total number of restricted stock unit awards granted to the employee pursuant to various of the Company's Incentive Plans (as defined below), which shares are held, in part, in the 1997 Trust Under Lehman Brothers Holdings Inc. Incentive Plans (the "Incentive Plans Trust"), (iii) held by the employee in a brokerage account at the Company's wholly owned subsidiary, Lehman Brothers Inc. ("LBI") and/or a brokerage account at Fidelity Brokerage Services LLC ("Fidelity Brokerage"), and (iv) held by the employee under the Lehman Brothers Savings Plan (the "Savings Plan"). Proxies returned by employees holding shares in the ESPP will be considered direct voting instructions with respect to such shares. Proxies returned by employees holding restricted stock units related to shares held in the Incentive Plans Trust will be considered to be voting instructions returned to the Incentive Plans Trust trustee (the "Incentive Plans Trustee") with respect to the number of shares determined pursuant to the terms of the agreement governing the Incentive Plans Trust, as described below under "The Voting Stock." Proxies returned by employees holding shares in an LBI or Fidelity Brokerage account will be considered to be voting instructions returned to LBI or Fidelity Brokerage, as applicable, with respect to such shares. Proxies returned by employees holding shares in the Savings Plan will be considered to be voting instructions returned to the Savings Plan trustee (the "Savings Plan Trustee") with respect to such shares, and Savings Plan shares for which no proxies are returned shall be voted in the same proportions as Savings Plan shares for which proxies are returned, as described below under "The Voting Stock." Except with respect to Savings Plan shares, no voting instructions will be confidential.

General. Unless contrary instructions are indicated on the proxy or in a vote registered online or by telephone, all shares represented by valid proxies received pursuant to this solicitation (and not revoked before they are voted) will be voted as follows:

FOR the election of the three nominees for Class III Directors named below;

FOR the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the 2003 fiscal year; and

FOR the re-approval of the Short-Term Executive Compensation Plan (formerly named the 1996 Short-Term Executive Compensation Plan), as amended (the "STEP").

In the event a Stockholder specifies a different choice on the proxy or by online or telephone vote, his or her shares will be voted in accordance with the specification so made. Confidential voting is not provided for in the Company's Restated Certificate of Incorporation or By-Laws.

The Company's 2002 Annual Report has been distributed to Stockholders in connection with this solicitation. A copy (exclusive of exhibits) of the Company's 2002 Form 10-K as filed with the Securities and Exchange Commission (the "SEC") may be obtained without charge by writing to: Lehman Brothers Holdings Inc., 399 Park Avenue, 11th Floor, New York, New York 10022, Attention: Secretary. The Company's 2002 Annual Report and 2002 Form 10-K also will be available through the Lehman Brothers web site at http://www.lehman.com.

Cost of Solicitation. The cost of soliciting proxies will be borne by the Company. In addition to solicitation by mail, proxies may be solicited by directors, officers or employees of the Company in person or by telephone or telegram, or other means of communication, for which no additional compensation will be paid. The Company has engaged the firm of Georgeson Shareholder to assist the Company in the distribution and solicitation of proxies. The Company has agreed to pay Georgeson Shareholder a fee of $11,000 plus expenses for its services.

The Company also will reimburse brokerage houses, including LBI, and other custodians, nominees and fiduciaries for their reasonable expenses, in accordance with the rules and regulations of the SEC, the New York Stock Exchange and other exchanges, in sending proxies and proxy materials to the beneficial owners of shares of the Company's Common Stock.

The Voting Stock. The Company's Common Stock, par value $.10 per share (the "Common Stock"), is its only class of voting stock. As of the Record Date, 242,519,083 shares of Common Stock (exclusive of 16,934,413 shares held in treasury) were outstanding. Stockholders are entitled to one vote per share with respect to each matter to be voted on at the Annual Meeting. There is no cumulative voting provision applicable to the Common Stock.

The presence in person or by proxy at the Annual Meeting of the holders of a majority of the shares of Common Stock outstanding on the Record Date shall constitute a quorum.

The Incentive Plans Trust holds shares of Common Stock ("Trust Shares") issuable to future, current and former employees of the Company in connection with the granting to such employees of Restricted Stock Units ("RSUs") under the Company's Employee Incentive Plan (the "Employee Incentive Plan"), the Company's 1994 Management Ownership Plan (the "1994 Plan") and the Company's 1996 Management Ownership Plan (together with the Employee Incentive Plan and the 1994 Plan, the "Incentive Plans"). The Incentive Plans Trustee will vote or abstain from voting all Trust Shares in the same proportions as the RSUs in respect of which it has received voting instructions from current employees who have received RSUs under the Incentive Plans ("Current Participants"). As of the Record Date, 50,065,456 Trust Shares (representing 20.6% of the votes entitled to be cast at the Annual Meeting) were held by the Incentive Plans Trust and 62,599,434 RSUs were held by Current Participants.

The Savings Plan Trustee will vote or abstain from voting any Savings Plan shares for which proxy instructions are received in accordance with such instructions, and will vote or abstain from voting any Savings Plan shares for which no proxy instructions are received in the same proportions as the Savings Plan shares for which it has received instructions. As of the Record Date, 1,367,921 Savings Plan shares (representing 0.6% of the votes entitled to be cast at the Annual Meeting) were held by the Savings Plan Trustee.

Stockholders Entitled to Vote. Only Common Stockholders of record on the Record Date are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS

To the knowledge of management, except for the Incentive Plans Trust (described above) and as described below, no person beneficially owned more than five percent of the Common Stock as of the Record Date.

Beneficial Owner	Number of Shares of Common Stock	Percent of Outstanding Common Stock (a)
AXA	14,663,847 (b)	6.0%

(a) Percentages are calculated in accordance with applicable SEC rules and are based on the number of shares issued and outstanding on the Record Date.

(b) According to a Schedule 13G jointly filed on February 12, 2003 by AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, AXA Conseil Vie Assurance Mutuelle, and AXA Courtage Assurance Mutuelle (collectively, the "Mutuelles AXA"), AXA ("AXA"), and AXA Financial, Inc., a subsidiary of AXA ("AFI"): (a) the Mutuelles AXA, which as a group control AXA, and AXA beneficially own 14,663,847 shares of Common Stock solely for investment purposes and have sole voting power with respect to 7,928,133 of such shares, shared voting power with respect to 1,232,544 of such shares, and sole dispositive power with respect to all of such shares, and (b) 13,880,365 of such shares are beneficially owned by Alliance Capital Management L.P., a subsidiary of AFI, and the remainder of such shares are beneficially owned by other affiliates of AXA. Addresses of the joint filers are as follows: the Mutuelles AXA, 370, rue Saint Honore, 75001 Paris France and 26, rue Louis le Grand, 75002 Paris, France; AXA, 25, avenue Matignon, 75008 Paris, France; and AFI, 1290 Avenue of the Americas, New York NY 10104.

PROPOSAL 1

ELECTION OF CLASS III DIRECTORS

At the Annual Meeting three Class III Directors are to be elected, each to serve until the Annual Meeting in 2006 and until his successor is elected and qualified. The Restated Certificate of Incorporation of the Company establishes a classified Board of Directors with three classes, designated Class I, Class II and Class III. The terms of the Class I and Class II Directors continue until the Annual Meetings in 2005 and 2004, respectively, and until their respective successors are elected and qualified.

The three nominees for Director are Thomas H. Cruikshank, Henry Kaufman and John D. Macomber, who were first elected Directors in 1996, 1995 and 1994, respectively.

The three nominees receiving the greatest number of votes cast by the holders of the Common Stock will be elected as Class III Directors of the Company. Abstentions and broker nonvotes will be disregarded and will have no effect on the vote for directors. Except as stated in the following sentence, the persons specified on the enclosed proxy card intend to vote for the nominees listed below, each of whom has consented to being named in this Proxy Statement and to serving if elected. Although management knows of no reason why any nominee would be unable to serve, the persons designated as proxies reserve full discretion to vote for another person in the event any such nominee is unable to serve.

The Board of Directors unanimously recommends a vote FOR all Nominees.

The following information is provided with respect to the nominees for Director and the incumbent Directors. Italicized wording indicates principal occupation(s).

NOMINEES FOR ELECTION AS CLASS III DIRECTORS TO SERVE UNTIL THE 2006 ANNUAL MEETING OF STOCKHOLDERS

THOMAS H. CRUIKSHANK **Director since 1996** **Age: 71**

Retired Chairman and Chief Executive Officer of Halliburton Company. Mr. Cruikshank was the Chairman and Chief Executive Officer of Halliburton Company, a major petroleum industry service company, from 1989 to 1995 and President and Chief Executive Officer from 1983 to 1989. He joined Halliburton in 1969, and served as a Director from 1977 to 1996. Mr. Cruikshank is a member of the Board of Directors of The Williams Companies, Inc. Mr. Cruikshank serves as a member of the Audit Committee and the Nominating and Corporate Governance Committee.

HENRY KAUFMAN **Director since 1995** **Age: 75**

President of Henry Kaufman & Company, Inc. Dr. Kaufman has been President of Henry Kaufman & Company, Inc., an investment management and economic and financial consulting firm, since 1988. For the previous 26 years, he was with Salomon Brothers Inc, where he was a Managing Director, Member of the Executive Committee, and in charge of Salomon's four research departments. He was also a Vice Chairman of the parent company, Salomon Inc. Before joining Salomon Brothers, Dr. Kaufman was in commercial banking and served as an economist at the Federal Reserve Bank of New York. Dr. Kaufman is a Director of Federal Home Loan Mortgage Corporation and the Statue of Liberty-Ellis Island Foundation Inc. He is a Member (and the Chairman Emeritus) of the Board of Trustees of the Institute of International Education, a Member of the Board of Trustees of New York University, a Member (and the Chairman Emeritus) of the Board of Overseers of the Stern School of Business of New York University and a Member of the Board of Trustees of the Animal Medical Center. Dr. Kaufman is a Member of the Board of Trustees of the Whitney Museum of American Art, a Member of the International Advisory Committee of the Federal Reserve Bank of New York, a

Member of the Advisory Committee to the Investment Committee of the International Monetary Fund Staff Retirement Plan, a Member of the Board of Governors of Tel-Aviv University and Treasurer (and former Trustee) of The Economic Club of New York. Dr. Kaufman serves as the Chairman of the Finance Committee.

JOHN D. MACOMBER **Director since 1994** **Age: 75**

Principal of JDM Investment Group. Mr. Macomber has been a Principal of JDM Investment Group, a private investment firm, since 1992. He was Chairman and President of the Export-Import Bank of the United States from 1989 to 1992, Chairman and Chief Executive Officer of Celanese Corporation from 1973 to 1986 and a Senior Partner at McKinsey & Co. from 1954 to 1973. Mr. Macomber is a Director of Mettler-Toledo International, Sovereign Specialty Chemicals, Inc. and Textron Inc. He is Chairman of the Council for Excellence in Government and Vice Chairman of the Atlantic Council. He is a Director of the National Campaign to Prevent Teen Pregnancy and the Smithsonian Institute and a Trustee of the Carnegie Institution of Washington and the Folger Library. Mr. Macomber serves as the Chairman of the Compensation and Benefits Committee and as a member of the Executive Committee and the Nominating and Corporate Governance Committee.

CLASS I DIRECTORS WHOSE TERMS CONTINUE UNTIL THE 2005 ANNUAL MEETING OF STOCKHOLDERS

MICHAEL L. AINSLIE **Director since 1996** **Age: 59**

Private Investor and Former President and Chief Executive Officer of Sotheby's Holdings. Mr. Ainslie, a private investor, is the former President, Chief Executive Officer and a Director of Sotheby's Holdings. He was Chief Executive Officer of Sotheby's from 1984 to 1994. From 1980 to 1984 he was President and Chief Executive Officer of the National Trust for Historic Preservation. From 1975 to 1980 he was Chief Operating Officer of N-Ren Corp., a Cincinnati-based chemical manufacturer. From 1971 to 1975, he was President of Palmas Del Mar, a real estate development company. He began his career as an associate with McKinsey & Company. Mr. Ainslie is a Director of the St. Joe Company and Artesia Technologies, an internet software provider. He is a Trustee of Vanderbilt University, and also serves as Chairman of the Posse Foundation. Mr. Ainslie serves as a member of the Audit Committee.

JOHN F. AKERS **Director since 1996** **Age: 68**

Retired Chairman of International Business Machines Corporation. Mr. Akers, a private investor, is the retired Chairman of the Board of Directors of International Business Machines Corporation. Mr. Akers served as Chairman of the Board of Directors and Chief Executive Officer of IBM from 1985 until his retirement on May 1, 1993, completing a 33-year career with IBM. Mr. Akers is a Director of W. R. Grace & Co., The New York Times Company, PepsiCo, Inc. and Hallmark Cards, Inc. He is a former member of the Board of Trustees of the California Institute of Technology and The Metropolitan Museum of Art, as well as the former Chairman of the Board of Governors of United Way of America. Mr. Akers was also a member of former President George Bush's Education Policy Advisory Committee. Mr. Akers serves as a member of the Finance Committee and the Compensation and Benefits Committee.

RICHARD S. FULD, JR. | **Director since 1990** | **Age: 56**

Chairman and Chief Executive Officer. Mr. Fuld has been Chairman of the Board of Directors of the Company and LBI since April 1994 and Chief Executive Officer of the Company and LBI since November 1993. Mr. Fuld serves as the Chairman of the Executive Committee. Mr. Fuld was President and Chief Operating Officer of the Company and LBI from March 1993 to April 1994 and was Co-President and Co-Chief Operating Officer of both corporations from January 1993 to March 1993. He was President and Co-Chief Executive Officer of the Lehman Brothers Division of Shearson Lehman Brothers Inc. from August 1990 to March 1993. Mr. Fuld was a Vice Chairman of Shearson Lehman Brothers from August 1984 until 1990. Mr. Fuld has been a Director of LBI since 1984. Mr. Fuld joined Lehman Brothers in 1969. Mr. Fuld is Chairman of the U.S. Thailand Business Council (USTBC). Mr. Fuld is a former member of the Board of Governors of the New York Stock Exchange. He is also a former member of the President's Advisory Committee on Trade Policy Negotiations. Mr. Fuld is a trustee of the Mount Sinai Medical Center. and former Chairman of the Mount Sinai Children's Center Foundation. He currently serves on the foundation's Executive Committee. In addition. he is a member of the University of Colorado Business Advisory Council, is a member of the Executive Committee of the New York City Partnership and serves on the Board of Directors of Ronald McDonald House.

CLASS II DIRECTORS WHOSE TERMS CONTINUE UNTIL THE 2004 ANNUAL MEETING OF STOCKHOLDERS

ROGER S. BERLIND | **Director since 1985** | **Age: 72**

Theatrical Producer. Roger S. Berlind. who is also a private investor. has been a theatrical producer and principal of Berlind Productions since 1981. Mr. Berlind is also a Director of LBI. a Governor of the League of American Theaters and Producers and has served as a Trustee of Princeton University. the Eugene O'Neill Theater Center and the American Academy of Dramatic Arts. Mr. Berlind serves as the Chairman of the Audit Committee and as a member of the Finance Committee.

DINA MERRILL | **Director since 1988** | **Age: 74**

Director and Vice Chairman of RKO Pictures, Inc. and Actress. Dina Merrill. a Director and Vice Chairman of RKO Pictures, Inc.. is an actress and a private investor. Ms. Merrill was a Presidential Appointee to the Kennedy Center Board of Trustees and is a Vice President of the New York City Mission Society. a Trustee of the Eugene O'Neill Theater Foundation and a member of the Board of Orbis International. the Juvenile Diabetes Foundation and the Museum of Television and Radio. Ms. Merrill serves as the Chairman of the Nominating and Corporate Governance Committee and as a member of the Compensation and Benefits Committee.

COMMITTEES OF THE BOARD OF DIRECTORS

The Executive. Audit, Compensation and Benefits. Finance. and Nominating and Corporate Governance Committees of the Board of Directors are described below.

Executive Committee. The Executive Committee consists of Mr. Fuld. who chairs the Executive Committee, and Mr. Macomber. The Executive Committee has the authority. in the intervals between meetings of the Board of Directors. to exercise all the authority of the Board of Directors. except for those matters that the Delaware General Corporation Law or the Restated Certificate of Incorporation reserves to the full Board of Directors. The Executive Committee acted by unanimous written consent five times during the fiscal year ended November 30. 2002 ("Fiscal 2002").

Audit Committee. The Audit Committee consists of Mr. Berlind, who chairs the Audit Committee, and Messrs. Ainslie and Cruikshank, all of whom are non-management directors and are independent as defined in the current listing standards of the New York Stock Exchange. The Audit Committee operates under a written charter adopted by the Board of Directors, which is attached hereto as Appendix A and is available through the Lehman Brothers web site at http://www.lehman.com. The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the Company's financial statements and the Company's compliance with legal and regulatory requirements. The Audit Committee is responsible for retaining (subject to shareholder ratification) and, as necessary, terminating, the independent auditors, annually reviews the qualifications, performance and independence of the independent auditors and the audit plan, fees and audit results, and approves non-audit services to be performed by the auditors and related fees. The Audit Committee also oversees the performance of the Company's internal audit and compliance functions. The Audit Committee held five meetings during Fiscal 2002.

Compensation and Benefits Committee. The Compensation and Benefits Committee (the "Compensation Committee") consists of Mr. Macomber, who chairs the Compensation Committee, and Mr. Akers and Ms. Merrill, all of whom are non-management directors. The Compensation Committee operates under a written charter adopted by the Board of Directors which is available through the Lehman Brothers web site at http://www.lehman.com. The Compensation Committee has general oversight responsibility with respect to compensation and benefits programs and compensation of the Company's executives, including reviewing and approving compensation policies and practices, such as salary, cash incentive, restricted stock, long-term incentive compensation and stock purchase plans and other programs, and grants under such plans. The Compensation Committee evaluates the performance of the Chief Executive Officer of the Company and other members of senior management and, based on such evaluation, reviews and approves the annual salary, bonus, share and option awards, other long-term incentives and other benefits to be paid to the Chief Executive Officer and such other members of senior management. The Compensation Committee has the authority, where appropriate, to delegate its duties. The Compensation Committee held six meetings and acted by unanimous written consent two times during Fiscal 2002.

Finance Committee. The Finance Committee consists of Dr. Kaufman, who chairs the Finance Committee, and Messrs. Akers and Berlind. The Finance Committee reviews and advises the Board of Directors on the financial policies and practices of the Company, and periodically reviews, among other things, major capital expenditure programs and significant capital transactions and recommends a dividend policy to the Board of Directors. The Finance Committee held two meetings during Fiscal 2002.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee (the "Nominating Committee") consists of Ms. Merrill, who chairs the Nominating Committee, and Messrs. Cruikshank and Macomber, all of whom are non-management directors. The Nominating Committee operates under a written charter adopted by the Board of Directors which is available through the Lehman Brothers web site at http://www.lehman.com. The Nominating Committee considers and makes recommendations to the Company's Board of Directors with respect to the size and composition of the Board of Directors and Board Committees and with respect to potential candidates for membership on the Board of Directors. The Nominating Committee is also responsible for developing and recommending to the Board of Directors a set of corporate governance principles applicable to the Company. The Nominating Committee held two meetings during Fiscal 2002. The Nominating Committee will consider nominees for Director recommended by Stockholders. Stockholders wishing to submit recommendations for the 2004 Annual Meeting of Stockholders should write to the Corporate Secretary, Lehman Brothers Holdings Inc., 399 Park Avenue, 11th Floor, New York, New York 10022. The Company's By-Laws contain time limitations, procedures and requirements relating to Stockholder nominations which are explained below under "Other Matters."

NON-MANAGEMENT DIRECTORS

The Board of Directors has adopted a policy of regularly scheduled executive sessions, where non-management directors will meet independently of management.

ATTENDANCE AT MEETINGS BY DIRECTORS

The Board of Directors held eight meetings during Fiscal 2002. During Fiscal 2002, each Director attended 75 percent or more of the aggregate of (a) the total number of meetings of the Board held during the period when he or she was a Director and (b) the total number of meetings held by all Committees of the Board on which he or she served during the period when he or she was a member. Overall Director attendance at such meetings averaged 98%. The number of meetings held by each Committee during Fiscal 2002 is set forth above.

COMPENSATION OF DIRECTORS

Non-management Directors receive an annual cash retainer of $45,000 and are reimbursed for reasonable travel and related expenses. The annual retainer is paid quarterly; however, the fourth quarter payment will be withheld for failure to attend 75% of the total number of meetings. In addition, each non-management Director who served as a chairman of a Committee of the Board of Directors received an additional annual retainer of $15,000 per Committee, and each non-management Director who served as a Committee member (including as Chairman) received $1,500 per Committee meeting or unanimous written consent.

Restricted Stock Unit and Option Grants for Non-Management Directors. An annual equity retainer in the form of a grant of 2,500 RSUs is made to each non-management Director on the day of the Company's Annual Meeting of Stockholders. As of each date that a dividend is paid on Common Stock, each non-management Director holding RSUs is credited with a number of additional RSUs equal to the product of (A) the dividend paid on one share of Common Stock, multiplied by (B) the number of RSUs held by the non-management Director, divided by (C) the closing price of the Common Stock on the New York Stock Exchange on such date. The RSUs vest immediately and are payable in Common Stock upon death, disability or termination of service.

Alternatively, a non-management Director may elect to receive an option to purchase 7,500 shares of Common Stock, with an exercise price per share equal to the closing price of the Common Stock on the New York Stock Exchange on the date the award is made. Such option has a ten-year term, is not forfeitable, and becomes exercisable in one-third increments on each of the first three anniversaries of the award date or, if sooner, upon termination of service.

The Company's Deferred Compensation Plan for Non-Management Directors. The Company's Deferred Compensation Plan for Non-Management Directors is a nonqualified deferred compensation plan, which provides each non-management Director an opportunity to elect to defer receipt of cash compensation to be earned for services on the Board of Directors. Each non-management Director may elect to defer all or a portion of his or her future cash compensation with respect to one or more terms as Director. Such election can be revoked only by a showing of financial hardship and with the consent of the Compensation Committee. Amounts deferred are credited quarterly with interest, based upon the average 30-day U.S. Treasury Bill rate, and compounded annually. Deferred amounts will be paid in either a lump sum or in annual installments over a period not to exceed ten years as elected by the non-management Director. Payments commence as the non-managment Director elects, at a specified date in the future or upon termination of service as a non-management Director.

The Company's Frozen Retirement Plan for Non-Management Directors. Prior to May 1994, the Company maintained the Company's Retirement Plan for Non-Management Directors which was a nonqualified retirement plan which provided a limited annual retirement benefit for non-management Directors who had earned five or more years of service as defined in the plan. Participation in this plan was frozen on May 31, 1994. Any non-management Director who had, on such date, completed at least five years of service as a Director (determined in accordance with the plan) has vested benefits under the plan. Any individual who was a non-management Director on such date, but had not completed five years of service as of such date, acquired vested benefits under this plan at the time such individual completed such five years of service as a Director. Any individual who became a non-management Director after such date was ineligible to participate in this plan. Vested benefits under this plan will be paid after a participant ceases to be a Director.

EXECUTIVE OFFICERS OF THE COMPANY

Biographies of the current executive officers of the Company are set forth below, excluding Mr. Fuld's biography, which is included above. Each executive officer serves at the discretion of the Board of Directors.

JONATHAN BEYMAN **Age: 47**

Chief of Operations and Technology. Mr. Beyman has been the Chief of Operations and Technology since July 2002 and is an Executive Vice President of the Company. From July 1999 to July 2002 Mr. Beyman was the Firm's Global Head of Operations, and from March 1999 to July 1999 he was the Firm's US Head of Operations. From December 1997 to February 1999, Mr. Beyman was chief operating officer of Cendant Corporation's Internet-based business, and chief information officer of Cendant from July 1994 to June 1998. Prior thereto, Mr. Beyman was with the Firm for eight years, in a variety of technology and operations senior management roles. Mr. Beyman is a member of the Board of Directors of the Depository Trust and Clearing Corporation.

DAVID GOLDFARB **Age: 45**

Chief Financial Officer. Mr. Goldfarb has been the Chief Financial Officer of the Company since April 2000 and is an Executive Vice President of the Company and a member of the Firm's Executive Committee. Mr. Goldfarb served as the Company's Controller from July 1995 to April 2000. Mr. Goldfarb has been the Chief Financial Officer of LBI since July 1998. Mr. Goldfarb joined the Firm in December 1993; prior to that, Mr. Goldfarb was a partner at Ernst & Young.

JOSEPH M. GREGORY **Age: 50**

Chief Operating Officer. Mr. Gregory has been Chief Operating Officer of the Company since May 2002 and is a member of the Firm's Executive Committee. From April 2000 until May 2002 Mr. Gregory was the Firm's Chief Administrative Officer, and from 1996 to April 2000 Mr. Gregory was Head of the Firm's Global Equities Division, in charge of the overall equities business. From 1991 to 1996 he was Co-Head of the Firm's Fixed Income Division. From 1980 to 1991, he held various management positions in the Fixed Income Division, including Head of the Firm's Mortgage Business. Mr. Gregory joined the Firm in 1974 as a commercial paper trader. Mr. Gregory is a member of the board of directors of The Posse Foundation Inc. and the Dorothy Rodbell Cohen Foundation, and is a member of the Board of Trustees of The Millbrook School.

BRADLEY H. JACK **Age: 44**

Chief Operating Officer. Mr. Jack has been Chief Operating Officer of the Company since May 2002 and is a member of the Firm's Executive Committee. From 1996 to May 2002 Mr. Jack was Head of the Firm's Investment Banking Division, and from 1993 to 1996 he was a Sector Head in Investment Banking, responsible for the Firm's businesses involving Debt Capital Markets, Financial Services, Leveraged Finance and Real Estate. Prior to that he was head of the Firm's Fixed-Income Global Syndicate activities. Mr. Jack joined the Firm in 1984 as an associate in the Fixed Income Division. Mr. Jack is a member of the Board of Directors of the Dorothy Rodbell Cohen Foundation and a member of the Board of Trustees of the Juilliard School.

THOMAS A. RUSSO **Age: 59**

Chief Legal Officer. Mr. Russo has been Chief Legal Officer of the Company since 1993 and is an Executive Vice President of the Company. Mr. Russo also serves as counsel to the Firm's Executive Committee. He has been a Vice Chairman of LBI since July 1999. Mr. Russo joined the Firm in 1993; prior to that, Mr. Russo was a partner at the Wall Street law firm of Cadwalader, Wickersham & Taft and a member of its management committee. Mr. Russo is a member of the Executive Committee of the Board of Directors of the March of Dimes, Vice Chairman and a member of the Executive Committee of the Board of Trustees of the Institute for Financial Markets, and Chairman of the Executive Committee of the Board of Trustees of the Institute for International Education. He is also Co-Chairman of the Global Documentation Steering Committee and a member of the Board of Directors of NYU Downtown Hospital.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth beneficial ownership information as of January 31, 2003 with respect to the Common Stock for each current Director of the Company (including all nominees for Director), each executive officer named in the tables set forth under "Compensation of Executive Officers" below and all current Directors and executive officers as a group. Except as described below, each of the persons listed below has sole voting and investment power with respect to the shares shown. None of the Directors or executive officers beneficially owned any of the Company's other outstanding equity securities as of January 31, 2003.

Beneficial Owner	Number of Shares of Common Stock (a)	Number of Shares of Common Stock which may be acquired within 60 days of January 31, 2003	Percent of Outstanding Common Stock (b)
Michael L. Ainslie (c)	23,965	16,511	*
John F. Akers	8,485	16,511	*
Roger S. Berlind (d)	291,525	16,511	*
Thomas H. Cruikshank	26,363	0	*
Richard S. Fuld, Jr.	4,336,783	1,756,640	2.64
Joseph M. Gregory	2,334,804	700,000	1.32
Bradley H. Jack	1,485,428	1,300,000	1.21
Henry Kaufman (e)	33,803	14,107	*
John D. Macomber	59,525	16,511	*
Dina Merrill	22,005	16,511	*
Thomas A. Russo	522,360	75,000	*
Jeffrey Vanderbeek	1,522,154	1,200,000	1.19
All current Directors and executive officers as a group (13 individuals)	9,402,655	4,050,025	5.76

* Less than one percent.

(a) Amounts include vested and unvested RSUs. RSUs are convertible on a one-for-one basis into shares of Common Stock, but cannot be sold or transferred until converted to Common Stock and, with respect to each person identified in the table, are not convertible within 60 days following January 31, 2003. A portion of the vested RSUs held by the executive officers are subject to forfeiture for detrimental or competitive activity. Nonetheless, an executive officer who holds RSUs will be entitled to direct the Incentive Plans Trustee to vote a number of Trust Shares that is proportionate to the number of RSUs held irrespective of vesting; such number of Trust Shares will be calculated prior to the Annual Meeting and will be determined by the number of Trust Shares held by the Incentive Plans Trust on the Record Date and the extent to which Current Participants under the Incentive Plans return voting instructions to the Incentive Plans Trustee. See "Introduction—The Voting Stock."

(b) Percentages are calculated in accordance with applicable SEC rules and are based on the number of shares issued and outstanding on January 31, 2003.

(c) Includes 3,500 shares held by Mr. Ainslie's private charitable foundation, as to which Mr. Ainslie disclaims beneficial ownership.

(d) Includes 80,000 shares held by Mr. Berlind's wife, as to which Mr. Berlind disclaims beneficial ownership.

(e) Includes 25,000 shares held by Dr. Kaufman's wife, as to which Dr. Kaufman disclaims beneficial ownership.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE OFFICER COMPENSATION

The Compensation Committee oversees the compensation programs of the Company, with particular attention to the compensation of the Company's Chief Executive Officer and the other executive officers. The Compensation Committee is comprised of Mr. Macomber, who chairs the Compensation Committee, Mr. Akers and Ms. Merrill.

In making its decisions with respect to the compensation of executive officers, the Compensation Committee has adopted the following philosophical positions and policies:

- Deliver a significant portion of total compensation in equity-based awards, thereby aligning the financial interests of executive officers with those of Stockholders and encouraging prudent long-term strategic decisions. Where feasible, based on market conditions and other factors, shares will be repurchased in the market to avoid Stockholder dilution.
- Tie compensation for executive officers to both annual and long-term performance goals, which further aligns the interests of executive officers with those of Stockholders and rewards executive officers for results.
- Ensure that compensation opportunities are comparable with those at major competitors, so that the Firm can attract, retain and motivate talented executive officers who are key to the Company's long-term success.

The overall objective in determining total compensation levels across the Firm is to balance competitive pressures in the market for professional talent with cost considerations. The elements and weightings of the compensation program at the Company are comparable to those used in the securities industry, but are considerably different from those of other major corporations operating in different industries. The nature of the securities industry requires a large percentage of highly skilled professionals, who are in great demand due to the revenue they can generate. Competitive pressure to hire these professionals results in high levels of compensation in order to attract and retain the talent needed to compete effectively.

Total compensation is comprised of base salary and both cash and noncash incentive compensation. Base salaries are intended to make up a small portion of total compensation. The greater part of total compensation is based on the Company's financial performance and other factors and is delivered through a combination of cash and equity-based awards. This approach results in overall compensation levels which follow the financial performance of the Company.

As in prior years, a key element of executive officer compensation for Fiscal 2002 was a pre-established compensation formula, which in Fiscal 2002 was based on the Company's return on equity. The formulas were intended to provide a specific amount of annual compensation, which is paid in cash and RSUs. The RSUs are subject to significant vesting and forfeiture restrictions, and cannot be sold or transferred until converted to Common Stock.

Additionally, Fiscal 2002 executive officer compensation included a long-term incentive plan ("LTIP") as a component of total compensation. Whereas the cash and RSU components of total compensation are based upon annual performance goals, the LTIP is based upon performance over a longer period and is initially in the form of Performance Stock Units ("PSU's"). Under the current LTIP, the Company's return on equity as well as any price appreciation in the Common Stock over a three and one-half year period which began June 1, 2000 will determine an award of RSU's which will vest in one-third increments in 2006 through 2008. The performance component of the LTIP seeks to further align executive performance with Stockholder interests. The vesting component seeks to encourage the retention of talented executives, particularly if the Company's return on equity and stock price result in a meaningful award.

The Compensation Committee also utilized stock option awards in Fiscal 2002 to further encourage executive officers to strive for long-term Stockholder value. The options were awarded with exercise prices equal to fair market value on the date of the grant, and with terms providing for exercisability in three years if the market price of the Common Stock increases to a level well above the market price on the date of grant. However, if the price targets are not achieved, exercisability for all or a portion of the options is delayed until four and one-half years after the date of grant. The Compensation Committee believes that options assist the Firm in maintaining a competitive compensation program.

In determining overall executive officer compensation for Fiscal 2002, the Compensation Committee also considered a number of business factors and conditions. Despite the continuing difficult economic and market conditions, the Company continued to deliver strong overall financial performance across all phases of the business cycle and build on its reputation as an industry leader. In addition, the Compensation Committee reviewed compensation provided in the prior year, along with estimates of compensation for the current year for competitor firms. In making its determinations, the Compensation Committee had available to it third-party advisors knowledgeable about industry practices.

In establishing Fiscal 2002 compensation for Richard S. Fuld, Jr., the Company's Chairman and Chief Executive Officer, the Compensation Committee considered, in addition to the financial results of the Company relative to competitors, the following performance factors:

- Continuing market share gains in major product categories in investment banking and capital markets.
- Broad recognition of the Company's franchise building efforts, both in select market segments and overall.
- The successful relocation of the Company to its new headquarters in mid-town Manhattan and successful business recovery following the September 11, 2001 terrorist attacks.

The Committee did not assign specific relative weights to the performance factors above. Despite Mr. Fuld's strong performance as a leader in a difficult business environment, the actual financial results of the Company for Fiscal 2002 were lower than for 2001. Since the major portion of Mr. Fuld's compensation is based on financial results, his Fiscal 2002 compensation reflects a decrease from 2001.

Section 162(m) of the Internal Revenue Code limits the tax deductibility of compensation in excess of $1 million unless the payments are made under qualifying performance-based plans. While the Compensation Committee generally seeks to maximize the deductibility of compensation paid to executive officers, it will maintain flexibility to take other actions which may be based on considerations other than tax deductibility.

Compensation and Benefits Committee:

John D. Macomber, Chairman
John F. Akers
Dina Merrill
February 28, 2003

Compensation and Benefits Committee Interlocks and Insider Participation

During the last completed fiscal year, John D. Macomber, John F. Akers and Dina Merrill served on the Compensation Committee. None of these individuals has ever served as an officer or employee of the Firm.

COMPENSATION OF EXECUTIVE OFFICERS

The following table shows, for the years ended November 30, 2002, 2001 and 2000, as applicable, the cash and other compensation paid or accrued and certain long-term awards made to the Chairman and Chief Executive Officer (the "CEO") and to the Company's four most highly compensated executive officers for Fiscal 2002 other than the CEO for services in all capacities. Mr. Russo became an executive officer in Fiscal 2002.

SUMMARY COMPENSATION TABLE

Name and Principal Position at November 30, 2002	Fiscal Year	Annual Compensation			Long-Term Compensation Awards		All Other Compensation (b)
		Salary	Bonus	Other Annual Compensation	Restricted Stock Unit Awards (a)	Securities Underlying Options	
R. S. Fuld, Jr.	2002	$750,000	$1,050,000	—	$ 5,771,003	400,000	$13,008
Chairman and Chief	2001	750,000	4,000,000	—	6,785,299	450,000	12,517
Executive Officer	2000	750,000	8,750,000	—	13,572,896	800,000	13,710
J. M. Gregory	2002	$450,000	$1,050,000	—	$ 3,571,803	300,000	$ 7,128
Chief Operating Officer	2001	450,000	2,800,000	—	4,642,616	350,000	6,373
	2000	450,000	8,050,000	—	7,857,992	600,000	5,339
B. H. Jack	2002	$450,000	$1,050,000	—	$ 3,571,803	300,000	$ 0
Chief Operating Officer	2001	450,000	2,800,000	—	4,642,616	350,000	0
	2000	450,000	8,050,000	—	7,857,992	600,000	0
T. A. Russo Executive Vice President and Chief Legal Officer	2002	$450,000	$1,050,000	—	$ 1,428,721	0	$ 0
J. Vanderbeek	2002	$450,000	$1,050,000	—	$ 3,571,803	300,000	$ 1,004
Executive Vice President	2001	450,000	2,800,000	—	4,642,616	350,000	904
and Office of the Chairman	2000	450,000	8,050,000	—	7,857,992	600,000	1,084

(a) The values indicated are calculated by multiplying the closing market price of the Common Stock on the respective dates the awards were granted by the number of shares awarded. RSUs are subject to significant vesting and forfeiture restrictions and pursuant to the terms of the awards cannot be sold or transferred until they convert to Common Stock, which in the case of the RSUs granted for Fiscal 2002 will occur November 30, 2007. Dividends are payable by the Company on all such holdings from their respective dates of award, and are reinvested in additional RSUs. The total number of RSUs granted for Fiscal 2002 that underlies the value shown for each of Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek was 103,701.76, 65,634.02, 65,634.02, 26,253.61 and 65,634.02, respectively. Of such RSUs, 35% will vest on November 30, 2005 and the balance will vest on November 30, 2007. Notwithstanding the foregoing, RSUs may become vested (and may convert to Common Stock) sooner upon certain termination events or upon death or disability.

Including the RSUs described immediately above, as of November 30, 2002, the total number of RSUs held by Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek was 2,626,902.48, 1,786,484.61, 1,335,724.23, 427,671.57 and 1,335,724.23, respectively. The value of these holdings at the November 29, 2002 closing price per share of Common Stock of $61.40 was $161,291,812, $109,690,155, $82,013,468, $26,259,034 and $82,013,468, respectively. These RSU holdings as of November 30, 2002 include Extended RSUs, described under "Employment Contracts, Termination of Employment and Change in Control Arrangements," which vest (and convert to Common

(footnotes continued on next page)

Stock) upon certain termination events or upon death or disability or a change in control, and that were based upon the Company's 1995, 1996 and 1997 PSU award programs. These RSU holdings as of November 30, 2002 also include for each of Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek 97,091.24, 73,195.74, 73,195.74, 33,705.23 and 73,195.74 RSUs, respectively, earned in Fiscal 2002 that are based on PSU awards made in 2000.

(b) The amounts reported under "All Other Compensation" for Fiscal 2002 consist of the dollar value of above-market earnings on deferred compensation. Included are credits to compensation deferred pursuant to the Executive and Select Employees Plan, which was established in 1985, and the Lehman Brothers Kuhn Loeb Deferred Compensation Plans, which were established in 1977 and 1980.

The following table contains information concerning the grant of nonqualified stock options in Fiscal 2002 to the named executive officers.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted (a)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Grant Date Present Value (b)
R. S. Fuld, Jr.	400,000	1.5	$63.40	12/02/06	$4,900,000
J. M. Gregory	300,000	1.1	63.40	12/02/06	3,675,000
B. H. Jack	300,000	1.1	63.40	12/02/06	3,675,000
J. Vanderbeek	300,000	1.1	63.40	12/02/06	3,675,000

(a) Five-year nonqualified stock options were granted on December 3, 2001 with terms providing for exercisability in four and one-half years and for accelerated exercisability, to no earlier than the third anniversary of the grant date, in one-third increments if the closing price of the Common Stock on the New York Stock Exchange (the "NYSE") reaches $75.00, $85.00 and $95.00, respectively, for 15 out of 20 consecutive trading days. Notwithstanding the foregoing, the options may become exercisable without regard to the three-year holding period upon certain termination events, and without regard to either the holding period or the stock price thresholds upon death or disability.

(b) These values were calculated using the Black-Scholes option pricing model as of the grant date. The Black-Scholes model is a mathematical formula that is widely used and accepted for valuing traded stock options. The model is premised on immediate exercisability and transferability of the options, neither of which was true for the options granted to the named executive officers at the time of grant. Therefore, certain discounting assumptions about the time of exercise and risk of forfeiture were applied, as indicated below. These hypothetical present values are presented pursuant to SEC rules even though there is no assurance that such values will ever be realized. The actual amount, if any, realized upon the exercise of stock options would depend upon the market price of Common Stock relative to the exercise price per share of the stock option at the time the stock option is exercised.

The following assumptions were used in employing the Black-Scholes option pricing model: an exercise price equal to the closing price of the Common Stock on the date of grant; an expected time to exercise of three years; a dividend rate of $0.28 per share; a risk-free rate of return equal to the yield for the U.S. Treasury Strip security with a maturity date closest to the expected option life of the grant; an expected Common Stock price volatility rate of 40% per annum; and a 10% per annum adjustment for nontransferability or risk of forfeiture.

The following table sets forth information concerning the exercise of stock options during Fiscal 2002 by each of the named executive officers and the fiscal year-end value of unexercised options.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-The-Money Options at Fiscal Year End (a)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
R. S. Fuld. Jr.	700,000	$21,125,090	1,756,640	850,000	$62,997,936	$4,623,750
J. M. Gregory	600,000	23,531,220	1,300,000	650,000	44,738,750	3,596,250
B. H. Jack	464,500	15,846,770	1,300,000	650,000	44,738,750	3,596,250
T. A. Russo	85,240	2,119,320	—	450,000	—	9,347,625
J. Vanderbeek	700,000	24,149,470	1,200,000	650,000	40,642,500	3,596,250

(a) Aggregate values shown above represent the excess of $61.40 per share, the closing price of the Common Stock on November 29, 2002 on the NYSE, over the respective exercise prices of the options. The actual amount, if any, realized upon exercise of stock options will depend upon the market price of the Common Stock relative to the exercise price per share of the stock option at the time the stock option is exercised. There is no assurance that the values of unexercised in-the-money options reflected above will be realized.

PENSION BENEFITS

The Lehman Brothers Holdings Inc. Retirement Plan (the "U.S. Pension Plan") is a funded, qualified, noncontributory, integrated, defined benefit pension plan covering eligible U.S. employees.

All U.S. employees of the Company or a designated subsidiary who have attained the age of 21 and completed one year of service are generally eligible to participate in the U.S. Pension Plan. The U.S. Pension Plan formula provides for an annual retirement benefit payable at age 65, calculated as a straight life annuity. Pensionable earnings are total Form W-2 earnings (plus elective deferrals under the Lehman Brothers Savings Plan and certain other health plan deferral amounts) up to the applicable Internal Revenue Service maximum. For each year of plan participation prior to 1989, the annual accrual was based on percentages of pensionable earnings up to and in excess of the social security taxable wage base. After 1988 the annual accrual is equal to one percent of pensionable earnings up to the average Social Security taxable wage base plus 1.65% of pensionable earnings in excess of the average taxable wage base. Generally, participants have a nonforfeitable right to their accrued benefits upon completing five years of vesting service. As of November 30, 2002, the estimated annual projected benefits payable upon retirement at a normal retirement age of 65 for Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek are approximately $103,228, $116,124, $103,097, $39,029 and $110,735, respectively.

Supplemental Retirement Plan

The Company has adopted a nonqualified, noncontributory Supplemental Retirement Plan (the "SRP"), which is a defined benefit plan, covering Messrs. Fuld, Gregory, Jack and Vanderbeek and certain other executives, with full benefits payable to those who upon retirement are at least age 60 and who have completed at least five years of service, or whose age plus years of service equals or exceeds the sum of 85. The SRP also provides for the payment beginning at age 60 of reduced benefits payable to those who upon retirement are not yet age 60 if upon retirement the participant is above age 45 or has completed five years of service. Benefits are not payable in cases of termination by the Company or employment by a competitor. As of January 31, 2003, the estimated annual projected benefits payable upon retirement at age 60 for Mr. Fuld are $1.25 million, and for each of Messrs. Gregory, Jack and Vanderbeek are $700,000. In the event of a change in control, vesting is accelerated.

EMPLOYMENT CONTRACTS, TERMINATION OF EMPLOYMENT AND CHANGE IN CONTROL ARRANGEMENTS

Pursuant to its authority to accelerate vesting and waive the transfer restrictions for grants of RSUs, in 1994 the Compensation Committee determined to provide for the acceleration of vesting and the waiver of transfer restrictions of existing and any subsequently granted RSUs (other than RSUs based upon PSU awards) held by executive officers (and made comparable provisions for all other employees) in the event of a hostile change in control, which generally means a tender offer, acquisition of 20% of the Company's voting securities or a change of a majority of the incumbent Board of Directors, in each case without the prior approval of a majority of the independent members of the incumbent Board of Directors. To the extent there is a change in control which is not hostile, these RSUs would be paid out but the difference between the acquisition price and the RSU value at grant would be deferred for the shorter of two years or the term of any remaining restrictions and the conditions of the original RSU grant would govern the deferred amounts. Comparable arrangements were implemented for options held by the executive officers and all other employees. In the case of 1996 PSU award grants and 1997 PSU award grants, an additional number of RSUs would be payable following a change of control (which aggregate payouts, upon a change in control, would represent the full awards earned pursuant to the performance formula). The number of such additional RSUs payable following a change of control for Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek would be 1,231,978, 847,482, 615,987, 222,995 and 615,987, respectively. In addition, under a Cash Award Plan, if a change of control occurs within six months after a grant of RSUs, then Mr. Fuld would receive a payment equal to 350% of his previous annual cash compensation, Mr. Russo would receive 200%, and the other participants would receive 300%.

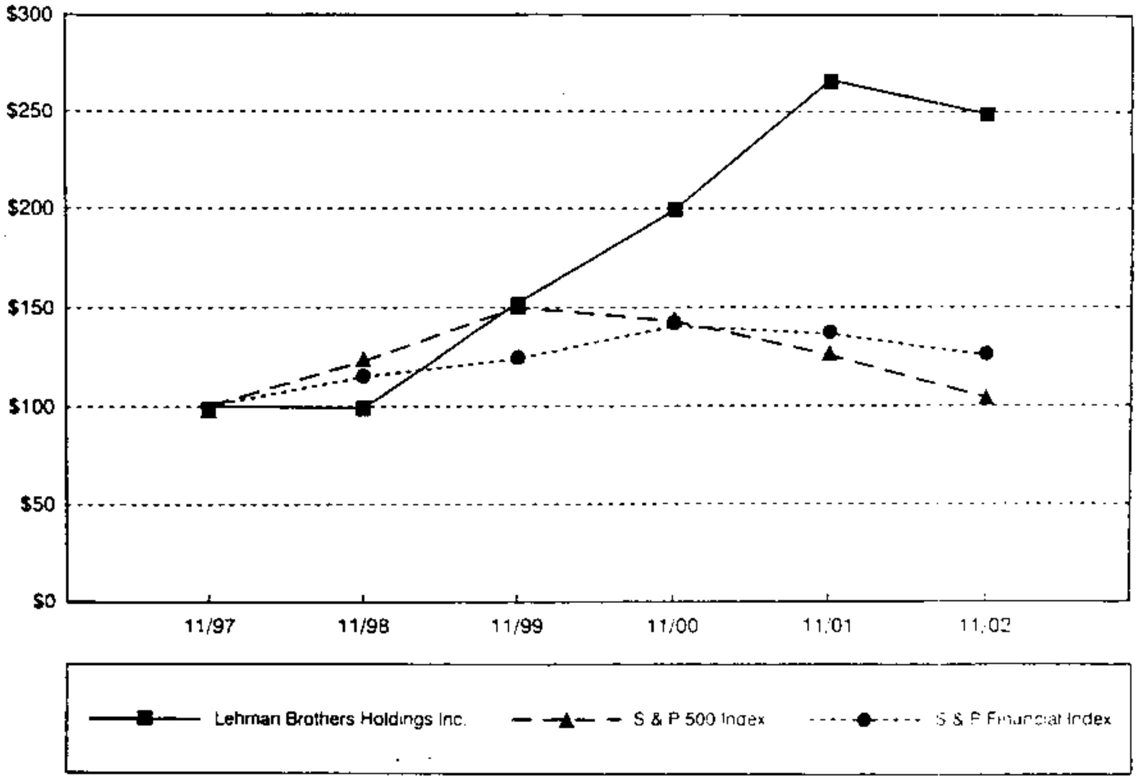
The Compensation Committee has delayed the payout of certain RSU awards received by executives in accordance with the Firm's 1995, 1996 and 1997 PSU award programs (the "Extended RSUs"). Such extended vesting will support the Company's executive stock ownership objectives and ensure that senior executives continue to have a substantial economic interest in the Company. The Extended RSUs were initially scheduled to vest (and convert to Common Stock) in tranches at several successive fiscal year ends (the "Prior Vesting Dates"). Each tranche of the Extended RSUs will now vest following termination of employment with the Firm, provided such termination occurs after the relevant Prior Vesting Date, or sooner upon death or disability or a change in control. Until the relevant Prior Vesting Date, each tranche of Extended RSUs was or will be subject to forfeiture under the terms of the original award; thereafter, the Extended RSUs will remain subject to forfeiture for involuntary termination with cause or if the recipient engages in detrimental activity. Pursuant to the foregoing, Messrs. Fuld, Gregory, Jack, Russo and Vanderbeek presently hold 1,471,646.56, 1,081,100.76, 630,340.38, 190,343.94 and 630,340.38 Extended RSUs, respectively, with values based on the November 29, 2002 closing price per share of Common Stock of $61.40 totaling $90,359,099, $66,379,587, $38,702,899, $11,687,118 and $38,702,899, respectively. All of the Extended RSUs are included in the total RSU holdings disclosed in footnote (a) to the Summary Compensation Table contained herein.

PERFORMANCE GRAPH

The performance graph below illustrating cumulative stockholder return compares the performance of the Common Stock, measured at each of the Company's last five fiscal year-ends, with that of (1) the S&P 500 Index and (2) the S&P Financial Index.

The graph assumes $100 was invested in the Common Stock and each index on November 30, 1997, and that all dividends were reinvested in full.

Cumulative Total Return
For Lehman Brothers Holdings Inc. Common Stock,
the S & P 500 Index and the S & P Financial Index



	Cumulative Total Return (in dollars)					
	11/30/97	11/30/98	11/30/99	11/30/00	11/30/01	11/30/02
Lehman Brothers Holdings Inc.	100.00	99.43	152.84	199.35	267.09	249.42
S & P 500 Index	100.00	123.66	149.50	143.19	125.69	104.94
S & P Financial Index	100.00	114.66	124.29	140.45	136.45	125.76

CERTAIN TRANSACTIONS AND AGREEMENTS WITH DIRECTORS AND EXECUTIVE OFFICERS

In the ordinary course of business, the Firm from time to time engages in transactions with other corporations or financial institutions whose officers or directors are also executive officers or Directors of the Company. Transactions with such corporations and financial institutions are conducted on an arm's-length basis and may not come to the attention of the Directors or executive officers of the Company or those of the other corporations or financial institutions involved.

To the extent permitted by the Sarbanes-Oxley Act of 2002, Directors and executive officers of the Company and their associates from time to time may be or may have been indebted to the Company or its subsidiaries under lending arrangements offered by those companies to the public. For example, such persons may be or may have been indebted to LBI, as customers, in connection with margin account loans, revolving lines of credit and other extensions of credit. Such indebtedness is in the ordinary course of business, is substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and does not involve a more than normal risk of collectibility or present other unfavorable features. In addition, such executive officers, Directors and associates may engage in transactions in the ordinary course of business involving other goods and services provided by the Firm, such as investment services, limited partnership investments and financial counseling, on terms similar to those extended to employees of the Company generally. From time to time, the Company, through certain of its subsidiaries, in the ordinary course of business has provided investment, financial advisory and other services to certain corporations and entities with which certain of its Directors are affiliated.

Throughout Fiscal 2002 the Company was party to a consulting agreement with Henry Kaufman & Company, Inc. ("HK Company") pursuant to which HK Company will provide, upon request, advice to the Firm on global initiatives, economic forecasts and other matters. HK Company receives a consulting fee of $12,500 per month. Henry Kaufman, a Director of the Company, is a principal of HK Company. The contract expires in April 2003, subject to renewal by agreement of the parties.

Directors and qualifying employees and consultants of the Firm who are accredited investors have been provided with the opportunity to invest as limited partners in various investment partnerships that qualify as "employees' securities companies" for purposes of the Investment Company Act of 1940. These investment partnerships provide the participants with an opportunity to make investments in a portfolio of investment opportunities, often together with the Firm's private equity, venture capital and real estate funds that are offered to third-party investors. The Company, either directly or through a subsidiary, is the general partner of these investment partnerships. None of the rights of directors as limited partners in these investment partnerships are contingent in any way on their continued service as directors.

Lehman Brothers Capital Partners III, L.P. ("Capital Partners III") was established in 1995. The general partner has made preferred capital contributions equal to eight times the amount of capital contributed by the limited partners. The amount of the general partner's capital contribution, together with a fixed return thereon, which varies from month to month and averaged 4.2% for Fiscal 2002, is generally distributed to the general partner before any distributions are made to the limited partners. The limited partners' respective capital contributions are then returned and subsequent profits, if any, are divided 90% to the limited partners and 10% to the general partner. During Fiscal 2002, Mr. Fuld received distributions from Capital III of $77,000 (representing $61,138 of profits and $15,862 of returns of capital). The amount of Mr. Fuld's unreturned limited partner capital in Capital Partners III as of November 30, 2002 did not exceed $60,000.

Lehman Brothers Capital Partners IV, L.P. ("Capital Partners IV") was established in 1997. The general partner has made capital contributions equal to 25% of the amount of capital contributed by the limited partners. Recourse financing for 75% of limited partner contributions was offered to the limited partners by the general partner. A fixed return on the general partner's capital contribution, which return varies from month to month and averaged 4.2% for Fiscal 2002, is generally distributed to the general partner before any other distributions are made. A fixed return at the same rate is then distributed to the limited partners on 75% of their capital contributions. Thereafter, capital contributions are returned to the limited partners and then the general partner, and subsequent profits, if any, are divided 90% to the limited partners and 10% to the general partner. The table below sets forth for each of the limited partners listed (1) the amount of distributions from Capital Partners IV during Fiscal 2002, (2) the amount of unreturned limited partner capital in Capital Partners IV as of November 30, 2002 and (3) the amount of recourse financing remaining as of November 30, 2002.

Limited Partner	Fiscal 2002 Distributions (1)	Unreturned LP Capital as of 11/30/02 (2)	Recourse Financing Remaining as of 11/30/02
Michael L. Ainslie	*	$ 79,160	$ 230,704
Roger S. Berlind	*	309,864	—
Thomas H. Cruikshank	*	79,160	230,704
Richard S. Fuld, Jr.	$434,693	949,920	2,768,453
David Goldfarb	*	59,370	173,028
Joseph M. Gregory	289,795	633,280	1,845,635
Jeremy Isaacs	64,500	118,740	346,057
Bradley H. Jack	289,795	633,280	1,845,635
Henry Kaufman	*	309,864	—
Thomas Russo	90,561	197,900	576,761
Jeffrey Vanderbeek	289,795	633,280	1,845,635
Adult children of John F. Akers**	72,449	158,320	461,409
Adult children of John D. Macomber**	72,449	158,320	461,409
Adult children of Dina Merrill**	*	79,160	230,704

* Aggregate 2002 distributions did not exceed $60,000.

** In the aggregate.

(1) The distributions shown are net of amounts used to repay any related financing provided by the general partner, which amounts were $81,307 for Mr. Fuld, $54,205 for Mr. Gregory, $54,205 for Mr. Jack, $16,939 for Mr. Russo, $54,205 for Mr. Vanderbeek, an aggregate of $13,551 for adult children of Mr. Akers, and an aggregate of $13,551 for adult children of Mr. Macomber.

(2) The limited partner capital shown is net of related financing provided by the general partner.

Lehman Brothers Partnership Account 2000/2001, L.P. ("Partnership Account 2000") was established in 2000. The general partner has committed to make capital contributions equal to four times the amount of capital contributed by the limited partners. Fifty percent of the general partner's capital is with recourse to the limited partners. A fixed return on the general partner's capital contributions, which return varies from month to month and averaged 7.74% for Fiscal 2002, is generally distributed to the general partner before any other distributions are made. Thereafter, capital contributions are returned to the general partner and then to the limited partners, and subsequent profits, if any, are divided 90% to the limited partners and 10% to the general partner. Partnership Account 2000 did not make any distributions in Fiscal 2002. As of November 30, 2002, the amount of the general partner's contribution which was with recourse to the limited partners was $104,438 for each of Messrs. Ainslie, Berlind, Goldfarb, Kaufman and Russo, $208,876 for each of Messrs. Fuld, Gregory, Isaacs, Jack and Vanderbeek, an aggregate of $104,438 for adult children of Mr. Akers, an aggregate of $104,438 for adult children of Mr. Macomber and an aggregate of $104,438 for adult children of Ms. Merrill. The amount of unreturned limited partner capital in Partnership Account 2000 as of November 30, 2002 was $75,000 for each of Messrs. Ainslie, Berlind, Goldfarb, Kaufman and Russo, $150,000 for each of Messrs. Fuld, Gregory, Isaacs, Jack and Vanderbeek, an aggregate of $75,000 for adult children of Mr. Akers, an aggregate of $75,000 for adult children of Mr. Macomber and an aggregate of $75,000 for adult children of Ms. Merrill.

Lehman Brothers Capital Partners II, L.P. ("Capital Partners II") was established in 1988. All partner capital has been returned from Capital Partners II and any future profits will be divided 30% to the limited partners and 70% to the general partner. Capital Partners II did not make any distributions in Fiscal 2002.

Lehman Brothers Venture Capital Partners I, L.P. ("Venture Capital I"), Lehman Brothers Communications Capital Partners I, L.P. ("Communications Capital I"), Lehman Brothers Venture Capital Partners II, L.P. ("Venture Capital II") and Lehman Brothers Real Estate Capital Partners I, L.P. ("Real Estate Capital I") were established in 1999 to 2001. The general partner has contributed 1% of the capital of each of these partnerships. After returns of capital to the partners, any profits are distributed to the partners in proportion to their capital contributions, except that 10% of the profits of Communications Capital I, Venture Capital II and Real Estate Capital I otherwise distributable to the limited partners are, subject to certain exceptions, distributed to the general partner instead. None of these partnerships made distributions in Fiscal 2002 of more than $60,000 to any of the limited partners named in the table below, other than Venture Capital I, which made distributions to Mr. Fuld during Fiscal 2002 of $67,851 (representing $49,275 of profits and $18,576 of returns of capital). The table below sets forth the amounts of unreturned limited partner capital in these partnerships as of November 30, 2002 for each of the limited partners listed.

	Unreturned LP Capital as of 11/30/02			
Limited Partner	**Venture Capital I**	**Communications Capital I**	**Venture Capital II**	**Real Estate Capital I**
Michael L. Ainslie	—	$ 62,500	—	—
Roger S. Berlind	$ 94,876	62,500	*	—
Thomas H. Cruikshank	94,876	62,500	—	—
Richard S. Fuld, Jr.	711,572	375,000	$171,000	$335,412
David Goldfarb	118,595	*	85,500	223,608
Joseph M. Gregory	474,381	250,000	171,000	335,412
Jeremy Isaacs	189,752	125,000	171,000	335,412
Bradley H. Jack	474,381	375,000	171,000	335,412
Henry Kaufman	—	62,500	—	—
Thomas Russo	284,629	75,000	85,500	223,608
Jeffrey Vanderbeek	474,381	250,000	85,500	335,412
Adult children of John F. Akers**	94,876	62,500	—	—
Adult children of John D. Macomber**	94,876	62,500	*	89,443
Adult children of Dina Merrill**	94,876	62,500	—	*

* Does not exceed $60,000.

** In the aggregate.

CERTAIN TRANSACTIONS AND AGREEMENTS WITH AMERICAN EXPRESS AND SUBSIDIARIES

American Express Company ("American Express") beneficially owned a majority of the Company's Redeemable Voting Preferred Stock, par value $1.00 per share, until July 15, 2002, when all of the Company's Redeemable Voting Preferred Stock was redeemed.

American Express Travel Related Services Company, Inc. ("TRS") provides the Corporate Card to employees of the Firm, for which TRS has waived all annual fees. In January 1994, the Company agreed to consolidate all of the Firm's domestically initiated business travel reservations through the TRS Travel Center in Omaha. Such arrangements with respect to the Corporate Card and travel services continue to be in effect.

In August 1990, American Express agreed to guarantee certain payments to employees who were then active employees of the Company under certain deferred compensation programs. As of January 31, 2003, deferred compensation with an aggregate balance of approximately $48.2 million was covered by this guarantee. The Company pays American Express an annual fee equal to 0.625% on approximately 60% of the outstanding balance under such deferred compensation plans, in consideration of American Express maintaining the guarantee.

The Firm, from time to time, provides investment banking, commercial paper placement, brokerage and various other financial services such as repurchase transactions, investment advisory, strategic advisory and derivative products to American Express and its subsidiaries, including acting as placement agent for medium-term notes, dealer for commercial paper and advisor regarding certain dispositions. The Firm, American Express and its subsidiaries also engage in the ordinary course of business in various trading and short-term funding transactions, including foreign exchange and precious metals transactions. In addition to the services referred to above, American Express and its subsidiaries provide banking and other financial services to the Firm. All of these transactions are done on an arm's-length basis with customary fees.

The Company and American Express entered into an Agreement dated May 26, 1994 (the "Tax Allocation Agreement"), which provided for the allocation, settlement and payment of the Company's federal, state and local income tax liabilities for the years during which the Company and any of its subsidiaries were included in the American Express consolidated Federal income tax return or any combined or unitary state and local tax returns. Under the terms of the Tax Allocation Agreement, American Express retained significant control and discretion over issues relating to the allocation, settlement and payment of the covered tax liabilities, including the resolution of proposed audit adjustments. For income tax filings relating to periods commencing on or after June 1, 1994 (the date of the Company's spin-off from American Express), the Company files its own consolidated Federal income tax return and applicable state and city filings.

The Company, LBI and Lehman Commercial Paper Inc. (collectively, the "LB Co-tenants") were co-tenants together with American Express and certain of its subsidiaries (the "AXP Co-tenants" and, together with the LB Co-tenants, the "Co-tenants") of the leasehold interest in 3 World Financial Center in New York City (the "Property") until September 6, 2002. On September 6, 2002, the Firm sold its interest in the Property to an unrelated party. The Co-tenants' relationship with respect to the Property was governed by an Agreement of Tenants-In-Common. The agreement provided, among other things, that each Co-tenant was obligated to pay its proportionate share of all Property obligations and limited the actions that could be taken by individual Co-tenants.

PROPOSAL 2

RATIFICATION OF THE COMPANY'S SELECTION OF ITS AUDITORS

The Board of Directors recommends to the Stockholders that they ratify the selection by the Audit Committee of Ernst & Young LLP, independent auditors, to audit the accounts of the Firm for the fiscal year ending November 30, 2003.

The affirmative vote of the majority of the shares of Common Stock present in person or by proxy at the Annual Meeting is required to ratify the selection of auditors. In determining whether the proposal has received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as a vote against the proposal. Broker nonvotes will have no impact on such matter since they are not considered "shares present" for voting purposes.

In the event that the Stockholders fail to ratify the appointment, the Audit Committee will consider it a direction to select other auditors for the subsequent year. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a new independent accounting firm at any time during the year if the Audit Committee feels that such a change would be in the best interests of the Company and its Stockholders.

A representative of Ernst & Young LLP will be present at the Annual Meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

The Board of Directors unanimously recommends a vote FOR Proposal No. 2.

ERNST & YOUNG LLP FEES FOR FISCAL 2002

Audit Fees. Audit fees billed to the Company by Ernst & Young LLP with respect to the Fiscal 2002 financial statements were $6,000,000.

Financial Information Systems Design and Implementation Fees. No services were performed by, or fees incurred to, Ernst & Young LLP in connection with financial information systems design and implementation projects for Fiscal 2002. The provision of such services to the Company by its independent auditors is now prohibited by the Sarbanes-Oxley Act of 2002.

All Other Fees. All other fees billed by Ernst & Young LLP with respect to Fiscal 2002 were $10,321,000, including audit related services of $7,945,000, tax services of $1,476,000 and other non-audit services of $900,000. Audit related services generally include fees for statutory and employee benefit plan audits, other attest services for certain subsidiary companies, accounting consultations, due diligence work on certain assets acquired by the Company and work on SEC registration statements. Tax services primarily involve assistance with tax return compliance.

The Audit Committee considered whether the provision of services described above under "All Other Fees" is compatible with maintaining Ernst & Young's independence.

The Audit Committee has adopted an auditor independence policy that limits the scope of non-audit services that may be provided to the Company by its independent auditor. The policy specifically prohibits, among other things, provision by the independent auditor to the Company of strategic consulting services of the type typically provided by management consulting firms. The Company will also comply with the provisions of the Sarbanes-Oxley Act of 2002 and the related SEC rules pertaining to auditor independence and audit committee pre-approval of audit and non-audit services. It is expected that the independent auditors will continue to provide certain accounting, auditing and tax-related services to the Company and its affiliates, including tax advisory services, due diligence services and audit related services.

AUDIT COMMITTEE REPORT

The Audit Committee of the Company's Board of Directors is composed of three non-management Directors and operates under a written charter adopted by the Board of Directors. The Audit Committee is responsible for the selection of the Company's independent auditors.

Management is responsible for the Company's internal controls, the financial reporting process and preparation of the consolidated financial statements of the Company. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes. It should be noted that the Committee members are not professionally engaged in the practice of accounting or auditing.

In this context, the Committee has met and held discussions with management and the independent auditors. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee reviewed and discussed the consolidated financial statements with management and the independent auditors. The Audit Committee further discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees) as amended.

The Company's independent auditors also provided to the Audit Committee the written disclosures and letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent auditors that firm's independence.

Based upon the Audit Committee's discussions with management and the independent auditors and the Audit Committee's review of the representations of management and the report and letter of the independent auditors provided to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended November 30, 2002 for filing with the Securities and Exchange Commission.

Audit Committee:

Roger S. Berlind, Chairman
Michael L. Ainslie
Thomas H. Cruikshank
February 28, 2003

PROPOSAL 3

RE-APPROVAL OF THE SHORT-TERM EXECUTIVE COMPENSATION PLAN (FORMERLY NAMED THE 1996 SHORT-TERM EXECUTIVE COMPENSATION PLAN), AS AMENDED

The Board of Directors originally adopted the 1996 Short-Term Executive Compensation Plan (the "1996 STEP") on January 30, 1996, subject to approval by the Stockholders. The Stockholders approved the 1996 STEP on April 10, 1996 and the Compensation Committee has granted bonuses to the Firm's employees thereunder. However, in order to meet the requirements for the continuing deductibility of payments under Section 162(m) of the Internal Revenue Code (the "Code"), the Compensation Committee has determined that it is in the best interest of the Firm to resubmit the plan to Stockholders of the Company for their approval. The terms of the plan, as amended (the "STEP"), are outlined below, but the outline is qualified in its entirety by reference to the full text of the STEP itself, which is attached hereto as Appendix B. We have also separately described the amendments to the plan that the Compensation Committee has approved.

Section 162(m) of the Code limits the Company's tax deduction to $1 million per year per executive for certain compensation paid to each of its Chief Executive Officer ("CEO") and the four highest compensated executives other than the CEO (each, a "Covered Employee"). In general, the regulations under Section 162(m) exclude from this limitation compensation that is, among other things, calculated based on "objective" performance criteria and awarded under a plan that has received stockholder approval. The Board therefore recommends stockholder approval of the STEP so that the Company may, if all other requirements of the regulations are met, fully deduct certain annual bonus payments to the Covered Employees (described below as "Special Bonuses") in compliance with Section 162(m) of the Code.

The STEP provides the Company with an effective vehicle to focus and motivate the annual performance of key employees of the Firm, offer such employees opportunities to attain competitive levels of compensation and reward those employees who have contributed to the profitability of the Company. If the Stockholders do not re-approve the STEP, no Special Bonuses (as defined below) will be paid under the STEP to Covered Employees, but Covered Employees may be paid other compensation, including Standard Bonuses (as defined below). However, as a result of Section 162(m) of the Code, such other compensation might not be tax deductible.

Future incentive awards under the STEP are not currently determinable.

Summary of the STEP. The purpose of the STEP is to motivate and reward executives by making a significant portion of their annual bonuses directly dependent upon achieving key strategic objectives. The STEP provides the opportunity for the senior officers to earn substantial incentive cash compensation for attaining financial and operational objectives that are critical to the Company's ongoing growth and profitability.

The STEP allows the Compensation Committee (or, in certain situations, its delegate) to grant to certain employees of the Firm annual awards of two types—"Standard Bonuses" and "Special Bonuses" (each, a "Bonus"). Bonuses may be issued to members of the Firm's Executive Committee or other Managing Directors of the Firm. As of February 15, 2003, approximately 645 individuals were eligible to participate in the STEP.

A Standard Bonus may be granted in the discretion of the Compensation Committee or its delegate to any STEP participant. The amount of the Standard Bonus will be based on any criteria the Compensation Committee or its delegate wishes to consider, including but not limited to, the objective or subjective performance of the employee, the Company or any subsidiary or division thereof. A Standard Bonus will be paid at the time determined by the Compensation Committee or its delegate.

As indicated above, the STEP has been designed and will be administered to provide "performance based" incentive compensation, within the meaning of Section 162(m) of the Code. To that end, a Special Bonus may be granted in the discretion of the Compensation Committee to any participant in the STEP who the Compensation Committee reasonably believes may be a Covered Employee. The amount of any Special Bonus will be based on objective performance goals established by the Compensation Committee, based on one or more of the following performance factors: (1) before or after tax net income; (2) earnings per share; (3) book value per share; (4) stock price; (5) return on Stockholders' equity; (6) expense management; (7) return on investment; (8) improvements in capital structure; (9) profitability of an identifiable business unit or product; (10) profit margins; (11) budget comparisons; (12) total return to Stockholders and (13) the performance of the Company relative to a peer group of companies on any of the measures above. The performance goals for STEP participants who have primary responsibility for a business unit of the Firm may be measured on business unit operating profit, business unit operating profit as a percent of revenue, and/or measures related to business unit profitability above its cost of capital, in place of some or all of the corporate performance measures. The Committee must certify as to the attainment of the applicable performance goals prior to payment of any Special Bonus, and may reduce the amount of any Special Bonus. All terms and conditions of Special Bonuses, and the STEP provisions referring thereto, are intended to be administered and interpreted in accordance with Section 162(m) of the Code, to ensure the deductibility by the Company of the Special Bonuses. The performance goals based on one or more of the foregoing performance factors will be established by the Compensation Committee no more than 90 days after the commencement of the period to which the performance goals relate (or, if less, the number of days which is equal to 25 percent of the relevant performance period).

The Compensation Committee has the authority to determine in its sole discretion the applicable performance period relating to any Bonus; provided, however, that any such determination with respect to a Special Bonus shall be subject to any applicable restrictions imposed by Section 162(m) of the Code.

At the end of the applicable performance period, the Compensation Committee must certify as to the attainment of the applicable performance goals prior to payment of any Special Bonus, and may reduce (but not increase) the amount of any Special Bonus. Bonuses will be paid, as soon as practicable after certification of attainment of performance goals, where required, by the Compensation Committee, in cash. Payment may be deferred, in part or whole, on a mandatory basis by the Compensation Committee or electively by participants with Compensation Committee approval. The maximum amount of a Special Bonus under the STEP that may be granted in any fiscal year to any one participant is 2.0% of the Firm's consolidated income before taxes and dividends paid on the Company's trust preferred securities (as stated in the Company's audited consolidated financial statements) in the fiscal year in respect of which the Special Bonus is to be paid. The maximum amount need not be awarded.

The STEP may be amended or suspended in whole or in part at any time and from time to time by the Compensation Committee.

Summary of Amendments. The amended plan removes from the list of eligible plan participants all references to the Company's Corporate Management Committee, as that committee no longer exists. The amended plan also clarifies the calculation of the maximum Special Bonus that may be granted to any one participant under the plan in any fiscal year.

The affirmative vote of the holders of a majority of the shares of Common Stock present in person or by proxy at the Annual Meeting is required for adoption of the proposal concerning the STEP. In accordance with Section 162(m) of the Code, in determining whether the proposal has received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as a vote against the proposal. Broker nonvotes will have no impact on such matter since they are not considered "shares present" for voting purposes.

The Board of Directors unanimously recommends a vote FOR Proposal No. 3.

EQUITY COMPENSATION PLAN INFORMATION

In accordance with SEC rules, the following table sets forth certain information as of November 30, 2002, regarding the Firm's equity compensation plans for stock-based awards.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(2)	13.3 million	$39.93	15.5 million
Equity compensation plans not approved by security holders(3)	70.2 million	$45.03	59.3 million
Total	83.5 million	$44.21	74.8 million

(1) In addition to securities to be issued upon the exercise of outstanding options, warrants and rights, there are 7.4 million RSUs outstanding under shareholder approved plans and 61.9 million RSUs outstanding under non-shareholder approved plans. Where feasible, based on market conditions and other factors, shares of common stock are repurchased in the market to offset the future delivery requirements associated with options and RSUs. As of February 14, 2003, approximately 50.1 million shares have been repurchased by the Company with respect to outstanding awards and are held in the Incentive Plans Trust.

(2) Securities remaining available for future issuance under equity compensation plans approved by security holders include 9.3 million shares under the 1994 Management Ownership Plan and the 1996 Management Ownership Plan and 6.2 million shares under the Company's Employee Stock Purchase Plan (the "ESPP"). The ESPP is a broadly-based plan, qualified under Section 423 of the Internal Revenue Code and is described further in Note 10 to the Company's Fiscal 2002 Consolidated Financial Statements included in the Annual Report.

(3) Shares shown under equity compensation plans not approved by security holders are issued under the Employee Incentive Plan (the "EIP"), which was originally adopted by the Board of Directors as of April 5, 1995 and is described further in Note 10 to the Company's Fiscal 2002 Consolidated Financial Statements included in the Annual Report. Shareholder approval was not required for the EIP under the current rules of the New York Stock Exchange because it is a broadly-based plan, as a majority of the Firm's full-time U.S. employees are eligible for awards under the plan and a majority of the awards during any three-year period are to employees who are not officers or directors.

OTHER MATTERS

Management does not know of any business to be transacted at the meeting other than as indicated herein. Should any such matter properly come before the meeting for a vote, the persons designated as proxies will vote thereon in accordance with their best judgment.

You are urged to sign, date and return the enclosed proxy card as promptly as possible, using the prepaid envelope provided for such purpose, or to vote online or by telephone according to the instructions on the proxy. It is hoped that registered Stockholders will give us advance notice of their plans to attend the Annual Meeting by marking the box provided on the proxy card or by registering their intention when voting online or by telephone.

If you will need special assistance at the Annual Meeting because of a disability, please contact the Secretary of the Company, Mr. Jeffrey A. Welikson, at (212) 526-0858 or at jweliksо@lehman.com. Directions to the meeting are on the last page of this Proxy Statement.

Householding. In accordance with a notice sent previously to certain beneficial owners holding shares in street name (for example, through a bank, broker or other holder of record) and who share a single address with other similar holders, only one annual report and proxy statement is being sent to that address unless contrary instructions were received from any shareholder at that address. This practice, known as "householding," is designed to reduce printing and postage costs. Any of such beneficial owners may discontinue householding by writing to the address or calling the telephone number provided for such purpose by their holder of record. Any such shareholder may also request prompt delivery of a copy of the annual report or proxy statement by contacting the Company at (212) 526-0858 or by writing to the Secretary, Lehman Brothers Holdings Inc., 399 Park Avenue, 11th Floor, New York, New York 10022.

Other beneficial owners holding shares in street name may be able to initiate householding if their holder of record has chosen to offer such service, by following the instructions provided by the record holder.

Deadline and procedures for submitting proposals for next year's meeting. Stockholders who intend to present proposals for inclusion in the proxy material to be distributed by the Company in connection with the Company's 2004 Annual Meeting of Stockholders must submit their proposals to the Secretary of the Company on or before October 31, 2003.

In addition, in accordance with Article II, Section 9 of the Company's By-Laws, in order to be properly brought before the 2004 Annual Meeting by a Stockholder, notice of a matter must be received by the Company no earlier than December 10, 2003 and no later than January 9, 2004. The notice must set forth as to each matter that the Stockholder proposes to bring forth (1) a brief description of the business desired to be brought forth and the reasons for conducting such business at the Annual Meeting, (2) the name and address, as they appear on the Company's books, of the Stockholder, (3) the number of shares of Common Stock beneficially owned by the Stockholder, (4) any material interest of the Stockholder in such business and (5) any other information relating to the Stockholder or the proposal that is required to be disclosed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Deadline and procedures for making nominations for director at next year's meeting. Stockholders who intend to nominate persons for election to the Board of Directors at the Company's 2004 Annual Meeting of Stockholders must give notice to the Secretary of the Company no earlier than December 10, 2003 and no later than January 9, 2004. The notice must set forth, as to each nominee, (1) the name, age, business address and residence address of the person, (2) the principal occupation or employment of the person, (3) the class and number of shares of capital stock of the Company, if any, which are beneficially owned by the person and (4) any other information relating to the person that is required to be disclosed in solicitations for proxies in election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and as to such Stockholder, (1) the name and record address of the Stockholder and (2) the class and number of shares of capital stock of the Company which are beneficially owned by the Stockholder.

Incorporation by reference. As indicated above under "Equity Compensation Plan Information," we have incorporated the description of the Company's Employee Stock Purchase Plan and Employee Incentive Plan by reference to Note 10 to the Company's Fiscal 2002 Consolidated Financial Statements included in the Annual Report delivered in connection with this proxy statement.

DIRECTIONS TO THE LEHMAN BROTHERS HOLDINGS INC. 2003 ANNUAL MEETING OF STOCKHOLDERS

The 2003 Annual Meeting of Stockholders will be held at 399 Park Avenue, on the east side of midtown Manhattan, between 53rd and 54th Streets and Park and Lexington Avenues. The building is in the vicinity of several subway lines, and is also readily accessed by bus, taxicab or automobile. **Persons attending the Annual Meeting must enter the 399 Park Avenue building through its Lexington Avenue entrance. All persons wishing to be admitted must present photo identification.**

APPENDIX A

LEHMAN BROTHERS HOLDINGS INC.
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER

I. PURPOSE

The purpose of the Audit Committee of the Board of Directors shall be to:

A. Assist the Board of Directors in fulfilling its oversight of:

1. The quality and integrity of the Corporation's financial statements;
2. The Corporation's compliance with legal and regulatory requirements;
3. The qualifications and independence of the Corporation's independent auditors; and
4. The performance of the Corporation's internal audit and compliance functions and its independent auditors.

B. Prepare any reports that the rules of the Securities and Exchange Commission ("SEC") require be included in the Corporation's annual proxy statement.

II. STRUCTURE AND OPERATIONS

A. Composition and Qualifications

1. The Audit Committee shall be comprised of three or more members of the Board of Directors and shall comply with the "independent director" requirements under the rules of the New York Stock Exchange (the "NYSE") and the federal securities laws and the rules of the SEC promulgated thereunder.
2. Each member of the Audit Committee shall have a working familiarity with basic finance and accounting terminology and practices, and at least one member shall have accounting or related financial management expertise.

B. Compensation

No member of the Audit Committee shall receive from the Corporation or any of its subsidiaries (collectively, the "Firm") compensation prohibited by, or which violate the independence requirements of, applicable laws and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC and the NYSE.

C. Appointment and Removal

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

D. Chairman

Unless a Chairman is elected by the Board of Directors, the members of the Audit Committee shall designate a Chairman by the majority vote of the Audit Committee membership. The Chairman will chair all regular sessions of the Audit Committee.

III. MEETINGS

A. The Audit Committee shall meet at least quarterly, or more frequently as circumstances dictate. The Audit Committee shall periodically meet separately with each of management, the head of Internal Audit, the head of Compliance and the independent auditors to discuss any matters that the Audit Committee or any of these persons or groups believes would be appropriate to discuss privately. In addition, the Audit Committee shall meet with the Corporation's independent auditors, Internal Audit and management quarterly to review the Corporation's financial statements in a manner consistent with that outlined in Section IV of this Charter. The Chairman of the Board or any member of the Audit Committee may call meetings of the Audit Committee. All meetings of the Audit Committee may be held telephonically, provided that all persons participating in the meeting can hear each other.

B. All non-employee directors that are not members of the Audit Committee may attend meetings of the Audit Committee but may not vote. Additionally, the Audit Committee may invite to its meetings any other director or member of management of the Corporation and such other persons as it deems appropriate in order to carry out its responsibilities. The Audit Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. RESPONSIBILITIES AND DUTIES

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

The Audit Committee, in discharging its oversight role, is empowered to study or investigate any matter of interest or concern that the Audit Committee deems appropriate. In this regard, the Audit Committee shall have the authority to retain outside legal, accounting or other advisors for this purpose, including the authority to approve the fees payable to and expenses of such advisors and any other terms of retention, and any such fees and expenses so approved shall be obligations of the Corporation.

The Audit Committee shall be given full access to the Firm's books and records, Internal Audit and Compliance departments, the Board of Directors, corporate executives and independent accountants as necessary to carry out these responsibilities. While acting within the scope of its stated purpose, the Audit Committee shall have all the authority of the Board of Directors.

Notwithstanding the foregoing, the Audit Committee is not responsible for certifying the Corporation's financial statements or guaranteeing the independent auditors' report. The fundamental responsibility for the Corporation's financial statements and disclosures rests with management. The independent auditors are responsible for auditing the Company's financial statements and for reviewing the Company's unaudited interim financial statements.

A. Documents/Reports Review

1. Review with management, Internal Audit and the independent auditors prior to public dissemination the Corporation's annual audited financial statements and quarterly financial statements, including the notes thereto, and the Corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", contained or incorporated in its annual and quarterly reports filed with the

SEC, and discuss with the independent auditors the matters required to be discussed by Statements of Auditing Standards Nos. 61 and 90.

2. Review and discuss the Corporation's earnings press releases (paying particular attention to the use of any "pro forma", "adjusted" or other non-GAAP financial measures and compliance thereof with relevant rules of the SEC), as well as financial information and earnings guidance provided to analysts and rating agencies, as required by applicable laws and rules or regulations of governmental bodies and self-regulatory organizations, including the SEC, the Public Company Accounting Oversight Board (the "PCAOB") or the NYSE.

3. Review reports from management or Compliance of material findings, and the responses thereto, resulting from examinations by regulatory agencies, and discuss the foregoing, where appropriate, with Internal Audit and the independent auditors.

4. Perform any functions required to be performed by it or otherwise appropriate under applicable law, rules or regulations, the Corporation's By-Laws and the resolutions or other directives of the Board.

B. Independent Auditors

1. Appoint, retain and terminate the Corporation's independent auditors (subject to shareholder ratification).

2. Inform each registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work that such firm shall report directly to the Audit Committee.

3. Oversee the work of any registered public accounting firm employed by the Corporation for the purpose of preparing or issuing an audit report or related work, or performing other audit, review or attest services for the Corporation, including the resolution of any disagreement between management and the auditors regarding financial reporting.

4. (a) Approve in advance all audit, review and attest services and all non-audit services (including, in each case, the engagement fees therefor and terms thereof) to be performed by the independent auditors, in accordance with applicable laws and rules or regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

   (b) The fees and expenses of the independent auditors approved by the Audit Committee shall be obligations of the Corporation.

   (c) Notwithstanding the foregoing, the Audit Committee shall not approve or permit the performance by the independent auditors of any non-audit services that are prohibited or that impair the independence of the auditors under applicable law or rules or regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB or the NYSE.

5. Review, at least annually, the qualifications, performance and independence of the independent auditors (including financial, employment and business relationships between the independent auditors and the Firm and rotation and compensation of audit personnel (each as defined in, and as prohibited or required by, applicable law and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE)) and present its conclusions to the Board of Directors.

C. Financial Reporting Process

1. In consultation with the independent auditors, management and the Controller's and Internal Audit departments, review the Corporation's disclosure controls and procedures and accounting and financial reporting processes and controls.

   (a) The Audit Committee shall review with management and the independent auditors the scope of the proposed audit for the current year and the audit procedures to be utilized, including the staffing plan:

   (b) The Audit Committee shall obtain and discuss with management and the independent auditors, prior to the filing of each audit report with the SEC, a report regarding:

      (i) all critical accounting policies and practices of the Firm;

      (ii) all alternative treatments within GAAP, for policies and practices related to material items, that have been discussed with management, including the ramifications of the use of the alternative disclosures and treatments, and the treatment preferred by the independent auditors;

      (iii) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles;

      (iv) major issues as to the adequacy of the Corporation's internal controls and any specific audit steps adopted in light of material control deficiencies; and

      (v) any other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

2. Review periodically the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Corporation.

3. Review with the independent auditors (i) any audit problems or other difficulties encountered by the auditors in the course of the audit process, including any restrictions on the scope of the independent auditors' activities or on access to requested information and any significant disagreements with management, and (ii) management's responses to such matters. The Audit Committee should review with the independent auditors (i) any accounting adjustments that were noted or proposed by the auditors but were "passed" (as immaterial or otherwise), (ii) any material communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement and (iii) any letter issued, or proposed to be issued, by the independent auditors to the Corporation reporting material observations or recommendations regarding the Firm's internal controls.

D. Internal Audit

1. Review the appointment, compensation and replacement of the head of the Firm's Internal Audit department.

2. Discuss with management and the independent auditors (i) the responsibilities, budget and staffing of the Internal Audit department and (ii) its proposed annual audit plan.

3. Review a summary of findings from completed internal audits and management's responses and progress reports on the current internal audit plan.

E. Legal/Compliance

1. Review periodically the scope of Compliance department activities and confer with Compliance representatives on significant compliance issues and the management process for correcting them.

2. Review any reports from management, Compliance, Internal Audit and the independent auditors with respect to any material failures by the Firm to comply with applicable laws and regulations.

3. Review significant cases of employee misconduct or fraud as brought to the Committee's attention by management Compliance, Internal Audit or the independent auditors.

F. Other

1. Discuss with management and the independent auditors the Corporation's guidelines and policies with respect to risk assessment and risk management. The Audit Committee should discuss the Corporation's major financial and other risk exposures (including technology risks) and the steps management has taken to monitor and control such exposures.

2. Set clear policies for hiring by the Firm of current employees of the independent auditors (and their close family members), and of former employees of the independent auditors, that satisfy all applicable provisions of law and rules and regulations of governmental bodies and self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

3. Establish procedures for: (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Firm of concerns regarding questionable accounting or auditing matters.

4. Perform such other functions as from time to time may be mandated by applicable law or rules or regulations of governmental bodies or self-regulatory organizations, including the SEC, the PCAOB and the NYSE.

G. Reports

1. Prepare all reports, policies and procedures of the Audit Committee required to be included in the Corporation's proxy statement, pursuant to and in accordance with applicable rules and regulations of the SEC.

2. Report regularly to the Board of Directors including:

   (a) with respect to any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Firm's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditors or the performance of the Internal Audit department;

   (b) with respect to meetings of the Audit Committee; and

   (c) with respect to such other matters as are relevant to the Audit Committee's discharge of its responsibilities.

   The Audit Committee shall provide such recommendations as the Audit Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

3. Maintain or cause to be maintained minutes or other records of meetings and activities of the Audit Committee.

V. ANNUAL PERFORMANCE EVALUATION AND CHARTER REVIEW

A. The Audit Committee shall perform a review and evaluation, at least annually, of the performance of the Audit Committee and its members, including by reviewing the compliance of the Audit Committee with this Charter.

B. In addition, the Audit Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board of Directors any improvements to this Charter that the Audit Committee considers necessary or valuable.

C. The Audit Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

LEHMAN BROTHERS HOLDINGS INC.
SHORT-TERM EXECUTIVE COMPENSATION PLAN
As amended through February 19, 2003

1. **PURPOSE.** The purpose of the Short-Term Executive Compensation Plan (the "Plan") is to advance the interests of Lehman Brothers Holdings Inc., a Delaware corporation (the "Company"), and its stockholders by providing incentives in the form of periodic bonus awards to certain employees of the Company and any of its subsidiaries or other related business units or entities ("Affiliates") including those who contribute significantly to the strategic and long-term performance objectives and growth of the Company and its Affiliates.

2. **ADMINISTRATION.** The Plan shall be administered by the Compensation and Benefits Committee of the Board of Directors (the "Committee"), as such committee is from time to time constituted. The Committee may delegate its duties and powers in whole or in part (i) to any subcommittee thereof consisting solely of at least two "outside directors," as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) to the extent consistent with Section 162(m) of the Code, to any other individual or individuals.

The Committee has all the powers vested in it by the terms of the Plan set forth herein, such powers to include the exclusive authority to select the employees to be granted bonus awards ("Bonuses") under the Plan, to determine the size and terms of the Bonus to be made to each individual selected (subject to the limitation imposed on "Special Bonuses," as defined below), to modify the terms of any Bonus that has been granted (except with respect to any modification which would increase the amount of compensation payable to a "Covered Employee," as such term is defined in Section 162(m) of the Code), to determine the time when Bonuses will be awarded, to establish performance objectives in respect to Bonuses and to certify that such performance objectives were attained. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable to carry it into effect. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. No member of the Committee and no officer of the Company shall be liable for anything done or omitted to be done by him or her, by any other member of the Committee or by any officer of the Company in connection with the performance of duties under the Plan, except for his or her own willful misconduct or as expressly provided by statute.

3. **PARTICIPATION.** The Committee shall have exclusive power (except as may be delegated as permitted herein) to select the employees of the Company and its Affiliates who may participate in the Plan and be granted Bonuses under the Plan ("Participants"); provided, however, that Special Bonuses (as defined below) may only be granted to members of the Company's Executive Committee (or any successor entity of such committee in accordance with subsection (c) below) and other Managing Directors of the Company.

4. **BONUSES UNDER THE PLAN.**

(a) In General. The Committee shall determine the amount of a Bonus to be granted to each Participant in accordance with subsections (b) and (c) below.

(b) Standard Bonuses. The Committee may in its discretion grant to a Participant a cash Bonus (a "Standard Bonus") in the amount, and payable at the time, determined by the Committee or its delegate in its discretion. The amount of a Participant's Standard Bonus may be based upon any criteria the Committee wishes to consider, including but not limited to the objective or subjective performance of the Participant, the Company or any subsidiary or division thereof.

(c) Special Bonuses. (i) The Committee may in its discretion award a Bonus to a Participant who it reasonably believes may be a Covered Employee (a "Special Bonus") for the taxable year of the Company in which such Bonus would be deductible, under the terms and conditions of this subsection (c). Subject to clause (iii) of this Section 4(c), the amount of a Participant's Special Bonus shall be an amount determinable from written performance goals approved by the Committee while the outcome is substantially uncertain and no more than 90 days after the commencement of the period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The maximum amount of any Special Bonus that may be granted in any given fiscal year shall be 2.0% of the consolidated income of the Company and its subsidiaries before taxes and dividends paid or payable on the Company's trust preferred securities earned by the Company and its subsidiaries (as stated in the Company's audited financial statements) in the fiscal year in respect of which the Special Bonus is to be paid.

(ii) The amount of any Special Bonus will be based on objective performance goals established by the Committee using one or more performance factors. The performance criteria for Special Bonuses made under the Plan will be based upon one or more of the following criteria: (A) before or after tax net income; (B) earnings per share; (C) book value per share; (D) stock price; (E) return on Stockholders' equity; (F) expense management; (G) return on investment; (H) improvements in capital structure; (I) profitability of an identifiable business unit or product; (J) before or after tax profit margins; (K) budget comparisons; (L) total return to Stockholders; and (M) the relative performance of the Company against a peer group of companies on any of the measures above. Participants who have primary responsibility for a business unit of the Company may be measured on business unit operating profit, business unit operating profit as a percent of revenue and/or measures related to business unit profitability above its cost of capital, in place of some or all of the corporate performance measures.

(iii) The Committee shall determine whether the performance goals have been met with respect to any affected Participant and, if they have, so certify and ascertain the amount of the applicable Special Bonus. No Special Bonuses will be paid until such certification is made by the Committee.

(iv) The provisions of this Section 4(c) shall be administered and interpreted in accordance with Section 162(m) of the Code to ensure the deductibility by the Company or its affiliates of the payment of Special Bonuses.

5. **DESIGNATION OF BENEFICIARY BY PARTICIPANT.** The Committee or its delegate shall create a procedure whereby a Participant may file, on a form to be provided by the Committee, a written election designating one or more beneficiaries with respect to the amount, if any, payable in the event of the Participant's death. The Participant may amend such beneficiary designation in writing at any time prior to the Participant's death, without the consent of any previously designated beneficiary. Such designation or amended designation, as the case may be, shall not be effective unless and until received by the duly authorized representatives of the Committee or its delegate prior to the Participant's death. In the absence of any such designation, the amount payable, if any, shall be delivered to the legal representative of such Participant's estate.

6. **MISCELLANEOUS PROVISIONS.**

(a) No employee or other person shall have any claim or right to be paid a Bonus under the Plan. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among eligible individuals under the Plan, whether or not such eligible individuals are similarly situated. Neither the Plan nor any action taken hereunder shall be construed as giving any employee or other person any right to continue to be employed by or perform services for the

Company or any Affiliate, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its Affiliates.

(b) Except as may be approved by the Committee, a Participant's rights and interest under the Plan may not be assigned or transferred, hypothecated or encumbered in whole or in part either directly or by operation by law or otherwise (except in the event of a Participant's death) including, but not by way of limitation, execution, levy, garnishment, attachment, pledge, bankruptcy or in any other manner; provided, however, that, subject to applicable law, any amounts payable to any Participant hereunder are subject to reduction to satisfy any liabilities owed to the Company or any of its Affiliates by the Participant.

(c) The Committee shall have the authority to determine in its sole discretion the applicable performance period relating to any Bonus; provided, however, that any such determination with respect to a Special Bonus shall be subject to any applicable restrictions imposed by Section 162(m) of the Code.

(d) The Company and its Affiliates shall have the right to deduct from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment.

(e) The Company is the sponsor and legal obligor under the Plan, and shall make all payments hereunder, other than any payments to be made by any of the Affiliates, which shall be made by such Affiliate, as appropriate. Nothing herein is intended to restrict the Company from charging an Affiliate that employs a Participant for all or a portion of the payments made by the Company hereunder. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any amounts under the Plan, and rights to the payment hereunder shall be no greater than the rights of the Company's unsecured, subordinated creditors, and shall be subordinated to the claims of the customers and clients of the Company. All expenses involved in administering the Plan shall be borne by the Company.

(f) The validity, construction, interpretation, administration and effect of the Plan and rights relating to the Plan and to Bonuses granted under the Plan, shall be governed by the substantive laws, but not the choice of law rules, of the State of Delaware.

(g) Any controversy or dispute arising in connection with the Plan shall be resolved by arbitration pursuant to the Constitution and rules of the New York Stock Exchange, Inc. or the National Association of Securities Dealers, Inc.

(h) The Plan shall be effective as of April 8, 2003, subject to the affirmative vote of the holders of a majority of all shares of Common Stock of the Company present in person or by proxy at the Annual Meeting of the Company to be held on April 8, 2003.

7. **PLAN AMENDMENT OR SUSPENSION.** The Plan may be amended or suspended in whole or in part at any time and from time to time by the Committee.

8. **PLAN TERMINATION.** This Plan shall terminate upon the adoption of a resolution of the Committee terminating the Plan.

9. **ACTIONS AND DECISION REGARDING THE BUSINESS OR OPERATIONS OF THE COMPANY AND/OR ITS AFFILIATES.** Notwithstanding anything in the Plan to the contrary, neither the Company nor any of its Affiliates nor their respective officers, directors, employees or agents shall have any liability to any Participant (or his or her beneficiaries or heirs) under the Plan or otherwise on account of any action taken, or not taken, in good faith by any of the foregoing persons with respect to the business or operations of the Company or any Affiliates.

10. **SUBORDINATED CAPITAL STATUS.** Notwithstanding any other provision of this Plan, any amounts due to Participants hereunder may be treated, in the Committee's sole discretion, to the extent that the Company accrues a liability in respect thereof, as subordinated capital of the Company in calculating the Company's net capital for regulatory purposes, and the terms of the Plan applicable to such amounts shall include (and, may be amended to add) such provisions as the Committee determines are necessary or appropriate in order to secure such treatment, including without limitation, provisions for the suspension of any payment obligation under the Plan under certain prescribed circumstances.

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the registrant {X}

Filed by a party other than the registrant { }

Check the appropriate box:

{ } Preliminary proxy statement

{ } Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

{X} Definitive proxy statement

{ } Definitive additional materials

{ } Soliciting material pursuant to Rule 14a-12

PEABODY ENERGY CORPORATION

(Name of Registrant as Specified in Its Charter)

{COMPANY NAME}

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

{X} No fee required.

{ } Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

{ } Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

---

(3) Filing party:

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(4) Date filed:

{PEABODY LOGO}

March 31, 2003

Dear Stockholder:

You are cordially invited to attend the 2003 Annual Meeting of Stockholders of Peabody Energy Corporation, which will be held on Tuesday, May 6, 2003, at 10:00 A.M., local time, at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri 63105.

During this meeting, stockholders will vote on the election of four Class II Directors for three-year terms. The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement contain complete details on this proposal and other matters. We also will be reporting on Peabody Energy's operations and responding to stockholder questions. If you have questions that you would like to raise at the meeting, we encourage you to submit written questions in advance (by mail or e-mail) to the Corporate Secretary. This will help us respond to your questions during the meeting. If you would like to e-mail your questions, please send them to stockholder.questions@peabodyenergy.com.

Your participation in the affairs of Peabody Energy is important, regardless of the number of shares you hold. To insure your representation at the Annual Meeting, we encourage you to vote over the telephone or Internet or to complete and return the enclosed proxy card as soon as possible. If you attend the Annual Meeting, you may then revoke your proxy and vote in person if you so desire.

Thank you for your continued support of Peabody Energy. We look forward to seeing you on May 6.

Very truly yours,

/s/ Irl F. Engelhardt
IRL F. ENGELHARDT
Chairman & Chief Executive Officer

PEABODY ENERGY CORPORATION
701 MARKET STREET
ST. LOUIS, MISSOURI 63101-1826

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Peabody Energy Corporation (the "Company") will hold its Annual Meeting of Stockholders at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri, on Tuesday, May 6, 2003, at 10:00 A.M., local time, to:

- Elect four Class II Directors for three-year terms; and

- Transact any other business that may properly come before the Annual Meeting.

The Board of Directors has fixed March 15, 2003, as the record date for determining stockholders who will be entitled to receive notice of and vote at the Annual Meeting or any adjournment. Each share of Common Stock is entitled to one vote. As of the record date, there were 52,423,513 shares of Common Stock outstanding.

If you own shares of the Company's Common Stock as of March 15, 2003, you can vote those shares by completing and mailing the enclosed proxy card or by attending the Annual Meeting and voting in person. Stockholders of record also may submit their proxies electronically or by telephone as follows:

- By visiting the website at HTTP://WWW.EPROXYVOTE.COM/BTU and following the voting instructions provided; or

- By calling 1-877-PRX-VOTE (1-877-779-8683) in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions.

An admittance card or other proof of ownership is required to attend the Annual Meeting. Please retain the top portion of your proxy card for this purpose. Also, please indicate your intention to attend the Annual Meeting by checking the appropriate box on the proxy card, or, if voting by the Internet or by telephone, when prompted. If your shares are held by a bank or broker, you will need to ask them for an admission card in the form of a confirmation of beneficial ownership. If you do not receive a confirmation of beneficial ownership or other admittance card from your bank or broker, you must bring proof of share ownership (such as a copy of your brokerage statement) to the Annual Meeting.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CAST YOUR VOTE BY TELEPHONE OR THE INTERNET, OR COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENVELOPE PROVIDED. IF YOU ATTEND THE MEETING, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON, IF YOU SO CHOOSE.

/s/ Fredrick D. Palmer
FREDRICK D. PALMER
Executive Vice President --
Legal and External Affairs
and Secretary

March 31, 2003

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PEABODY ENERGY CORPORATION
PROXY STATEMENT
FOR THE
2003 ANNUAL MEETING OF STOCKHOLDERS

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: WHY DID I RECEIVE THIS PROXY STATEMENT?

A: Because you are a stockholder of Peabody Energy Corporation as of the record date and are entitled to vote at the 2003 Annual Meeting of Stockholders, the Board of Directors is soliciting your proxy to vote at the meeting.

This Proxy Statement summarizes the information you need to know to vote at the Annual Meeting. This Proxy Statement and proxy card were first mailed to stockholders on or about March 31, 2003.

Q: WHAT AM I BEING ASKED TO VOTE ON?

A: You are being asked to vote on the following item:

- Election of four Class II Directors for terms of three years; the nominees are William E. James, Robert B. Karn III, Henry E. Lentz and Dr. Blanche M. Touhill.

Q: WHAT ARE THE VOTING RECOMMENDATIONS OF THE BOARD OF DIRECTORS?

A: THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE CLASS II DIRECTOR NOMINEES.

Q: WILL ANY OTHER MATTERS BE VOTED ON?

A: We are not aware of any other matters that will be brought before the stockholders for a vote at the Annual Meeting. If any other matter is properly brought before the meeting, your proxy will authorize each of Irl F. Engelhardt, Richard A. Navarre and Fredrick D. Palmer to vote on such matters in their discretion.

Q: HOW DO I VOTE?

A: If you are a stockholder of record or hold stock through the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), you may vote using any of the following methods:

- Via the Internet, by going to the website http://www.eproxyvote.com/btu and following the instructions for Internet voting on your proxy card;

- If you reside in the United States, Canada or Puerto Rico, by dialing 1-877-PRX-VOTE (1-877-779-8683) and following the instructions for telephone voting on your proxy card;

- By completing and mailing your proxy card; or

- By casting your vote in person at the Annual Meeting.

If you return your signed proxy card or vote by Internet or telephone, your shares will be voted as you indicate. If you return your proxy card but do not indicate your voting preferences, the proxies will vote your shares FOR the election of the Class II Director nominees named in this Proxy Statement.

If your shares are held in a brokerage account in your broker's name (also known as "street name"), you should follow the voting directions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, if your broker allows, submit voting instructions by Internet or telephone. If you provide specific voting instructions by mail, telephone or Internet, your broker or nominee will vote your shares as you have directed. Please note that shares in the Peabody

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Energy Corporation Employee Stock Purchase Plan are held in street name by A. G. Edwards, the plan administrator.

Ballots will be passed out during the Annual Meeting to anyone who wants to vote in person at the meeting. If you hold your shares in street name, you must request a confirmation of beneficial ownership from your broker to vote in person at the meeting.

Q: CAN I CHANGE MY VOTE?

A: Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

- Submitting a valid, later-dated proxy;

- Notifying the Company's Secretary in writing that you have revoked your proxy; or

- Completing a written ballot at the Annual Meeting.

Q: IS MY VOTE CONFIDENTIAL?

A: Yes. All proxies, ballots and vote tabulations that identify how individual stockholders voted will be kept confidential and not be disclosed to the Company's directors, officers or employees, except in limited circumstances, including (i) when disclosure is mandated by law; (ii) during any contested solicitation of proxies; or (iii) when written comments by a stockholder appear on a proxy card or other voting material.

Q: WHAT WILL HAPPEN IF I DO NOT VOTE MY SHARES?

A: If your shares are held in street name, your broker may vote your shares on those proposals where it has discretion to vote. Brokers and banks are allowed to vote shares held on behalf of beneficial owners who do not provide voting instructions at least ten days before the Annual Meeting, provided such votes relate to matters deemed "routine" by the New York Stock Exchange. The election of directors specified in the Notice of Annual Meeting and this Proxy Statement is considered "routine" under New York Stock Exchange rules.

On non-routine matters, brokers and other nominees cannot vote without instructions from the beneficial owner, resulting in so-called "broker non-votes." Broker non-votes have no effect on the outcome of any matters specified in the Notice of Annual Meeting of Stockholders and this Proxy Statement.

Q: HOW WILL MY COMPANY STOCK IN THE PEABODY HOLDING COMPANY, INC. EMPLOYEE RETIREMENT ACCOUNT OR OTHER 401(K) PLANS SPONSORED BY THE COMPANY'S SUBSIDIARIES BE VOTED?

A: The plan trustee, Vanguard Fiduciary Trust Company, will vote your shares in accordance with your instructions if you send in a completed proxy card or vote by telephone or the Internet. The plan trustee will vote allocated shares of Company Common Stock for which it has not received direction, as well as shares not allocated to individual participant accounts, in the same proportion as directed shares are voted.

Q: HOW MANY SHARES MUST BE PRESENT TO HOLD THE ANNUAL MEETING?

A: Holders of a majority of the shares of outstanding Common Stock as of the record date must be represented in person or by proxy at the Annual Meeting in order to conduct business. This is called a quorum. If you vote, your shares will be part of the quorum. Abstentions, "withhold" votes and broker non-votes also will be counted in determining whether a quorum exists, but will not be counted as votes cast.

Q: WHAT VOTE IS REQUIRED TO APPROVE THE PROPOSAL?

A: In the election of directors, the four nominees receiving the highest number of "FOR" votes will be elected.

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Q: WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

A: It means that your shares are held in more than one account at the transfer agent and/or with banks or brokers. Please vote all of your shares.

Q: WHO CAN ATTEND THE ANNUAL MEETING?

A: All Peabody Energy Corporation stockholders as of March 15, 2003 may attend the Annual Meeting.

Q: WHAT DO I NEED TO DO TO ATTEND THE ANNUAL MEETING?

A: If you are a stockholder of record or a participant in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), your admission card is attached to your proxy card or voting instruction form. You will need to bring this admission card with you to the Annual Meeting.

If you own shares in street name, you will need to ask your bank or broker for an admission card in the form of a confirmation of beneficial ownership. You will need to bring a confirmation of beneficial ownership with you to vote at the Annual Meeting. If you do not receive your confirmation of beneficial ownership in time, bring your most recent brokerage statement with you to the Annual Meeting. We can use that to verify your ownership of Common Stock and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a confirmation of beneficial ownership.

Q: WHERE CAN I FIND THE VOTING RESULTS OF THE ANNUAL MEETING?

A: We plan to announce preliminary voting results at the Annual Meeting and to publish final results in our Quarterly Report on SEC Form 10-Q for the Quarter Ended June 30, 2003.

ELECTION OF DIRECTORS (PROXY ITEM NO. 1)

In accordance with the terms of the Company's certificate of incorporation, the Board of Directors is divided into three classes, with each class serving a staggered three-year term. At this year's Annual Meeting, the terms of current Class II Directors will expire. The terms of Class III Directors and Class I Directors will expire at the Annual Meetings to be held in 2004 and 2005, respectively.

The Board of Directors has nominated the following individuals for election as Class II Directors with terms expiring in 2006: William E. James, Robert B. Karn III, Henry E. Lentz and Dr. Blanche M. Touhill. Each of the nominees currently is serving as a director of the Company. All nominees have consented to serve for the new term. Should any one or more of the nominees become unavailable for election, your proxy authorizes us to vote for such other persons, if any, as the Board of Directors may recommend.

CLASS II DIRECTOR NOMINEES -- TERMS EXPIRING IN 2006

WILLIAM E. JAMES, age 57, has been a director of the Company since 2001. Since July 2000, Mr. James has been Founding Partner of RockPort Capital Partners LLC, a venture fund specializing in energy and environmental technology and advanced materials. He is also Chairman of RockPort Group, an international oil trading and banking company. Prior to joining RockPort, Mr. James co-founded and served as Chairman and Chief Executive Officer of Citizens Power LLC, a leading power marketer. He also co-founded the non-profit Citizens Energy Corporation and served as the Chairman and Chief Executive Officer of Citizens Corporation, its for-profit subsidiary, from 1987 to 1996.

ROBERT B. KARN III, age 61, has been a director of the Company since January 2003. Mr. Karn is a financial consultant and former managing partner in financial and economic consulting with Arthur Andersen LLP in St. Louis. Before retiring from Arthur Andersen in 1998, Mr. Karn served in a variety of accounting, audit and financial roles over a 33-year career, including Managing Partner in charge of the global coal mining practice from 1981 through 1998. He is a Certified Public Accountant and Panel Arbitrator with the American Arbitration Association. Mr. Karn is also a director and chairman of the audit committee of Natural Resource Partners, a coal-oriented master limited partnership that is listed on the New York Stock Exchange.

HENRY E. LENTZ, age 58, has been a director of the Company since 1998. Mr. Lentz is a consultant to Lehman Brothers Inc., an investment banking firm. He joined Lehman Brothers in 1971 and became a Managing Director in 1976. He left the firm in 1988 to become Vice Chairman of Wasserstein Perella Group, Inc. In 1993, he returned to Lehman Brothers as a Managing Director and served as head of the firm's worldwide energy practice. In 1996, he joined Lehman Brothers' Merchant Banking Group as a Principal and in January 2003 became a consultant to the Merchant Banking Group. Mr. Lentz is also a director of Rowan Companies, Inc., Consort Holdings plc and Antero Resources, Inc.

BLANCHE M. TOUHILL, PhD, age 71, has been a director of the Company since 2001. Dr. Touhill is Chancellor Emeritus and Professor Emeritus at the University of Missouri -- St. Louis. She previously served as Chancellor and Professor of History and Education at the University of Missouri -- St. Louis from 1991 through 2002. Prior to her appointment as Chancellor, Dr. Touhill held the positions of Vice Chancellor for Academic Affairs and Interim Chancellor at the University of Missouri -- St. Louis. Dr. Touhill also has served on the Board of Directors of Delta Dental. She holds bachelor's and doctoral degrees in history and a master's degree in geography from St. Louis University.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" EACH OF THE CLASS II DIRECTOR NOMINEES NAMED ABOVE.

CLASS III DIRECTORS -- TERMS EXPIRING IN 2004

BERNARD J. DUROC-DANNER, PhD, age 49, has been a director of the Company since 2001. He is Chairman, President and Chief Executive Officer of Weatherford International, Inc., one of the world's largest oilfield services companies, a position he has held since 1998. From 1991 to 1998, Mr. Duroc-Danner served

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as President and Chief Executive Officer of EVI, Inc., an oilfield service and equipment provider that merged with Weatherford Enterra, Inc. in 1998. Previously, Mr. Duroc-Danner held positions at Arthur D. Little and Mobil Oil, Inc. Mr. Duroc-Danner holds a PhD in Economics from The Wharton School of the University of Pennsylvania. He is also Chairman of the Board and a director of Grant Prideco, Inc., and he serves as a director of Parker Drilling Company, Cal-Dive International, Inc., Dresser, Inc. and Universal Compression Holdings, Inc.

IRL F. ENGELHARDT, age 56, has been a director of the Company since 1998. He is Chairman and Chief Executive Officer of the Company, a position he has held since 1998. He served as Chief Executive Officer of a predecessor of the Company from 1990 to 1998. He also served as Chairman of a predecessor of the Company from 1993 to 1998 and as President from 1990 to 1995. Since joining a predecessor of the Company in 1979, he has held various officer level positions in the executive, sales, business development and administrative areas, including Chairman of Peabody Resources Ltd. (Australia) and Chairman of Citizens Power LLC. Mr. Engelhardt also served as Co-Chief Executive Officer and executive director of The Energy Group from February 1997 to May 1998, Chairman of Cornerstone Construction & Materials, Inc. from September 1994 to May 1995 and Chairman of Suburban Propane Company from May 1995 to February 1996. He also served as a director and Group Vice President of Hanson Industries from 1995 to 1996. Mr. Engelhardt is Co-Chairman of the Coal Based Generation Stakeholders Group and Co-Chairman of the National Mining Association's Sustainable Development and Health Care Reforms Committees. He has previously served as Chairman of the National Mining Association, the Coal Industry Advisory Board of the International Energy Agency, and the Center for Energy and Economic Development, as well as Co-Chairman of the Coal Utilization Research Council. He is also a director of U.S. Bank, N.A.

WILLIAM C. RUSNACK, age 58, has been a director of the Company since January 2002. Mr. Rusnack is Former President and Chief Executive Officer of Premcor Inc., one of the largest independent oil refiners in the United States. He served as President and Chief Executive Officer of Premcor from 1998 to February 2002. Prior to joining Premcor, Mr. Rusnack was President of ARCO Products Company, the refining and marketing division of Atlantic Richfield Company. During a 31-year career at ARCO, he was also President of ARCO Transportation Company and Vice President of Corporate Planning. He is also a director of Sempra Energy and Flowserve Corporation.

ALAN H. WASHKOWITZ, age 62, has been a director of the Company since [illegible]. He is also a Managing Director of Lehman Brothers Inc. and head of the firm's Merchant Banking Group, responsible for oversight of Lehman Brothers Merchant Banking Partners II L.P. Mr. Washkowitz joined Kuhn Loeb & Co. in 1968 and became a general partner of Lehman Brothers in 1978 when it acquired Kuhn Loeb & Co. Prior to joining the Merchant Banking Group, he headed Lehman Brothers' Financial Restructuring Group. He is also a director of CP Kelco Inc., L-3 Communications Corporation and K&F Industries, Inc.

CLASS I DIRECTORS -- TERMS EXPIRING IN 2005

ROGER H. GOODSPEED, age 52, has been a director of the Company since [illegible]. Mr. Goodspeed is currently an Advisory Director of Lehman Brothers Inc., an investment banking firm. He joined Lehman Brothers in 1974 and became a Managing Director in 1984. During his tenure at Lehman Brothers he has had management responsibility for several Investment Banking groups and has served as a member of the Operating Committee of the Investment Banking Division. In 1994, Mr. Goodspeed became Chairman of Citizens Lehman Power, an electric power marketing joint venture 50% owned by Lehman Brothers, and continued in that role until the joint venture was sold to The Energy Group in 1997 and changed its name to Citizens Power LLC. Mr. Goodspeed served on the Board of Directors of Citizens Power LLC from 1997 until 2000 when it was sold to Edison Mission Energy.

JAMES R. SCHLESINGER, PhD, age 74, has been a director of the Company since

2001. He is Chairman of the Board of Trustees of MITRE Corporation, a not-for-profit corporation that provides systems engineering, research and development and information technology support to the government, a position he has held since 1985. Dr. Schlesinger also serves as Senior Advisor and Consultant to Lehman Brothers Inc., a role he has held since 1980, and as Counselor to the Center for Strategic and International Studies.

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Dr. Schlesinger served as U.S. Secretary of Energy from 1977 to 1979. He also held senior executive positions for three U.S. Presidents, serving as Chairman of the U.S. Atomic Energy Commission from 1971 to 1973, Director of the Central Intelligence Agency in 1973 and Secretary of Defense from 1973 to 1975. Other past positions include Assistant Director of the Office of Management and Budget, Director of Strategic Studies at the Rand Corporation, Associate Professor of Economics at the University of Virginia and consultant to the Federal Reserve Board of Governors. Dr. Schlesinger is also a director of BNFL, Inc.

SANDRA VAN TREASE, age 42, has been a director of the Company since January 2003. Ms. Van Trease is President of UNICARE, an operating affiliate of WellPoint Health Networks, Inc., one of the nation's largest publicly traded managed care companies. She has held that position since February 2002, when her prior employer, RightCHOICE Managed Care, Inc., was acquired by WellPoint. Ms. Van Trease served as President and Chief Operating Officer of RightCHOICE from 2000 to 2002. She served as Executive Vice President and Chief Operating Officer from 1997 to 2000, and served as Chief Financial Officer from November 1995 until September 2001. Prior to joining RightCHOICE in 1994, she was a Senior Audit Manager with Price Waterhouse LLP. She is a Certified Public Accountant and Certified Management Accountant. Ms. Van Trease is also a director of U.S. Bank, N.A.

INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors met eight times in 2002. The Board also has appointed four standing committees from among its members to assist it in carrying out its obligations. In 2002, each director other than Mr. Duroc-Danner attended 75% or more of the aggregate number of meetings of the Board and the committees on which he or she served that were held during his or her tenure as director. A description of each committee and its current membership follows:

COMPENSATION COMMITTEE

The members of the Compensation Committee are Henry E. Lentz (Chair), Bernard J. Duroc-Danner (since January 2003), Blanche M. Touhill and Alan H. Washkowitz. The Compensation Committee met five times during 2002.

The primary responsibilities of the Compensation Committee include the following:

- To monitor performance and compensation of the Company's CEO, executive officers and other key employees;

- To review and recommend compensation policies, plans and programs for the Company's CEO, executive officers and other key employees;

- To approve Company-wide salary increase budgets and overall compensation and benefits plan design for all Company employees;

- To administer the Company's annual and long-term incentive programs;

- To periodically assess the Company's director compensation program and, when appropriate, recommend modifications for Board consideration;

- To review and make recommendations to the Board of Directors with respect to succession planning and management development; and

- To make regular reports on its activities to the Board of Directors.

A separate Report of the Compensation Committee on Executive Compensation is set forth at pages 14 through 16 of this Proxy Statement.

EXECUTIVE COMMITTEE

The members of the Executive Committee are Irl F. Engelhardt (Chair), Henry E. Lentz and Alan H. Washkowitz. The Executive Committee met eight times during 2002.

When the Board of Directors is not in session, the Executive Committee will have all of the power and authority as delegated by the Board of Directors, except with respect to:

- Amending the Company's certificate of incorporation and bylaws;
- Adopting an agreement of merger or consolidation;
- Recommending to stockholders the sale, lease or exchange of all or substantially all of the Company's property and assets;
- Recommending to stockholders a dissolution of the Company or revocation of any dissolution;
- Declaring a dividend;
- Issuing stock; and
- Appointing members of Board committees.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The members of the Nominating and Corporate Governance Committee are Blanche M. Touhill (Chair), William E. James, James R. Schlesinger (since January 2003) and Alan H. Washkowitz.

The Nominating and Corporate Governance Committee was established in July 2002 and met three times during 2002. The primary responsibilities of the Nominating and Corporate Governance Committee include the following:

- To identify, evaluate and recommend qualified candidates for election to the Board of Directors;
- To advise the Board of Directors on matters related to corporate governance;
- To assist the Board of Directors in conducting its annual assessment of Board performance;
- To recommend the structure, composition and responsibilities of other Board committees;
- To advise the Board of Directors on matters related to corporate social responsibility; and
- To make regular reports on its activities to the Board of Directors.

The Nominating and Corporate Governance Committee will consider nominees recommended by stockholders upon submission in writing to the Secretary of the Company the names of such nominees, together with a detailed description of their background and qualifications for service as a director of the Company. See "Additional Information -- Information About Stockholder Proposals" on page 20 for more information on submitting nominees.

AUDIT COMMITTEE

The members of the Audit Committee are William C. Rusnack (Chair), Robert B. Karn III (since January 2003) and Sandra Van Trease (since January 2003). Mr.

Duroc-Danner and Dr. Schlesinger served on the Audit Committee in 2002. The Audit Committee met six times during 2002.

The Audit Committee's primary purpose is to provide assistance to the Board of Directors in fulfilling its oversight responsibility with respect to (i) the quality and integrity of the Company's financial statements and financial reporting processes, (ii) the Company's systems of internal accounting and financial controls and disclosure controls, (iii) the independent auditor's qualifications and independence, (iv) the performance of the Company's internal audit function and independent auditor, and (v) compliance with legal and regulatory requirements, and codes of conduct and ethics programs established by management and the Board of Directors.

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The primary responsibilities of the Audit Committee include the following:

- To appoint the Company's independent auditor, which shall report directly to the Audit Committee;
- To approve all audit engagement fees and terms and all permissible non-audit engagements with the Company's independent auditor;
- To meet on a regular basis with the Company's financial management, internal audit management and independent external auditors to review matters relating to the Company's internal accounting controls, internal audit program, accounting practices and procedures, the scope and procedures of the outside audit, the independence of the external auditors and other matters relating to the Company's financial condition;
- To review in advance the Company's quarterly reports on Form 10-Q, annual reports on Form 10-K, annual reports to stockholders, proxy materials and earnings press releases; and
- To make regular reports to the Board of Directors regarding the activities and recommendations of the Audit Committee.

The Board of Directors has determined that each member of the Audit Committee meets applicable independence and financial literacy requirements.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2002 with management and Ernst & Young LLP, the Company's independent external auditor. Management is responsible for the Company's internal controls, financial reporting processes and financial statements, while Ernst & Young is responsible for expressing an opinion on the Company's financial statements in accordance with generally accepted accounting principles.

The Audit Committee reviewed with Ernst & Young the overall scope and plans for their audit of the Company's financial statements. The Audit Committee also discussed with Ernst & Young matters relating to the quality and acceptability of the Company's accounting principles, as applied in its financial reporting processes, as required by Statement of Auditing Standards (SAS) No. 61 and SAS No. 90. In addition, the Audit Committee reviewed and discussed with Ernst & Young the auditor's independence from management and the Company, as well as the matters included in written disclosures received from Ernst & Young as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. As part of its review, the Audit Committee reviewed fees paid to Ernst & Young and considered whether Ernst & Young's performance of non audit services for the Company was compatible with the auditor's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 for filing with the Securities and Exchange Commission.

MEMBERS OF THE AUDIT COMMITTEE:

WILLIAM C. RUSNACK, CHAIR
ROBERT B. KARN III
SANDRA VAN TREASE

APPOINTMENT OF INDEPENDENT AUDITORS AND FEES

Ernst & Young LLP served as the Company's independent auditors for the fiscal year ended December 31, 2002 and has been appointed to serve in that capacity again for fiscal 2003. The Board of Directors anticipates that representatives of Ernst & Young will be present at the Annual Meeting to respond to appropriate questions and to make a statement if they so desire.

The following fees were paid to Ernst & Young for services rendered during the fiscal year ended December 31, 2002:

- Audit Fees: $648,000 for services rendered for the audit of the Company's financial statements and reviews of SEC Forms 10-Q and 10-K.
- Financial Information Systems Design and Implementation Fees: No fees were paid for services rendered in connection with the design or implementation of hardware or software systems that aggregate source data underlying the financial statements or generate information that is significant to the financial statements taken as a whole.
- All Other Fees: $379,000 for audit related services including accounting consultation and research, financial due diligence procedures associated with registration statements and mergers and acquisitions, and audits of benefit plans; $843,000 for tax compliance and consulting services.

COMPENSATION OF DIRECTORS

Mr. Engelhardt, who is a member of management, and Messrs. Goodspeed, Lentz and Washkowitz, who are each affiliated with Lehman Brothers, receive no additional pay for serving as directors. All other directors (each a "non-employee director") are paid an annual cash retainer of $30,000. Committee chairpersons receive an additional $3,500 annual cash retainer. Each non-employee director also receives a fee of $1,500 for each day that he or she attends Board and/or committee meetings. The Company pays the travel and accommodation expenses of directors to attend meetings and other corporate functions.

Non-employee directors receive options to purchase 1,000 shares of Company Common Stock and a grant of restricted stock valued at $50,000 when they are first elected to the Board of Directors. Non-employee directors also receive annual stock option grants valued at $25,000 (based on Black-Scholes methodology). The shares subject to the restricted stock awards vest after three years if the recipient continues to serve on the Board of Directors. All non-employee director stock options are granted at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. These options vest in one-third increments over three years and expire ten years after grant. In the event of a change of control of the Company, any previously unvested options will vest and all restrictions related to the restricted stock awards will lapse.

OWNERSHIP OF COMPANY SECURITIES

The following table sets forth information as of March 1, 2003 with respect to persons or entities who are known to beneficially own more than 5% of the Company's outstanding Common Stock, each director, each executive officer named in the Summary Compensation Table on page 11 of this Proxy Statement, and all directors and executive officers as a group.

BENEFICIAL OWNERS OF MORE THAN FIVE PERCENT, DIRECTORS AND MANAGEMENT

<Table>
<Caption>

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(1)(2)	PERCENT OF CLASS(3)
Lehman Brothers Merchant Banking Partners II L.P. and affiliates c/o Lehman Brothers Holdings Inc. 745 Seventh Avenue, 25th Floor New York, New York 10019	21,284,994	40.6%
Bernard J. Duroc-Danner	1,603	*
Irl F. Engelhardt	708,067	1.3%
Roger H. Goodspeed(4)	--	*
William E. James	49,114	*
Robert B. Karn III	2,628	*
Henry E. Lentz(4)	--	*
Richard A. Navarre	194,575	*
Fredrick D. Palmer	49,704	*
William C. Rusnack	2,242	*
James R. Schlesinger	2,246	*
Blanche M. Touhill	2,246	*
Sandra Van Trease	1,828	*
Roger B. Walcott, Jr.	224,600	*
Alan H. Washkowitz(4)	--	*
Richard M. Whiting	223,685	*
All directors and executive officers as a group (20 people)	1,992,574	3.8%

</Table>

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(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned.

(2) Includes shares issuable pursuant to stock options exercisable within 60 days after March 1, 2003, as follows: Mr. Engelhardt, 439,362; Mr. Navarre, 138,842; Mr. Palmer, 42,111; Mr. Walcott, 161,089; Mr. Whiting, 161,698; Mr. James, 47,234; Mr. Duroc-Danner, 167; Mr. Rusnack, 334; Dr. Schlesinger, 334; Dr. Touhill, 334; and all directors and executive officers as a group, 1,354,906.

(3) Asterisk (*) indicates that the applicable person owns less than one percent of the outstanding shares.

(4) Messrs. Goodspeed, Lentz and Washkowitz are employees or consultants of Lehman Brothers Inc. Mr. Washkowitz is a Managing Director of Lehman Brothers Inc. and head of Lehman Brothers Merchant Banking. Mr. Goodspeed is an Advisory Director of Lehman Brothers Inc. and Mr. Lentz is a consultant

to Lehman Brothers Inc. Messrs. Goodspeed, Lentz and Washkowitz disclaim beneficial ownership of the shares held or controlled by these entities or their affiliates.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers and directors and persons beneficially holding more than ten percent of the Company's Common Stock are required under the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership of Company Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. During the fiscal year ended December 31, 2002, one executive officer, Jiri Nemec, made a late filing on Form 4 with respect to one transaction involving the Company's common stock. Inadvertent late filings were also submitted in connection with salary deferrals made by another executive officer, Ian Craig, under the Company's Deferred Compensation Plan. To the best of the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the fiscal year ending December 31, 2002, all other required reports were timely filed.

EXECUTIVE COMPENSATION

The following table summarizes the annual and long-term compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers of the Company for their service to the Company during the periods indicated. Effective December 31, 2001, the Company changed its fiscal year-end from March 31 to December 31.

SUMMARY COMPENSATION TABLE

<Table>
<Caption>

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION			
NAME AND PRINCIPAL POSITION	FISCAL PERIOD ENDED(1)	SALARY ($)	BONUS ($)(2)	RESTRICTED STOCK AWARDS ($)(3)(4)	SECURITIES UNDERLYING OPTIONS (#)(5)	LTIP PAYMENTS ($)	ALL OTHER COMPENSATION ($)(6)
Irl F. Engelhardt..........	12/31/02	739,583	280,000	--	40,468	--	[illegible]
Chairman, Chief Executive	12/31/01	543,750	1,270,895	--	35,839	--	[illegible]
Officer and Director	3/31/01	700,000	1,050,000	--	64,019	--	[illegible]
	3/31/00	700,000	875,000	--	--	--	[illegible]
Richard M. Whiting......... Executive Vice	12/31/02	432,500	70,400	--	16,923	--	[illegible]
President --	12/31/01	318,750	412,590	--	15,279	--	[illegible]
Sales, Marketing and	3/31/01	400,000	600,000	--	22,696	--	[illegible]
Trading	3/31/00	400,000	500,000	--	--	--	[illegible]
Roger B. Walcott, Jr. ...... Executive Vice	12/31/02	407,500	80,000	--	14,892	--	[illegible]
President --	12/31/01	300,000	490,720	--	14,286	--	[illegible]
Corporate Development	3/31/01	350,000	525,000	--	22,696	--	[illegible]
	3/31/00	350,000	437,500	72,164	--	--	[illegible]
Richard A. Navarre..........	12/31/02	323,542	119,000	--	11,157	--	[illegible]
Executive Vice President	12/31/01	225,000	451,520	--	10,714	--	[illegible]
and Chief Financial Officer	3/31/01	250,000	406,250	--	55,064	--	[illegible]
	3/31/00	233,750	343,750	--	--	--	[illegible]
Fredrick D. Palmer(7)....... Executive Vice	12/31/02	355,000	57,600	--	13,031	--	24,094
President --	12/31/01	262,500	343,980	--	12,500	--	16,731
Legal and External Affairs	3/31/01	49,135	43,225	--	63,000	--	1,879

3/31/00	--	--	--	--	--	--

</Table>

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(1) Due to a change in the Company's fiscal year-end, amounts shown for the period ended December 31, 2001 relate to the nine-month fiscal period ended December 31, 2001.

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(2) Amounts for the nine months ended December 31, 2001 include special bonuses paid with respect to the Company's initial public offering and prorated annual incentive bonuses paid for the nine-month period.

(3) Represents number of shares of Common Stock granted to executives during the periods shown, after reflecting the 1.4-for-one split in 2001.

(4) As of December 31, 2002, the value of the shares reported for Mr. Walcott in this column was $2,109,354. Dividends are paid on these shares on an ongoing basis at the same rate as paid to all holders of Common Stock.

(5) Represents number of shares of Common Stock underlying options.

(6) Includes annual matching contributions and performance contributions to qualified and non-qualified savings and investment plans on behalf of the named executives in the following amounts: Mr. Engelhardt, $66,125; Mr. Whiting, $38,700; Mr. Walcott, $36,450; Mr. Navarre, $28,413; and Mr. Palmer, $22,500. All remaining amounts are for group term life insurance.

(7) Mr. Palmer was employed by the Company effective February 12, 2001.

The following table sets forth information concerning the grant of stock options to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2002. The exercise price for all options granted is equal to the fair market value of the Company's Common Stock on the date of grant.

OPTION GRANTS IN LAST FISCAL YEAR

<Table>
<Caption>

NAME	INDIVIDUAL GRANTS: NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)(1)	PERCENT OF OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM: 5%($)	10%($)
Irl F. Engelhardt	40,488	5.9%	26.86	1/15/12	[illegible]	1,733,207
Richard M. Whiting	15,823	2.3%	26.86	1/15/12	[illegible]	677,350
Roger B. Walcott, Jr.	14,892	2.2%	26.86	1/15/12	[illegible]	637,510
Richard A. Navarre	11,169	1.6%	26.86	1/15/12	[illegible]	478,122
Fredrick D. Palmer	13,031	1.9%	26.86	1/15/12	[illegible]	557,830

</Table>

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(1) Other material terms of these options are described under the caption "Stock Options" in the Report of the Compensation Committee on page 16 of this Proxy Statement.

The following table sets forth the number and value of securities underlying unexercised options held by each of the Company's executive officers listed on the Summary Compensation Table above as of December 31, 2002. None of the named executive officers exercised any options during the fiscal year ended December 31, 2002.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES(1)

<Table>

<Caption>

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AS OF DECEMBER 31, 2002		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF DECEMBER 31, 2002	
	EXERCISABLE(#)	UNEXERCISABLE(#)	EXERCISABLE($)	UNEXERCISABLE($)
Irl F Engelhardt..................	425,866	417,277	$6,184,935	$5,370,205
Richard M Whiting..................	156,423	149,034	2,267,587	1,899,941
Roger B. Walcott, Jr.	156,125	147,508	2,267,220	1,886,003
Richard A. Navarre.................	135,119	130,710	1,969,706	1,724,496
Fredrick D. Palmer.................	37,767	50,764	507,109	490,369

</Table>

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(1) Values are calculated based on the closing price of Peabody Energy Corporation Common Stock on December 31, 2002 (i.e., $29.23 per share) less the applicable exercise price.

The following table sets forth information concerning the grant of performance units to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2002. The performance period with respect to such awards is January 2, 2002 through December 31, 2004.

LONG-TERM INCENTIVE PLANS
AWARDS IN LAST FISCAL YEAR

<Table>
<Caption>

NAME	NUMBER OF SHARES, UNITS OR OTHER RIGHTS(#)(1)	PERFORMANCE OR OTHER PERIOD UNTIL MATURATION OR PAYOUT
Irl F. Engelhardt	20,109	1/2/02 - 12/31/04
Richard M. Whiting	7,859	1/2/02 - 12/31/04
Roger B. Walcott, Jr.	7,396	1/2/02 - 12/31/04
Richard A. Navarre	5,547	1/2/02 - 12/31/04
Fredrick D. Palmer	6,472	1/2/02 - 12/31/04

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(1) Other material terms of these performance units are described under the caption "Performance Units" in the Report of the Compensation Committee on pages 16 and 17 of this Proxy Statement.

PENSION BENEFITS

The Company's Salaried Employees Retirement Plan, or pension plan, is a "defined benefit" plan. The pension plan provides a monthly annuity to salaried employees when they retire. A salaried employee must have at least five years of service to be vested in the pension plan. A full benefit is available to a retiree at age 62. A retiree can begin receiving a benefit as early as age 55; however, a 4% reduction factor applies for each year a retiree receives a benefit prior to age 62.

An individual's retirement benefit under the pension plan is equal to the sum of (1) 1.112% of the highest average monthly earnings over 60 consecutive months up to the "covered compensation limit" multiplied by the employee's years of service, not to exceed 35 years, and (2) 1.5% of the average monthly earnings over 60 consecutive months over the "covered compensation limit" multiplied by the employee's years of service, not to exceed 35 years.

The Company announced in February 1999 that the pension plan would be phased out beginning January 1, 2001. Certain transition benefits were introduced based on the age and service of the employee at December 31, 2000: (1) employees age 50 or older will continue to accrue service at 100%; (2) employees between the ages of 45 and 49 or under age 45 with 20 years or more of service will accrue service at the rate of 50% for each year of service worked after December 31, 2000; and (3) employees under age 45 with less than 20 years of service will have their pension benefits frozen. In all cases, final average earnings for retirement purposes will be capped at December 31, 2000 levels.

The estimated annual pension benefits payable upon retirement at age 62, the normal retirement age, for the Chief Executive Officer and the other eligible named executive officers are as follows:

<Table>

Irl F. Engelhardt	$490,008
Richard M. Whiting	264,786
Roger B. Walcott, Jr.	24,663
Richard A. Navarre	37,993

</Table>

The Company has one supplemental defined benefit retirement plan that provides retirement benefits to executives whose pay exceeds legislative limits for qualified defined benefit plans.

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EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with each of the named executive officers and with certain other key executives. The Chief Executive Officer's employment agreement provides for a three-year term that extends day-to-day so that there is at all times a remaining term of three years. Other executives' employment agreements have either one-year or two-year terms which extend day-to-day so that there is at all times a remaining term of one or two years, respectively. Following a termination without cause or resignation for good reason, the Chief Executive Officer is entitled to a lump sum payment equal to three years' base salary and three times the higher of (1) his target annual bonus or (2) the average of the actual annual bonuses paid to him in the three prior years. The Chief Executive Officer is also entitled to a one-time prorated bonus for the year of termination (based on the Company's actual performance multiplied by a fraction, the numerator of which is the number of business days the Chief Executive Officer was employed during the year of termination, and the denominator of which is the total number of business days during that year), payable when bonuses, if any, are paid to other executives. The Chief Executive Officer will also receive qualified and nonqualified pension, life insurance, medical and other benefits for three years. The other key executives are entitled to the following benefits, payable in equal installments over one or two years: (1) one or two times base salary and (2) one or two times the higher of (A) the target annual bonus or (B) the average of the actual annual bonuses paid in the three prior years. In addition, the other executives are entitled to (1) a one-time prorated bonus for the year of termination (based on the Company's actual performance multiplied by a fraction, the numerator of which is the number of business days the executive officer was employed during the year of termination, and the denominator of which is the total number of business days during that year), payable when bonuses, if any, are paid to the Company's other executives, and (2) qualified and nonqualified pension, life insurance, medical and other benefits for the one or two-year period, as applicable, following termination. However, the Company is not obligated to provide any benefits under tax qualified plans that are not permitted by the terms of each plan or by applicable law or that could jeopardize the plan's tax status. Continuing benefit coverage will terminate to the extent an executive (including the Chief Executive Officer) is offered or obtains comparable coverage from any other employer. The employment agreements provide for confidentiality during and following employment, and include a noncompetition and nonsolicitation agreement that is effective during and for one year following employment. If an executive (including the Chief Executive Officer) breaches any of his or her confidentiality, noncompetition or nonsolicitation agreements, the executive will forfeit any unpaid amounts or benefits. To the extent that excise taxes are incurred by an executive (including the Chief Executive Officer) as a result of "excess parachute payments," as defined by IRS regulations, the Company will pay additional amounts up to $10 million, in the aggregate, so that executives would be in the same financial position as if the excise taxes were not incurred.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised entirely of non-employee directors and has the responsibility for reviewing and approving changes to the Company's executive compensation policies and programs. The Compensation Committee also approves all compensation payments to the Chief Executive Officer and the other named executive officers, including annual and long-term incentive awards.

COMPENSATION PHILOSOPHY

The fundamental objective of the Company's executive compensation program is to attract, retain and motivate key executives to enhance long-term profitability and stockholder value.

The Company's compensation program is based on the following policies and objectives:

- Programs will have a clear link to stockholder value.

- Programs will be designed to support achievement of the Company's business objectives.

- Total compensation opportunities will be established at levels which are competitive with marketplace practices and other pertinent criteria, taking into account such factors as executive performance, level of experience and retention value.

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- Variable incentive pay will constitute a significant portion of each executive's compensation.

- Incentive pay will be designed to:

  - Reflect company-wide, business unit and individual performance, based on each individual's position and level; and

  - Incorporate "absolute" (internal) and "relative" (external) performance measures.

- Programs will be communicated so that participants understand how their decisions affect business results and their compensation.

With these policies and objectives in mind, the Compensation Committee has designed a pay structure for the named executive officers that incorporates three key components: base salary, annual incentive payments, and long-term incentive compensation consisting of stock options and performance units.

COMPENSATION PROGRAM COMPETITIVENESS STUDY

The Compensation Committee commissioned an in-depth compensation analysis conducted by an independent third party in June 2002 to determine whether the Company's executive compensation programs were consistent with those of other publicly held companies of similar size and in a similar industry. The results of this study confirmed that the Company's executive compensation programs are consistent with those of other publicly held companies of similar size and in a similar industry. The Compensation Committee will continue to periodically review the Company's executive compensation programs to ensure that such programs remain competitive and continue to meet their objectives.

ANNUAL BASE SALARY

Based upon the above-referenced study, the Compensation Committee reviewed the base salaries of the Company's executive officers to ensure competitiveness in the marketplace. The Compensation Committee will continue to review the base salaries of the named executive officers to ensure salaries continue to reflect marketplace practices and take into account performance, experience and retention value.

ANNUAL INCENTIVE PLAN

The Company's annual incentive compensation plan provides opportunities for key executives to earn annual cash incentive payments tied to the successful achievement of pre-established objectives.

All annual incentive plan participants are assigned threshold, target and maximum incentive percentages. If performance does not meet the threshold level, no incentive is earned. At threshold levels, the incentive that can be earned generally equals 50% of the target incentive. The target incentive represents the level of compensation that is considered to be required to stay competitive with the desired pay position in the market. The target incentives for the senior executives and the Chief Executive Officer are 150% and 175% of base salary. Target incentive payments generally are received for achieving budgeted financial goals and meeting personal performance goals. Maximum incentive payments generally are received when both budgeted financial and personal performance goals are significantly exceeded. The maximum incentives for the senior executives and the Chief Executive Officer are 150% and 175% of base salary. A participant's annual incentive opportunity is based upon his or her level of participation in the incentive plan. The incentive opportunity increases based upon an executive's potential to affect operations or profitability.

Awards for corporate employees, including the Chief Executive Officer, are based on achievement of corporate and individual performance goals. Awards to operating employees are based on achievement of a combination of corporate, business unit (including safety) and individual performance goals. Achievement of corporate performance is determined by comparing the Company's actual performance against objective and subjective performance measures, which are established by the Compensation Committee at the beginning of each calendar year. In 2002, these performance measures for the named executive officers and their relative weightings were as follows:

- 60% -- pretax income;

- 20% -- return on invested capital (ROIC); and

- 20% -- individual performance.

All award payments to the named executive officers are subject to the review and approval of the Compensation Committee.

2002 INCENTIVE PAYMENTS

For the fiscal year ended December 31, 2002, the Company awarded annual incentive payments to the Chief Executive Officer and the other four named executive officers, as reflected in the bonus column of the summary compensation table. Other eligible executives were paid under the same annual incentive plan. Although the Company did not meet the financial targets established for 2002 under the plan, the Compensation Committee approved payment of the discretionary component based upon the achievement of the executive's individual performance goals.

LONG-TERM INCENTIVES

The Compensation Committee has determined that a long-term incentive opportunity will be made available to each of the Company's named executive officers through annual awards of stock options and performance units. The targeted value of these awards generally is split equally between stock options and performance units and ranges from 100 to 150% of base salary for each of the named executive officers. The Compensation Committee intends that these long-term incentive opportunities be competitive and based on actual Company performance.

Stock Options

The Company's stock option program is a long-term plan designed to create a direct link between executive compensation and increased stockholder value. The targeted value of annual option awards to the named executive officers is generally 50% of base salary for senior executives and 75% of base salary for the Chief Executive Officer as described above, but awards can deviate from these guidelines at the discretion of the Compensation Committee. The Company uses a Black-Scholes valuation model to establish the value of its stock option grants. The grants are currently made in the form of nonqualified stock options.

All stock options are granted at an exercise price equal to the closing price of the Company's Common Stock on the date of grant. Stock options generally vest in one-third increments over a period of three years; however, options will immediately vest upon a change of control of the Company or upon an employee's death, disability or a recapitalization event. Options expire ten years from the date of grant.

Performance Units

Certain key executives are eligible to receive long-term incentive awards in the form of performance units. Performance units awarded in 2002 will be payable in cash, if earned. For units awarded in 2002, the value of the performance units is tied to the relative performance of the Company's Common Stock. The percentage of the performance units earned is based on the Company's total stockholder return (TSR) over a period beginning January 2, 2002 and ending December 31, 2004 relative to both an industry comparator group (the Industry Peer Group) and the S&P Industrial Index. TSR measures cumulative stock price appreciation plus dividends. The Industry Peer Group generally is perceived to be subject to similar market conditions and investor reactions as the Company. For this reason, the Industry Peer Group is weighted at 75% while the S&P Industrial Index is weighted at 25%.

Performance payout formulas are as follows:

- Threshold payouts (equal to 50% of the value of the performance units) begin for TSR performance at the 40th percentile of the Industry Peer Group or the 35th percentile of the S&P Industrial Index.

- Target payouts (equal to 100% of the value of the performance units) are based on performance at the 55th percentile of the Industry Peer Group and 50th percentile of the S&P Industrial Index.

- Maximum payouts (equal to 200% of the value of the performance units) are based on performance at the 80th percentile of the Industry Peer Group and the 75th percentile of the S&P Industrial Index.

- No payments will be made if TSR is negative and performance is below the 50th percentile of the Industry Peer Group. Also, the maximum payout cannot exceed 150% of the value of the performance units if TSR is negative and performance is above the 50th percentile of the Industry Peer Group.

Performance units are issued at a price that equals the average closing price of the Company's Common Stock during the four weeks of trading immediately following the date of grant. TSR for the Company at the end of the cycle is based on the average closing price during the last four weeks of trading in the performance cycle. Units vest over, and are payable subject to the achievement of performance goals at the conclusion of, the measurement period. Upon a change of control of the Company, a recapitalization event or the executive's death, disability, retirement or termination without cause, payments by the Company will be paid in proportion to the number of vested performance units based upon the TSR performance as of the date the event occurs.

OTHER PLANS

The Company maintains a Deferred Compensation Plan pursuant to which certain executives can defer base, annual incentive and any cash-based long-term incentive compensation. The Company also maintains a defined contribution retirement plan, a defined benefit retirement plan (although the plan is being phased out) and other benefit plans for its employees. Executives participate in these plans on the same terms as other eligible employees, subject to any legal limits on the amount that may be contributed by or paid to executives under the plans. In addition, the Company maintains one excess defined benefit retirement plan and one excess defined contribution plan that provides retirement benefits to executives whose pay exceeds legislative limits for qualified defined benefit plans.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

Mr. Engelhardt's base salary is $800,000. A review of competitive market data conducted in June 2002 supports the competitiveness of this salary.

For the fiscal year ended December 31, 2002, Mr. Engelhardt's maximum incentive opportunity under the Company's annual incentive compensation plan was 175% of his base salary, or $1,400,000. The maximum incentive opportunity for the other named executive officers was 150% of their base salary. Although the Company did not achieve the financial targets established under the annual incentive plan for pre-tax income or return on invested capital for the fiscal year ended December 31, 2002, as described above, the Company posted improvements year over year in key financial measures in the face of many challenges. As a result, Mr. Engelhardt was awarded a bonus payout of $280,000, or 175% of the eligible 20% of his annual incentive related to individual performance for his successful management of the Company during the year.

During the fiscal year ended December 31, 2002, Mr. Engelhardt also received long-term incentive awards consisting of stock options and performance units. These awards were made in accordance with the Compensation Committee's long-term incentive guidelines described above. The specific terms of such awards

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are outlined in this report under the captions "Long Term Incentives," "Stock Options" and "Performance Units," and in the Proxy Statement compensation tables.

MEMBERS OF THE COMPENSATION COMMITTEE:

HENRY E. LENTZ (CHAIR)
BERNARD J. DUROC-DANNER
BLANCHE M. TOUHILL, PhD
ALAN H. WASHKOWITZ

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the Company's last fiscal year, Messrs. Lentz and Washkowitz and Dr. Touhill served as members of the Compensation Committee. Mr. Duroc-Danner joined the Compensation Committee in January 2003. None of these committee members is employed by the Company. Messrs. Lentz and Washkowitz are employed by or consultants to Lehman Brothers Inc., whose affiliates own a substantial percentage of the Company's outstanding Common Stock. During the fiscal year ended December 31, 2002, Lehman Brothers engaged in certain transactions with the Company as described under the caption "Related Party Transactions" below.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH AFFILIATES OF LEHMAN BROTHERS

As of March 1, 2003, Lehman Brothers Merchant Banking Partners II L.P. and its affiliates (collectively, "Lehman Brothers Merchant Banking Fund") owned 40.6% of the Company's outstanding Common Stock. Messrs. Goodspeed, Lentz and Washkowitz, each being one of the Company's directors, are investors in the Lehman Brothers Merchant Banking Fund. Mr. Goodspeed is an Advisory Director of, Mr. Lentz is a consultant to, and Mr. Washkowitz is a Managing Director of Lehman Brothers Inc.

Lehman Commercial Paper Inc. served as joint lead arranger, joint book-running manager and syndication agent in connection with the Company's new credit facility, which closed in March 2003. It received customary fees, plus reimbursement of certain expenses, for those services.

In March 2003, Lehman Brothers Inc. served as the dealer manager in connection with a tender offer for the Company's outstanding 8 7/8% senior notes due 2008 and 9 5/8% senior subordinated notes due 2008. Lehman Brothers also served as an initial purchaser in this offering. Lehman Brother received customary fees, plus reimbursement of certain expenses, for those services.

In April 2002, Lehman Brothers served as the lead underwriter in connection with the offering of Company Common Stock by Lehman Brothers Merchant Banking Fund and certain other selling stockholders. Lehman Brothers received customary fees, plus reimbursement of certain expenses, for those services.

Lehman Commercial Paper Inc. was a participant in the Company's previous senior credit facility, which was amended in April 2001. Lehman Commercial Paper Inc. received $0.06 million of the $1.4 million credit facility amendment fee.

Lehman Brothers has been retained to serve as financial advisor in connection with the Company's efforts to develop mine-mouth electric generating facilities in Kentucky and certain other locations. During the nine months ended December 31, 2001, Lehman Brothers received $0.5 million plus reimbursement of expenses for services rendered in connection with these projects. Lehman Brothers has not received any fees or expense reimbursement since that time.

TRANSACTIONS WITH MANAGEMENT

During the fiscal years ended March 31, 1999, 2000 and 2001, some of the Company's executive officers and 18 other employees purchased or were granted shares of Class B Common Stock under the 1998 Stock Purchase and Option Plan for Key Employees. All such Class B shares subsequently converted into Company Common Stock on a one-for-one basis at the time of the Company's initial public offering. In connection with these purchases and grants, the Company, affiliates of Lehman Brothers Holdings and the executives who received Class B Common Stock entered into stockholders agreements providing for certain rights relating to the registration of their shares in connection with certain sales of Company capital stock by affiliates of Lehman Brothers Holdings. The stockholders agreements provide the investors with the right to register and sell their unregistered stock in the event the Company conducts certain types of registered offerings.

In conjunction with the purchases and grants of Class B Common Stock, the executive officers and employees executed term notes. The term notes related to the grants are due on May 19, 2003 and the term notes executed for purchases are due on February 1, 2006. Subsequently, the term notes executed for purchases were replaced with term notes related to the grants. All of the term notes bear interest at an applicable U.S. federal rate used by the Internal Revenue Service for loans to employees. The maturity of the promissory notes will accelerate upon the occurrence of certain events, including six months following any termination of employment or disposition of the stock.

The following table sets forth certain information regarding the term notes for the Company's executive officers with aggregate indebtedness in excess of $60,000.

<Table>
<Caption>

NAME	OUTSTANDING INDEBTEDNESS AT MARCH 5, 2003	LARGEST AGGREGATE INDEBTEDNESS DURING FISCAL YEAR ENDED DECEMBER 31, 2002
Roger B. Walcott, Jr.	$161,766	$226,158
Richard M. Whiting......................	159,366	221,394
Jeffery L. Klinger......................	40,541	131,497
Irl F. Engelhardt.......................	--	680,426
Sharon D. Fiehler.......................	--	130,552
Richard A. Navarre......................	--	165,202

</Table>

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STOCK PERFORMANCE GRAPH

The following performance graph compares the cumulative total return to stockholders on the Company's Common Stock with the cumulative total return of two indices: (1) Standard & Poor's MidCap 400 Index, and (2) a peer group comprised of Arch Coal, Inc., Massey Energy Company, Consol Energy, Inc. and Westmoreland Coal Co. The graph assumes that the value of the investment in Company Common Stock and each index was $100 at May 21, 2001, the date of the Company's initial public offering. The graph also assumes that all dividends were reinvested and that investments were held through December 31, 2002.

CUMULATIVE TOTAL RETURN
BASED UPON AN INITIAL INVESTMENT OF $100 ON MAY 21, 2001
WITH DIVIDENDS REINVESTED

(PERFORMANCE GRAPH)

<Table>
<Caption>

	21-MAY-01	JUN-01	SEP-01	DEC-01	MAR-02	JUN-02	SEP-02	DEC-02
Peabody Energy Corporation	$100	$117	$86	$101	$105	$103	$93	$107
S&P(C) MidCap 400 Index	$100	$ 95	$79	$ 94	$100	$ 91	$76	$ 80
Custom Composite Index (4 Stocks)	$100	$ 67	$50	$ 65	$ 63	$ 54	$34	$ 46

</Table>

ADDITIONAL INFORMATION

INFORMATION ABOUT STOCKHOLDER PROPOSALS

If you wish to submit a proposal for inclusion in next year's Proxy Statement and proxy, we must receive the proposal on or before December 2, 2003. Any proposals should be submitted in writing to: Corporate Secretary, Peabody Energy Corporation, 701 Market Street, St. Louis, Missouri 63101.

Under the Company's bylaws, if you wish to nominate a director or bring other business before the stockholders at the 2004 Annual Meeting without having your proposal included in next year's Proxy Statement:

- You must notify the Corporate Secretary in writing between January 7, 2004 and February 4, 2004; and

- Your notice must contain the specific information required by the Company's bylaws.

You can obtain a copy of the Company's bylaws without charge by writing to the Corporate Secretary at the address shown above.

COSTS OF SOLICITATION

The Company is paying the cost of preparing, printing and mailing these proxy materials. The Company has engaged Georgeson Shareholder Communications Inc. to assist in distributing proxy materials and in performing other proxy solicitation services for a fee of $4,000 plus their out-of-pocket expenses. Proxies may be solicited personally or by telephone by regular employees of the Company without additional compensation as well as by employees of Georgeson. The Company will reimburse banks, brokerage firms and others for their reasonable expenses in forwarding proxy materials to beneficial owners and obtaining their voting instructions.

OTHER BUSINESS

The Board of Directors is not aware of any matters requiring stockholder action to be presented at the Annual Meeting other than those stated in the Notice of Annual Meeting. Should other matters be properly introduced at the Annual Meeting, those persons named in the enclosed proxy will have discretionary authority to act on such matters and will vote the proxy in accordance with their best judgment.

THE COMPANY WILL PROVIDE TO ANY STOCKHOLDER, WITHOUT CHARGE AND UPON WRITTEN REQUEST, A COPY (WITHOUT EXHIBITS UNLESS OTHERWISE REQUESTED) OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002. ANY SUCH REQUEST SHOULD BE DIRECTED TO PEABODY ENERGY CORPORATION, INVESTOR RELATIONS, 701 MARKET STREET, ST. LOUIS, MISSOURI 63101-1826; TELEPHONE (314) 342-3100.

By Order of the Board of Directors,

/s/ Fredrick D. Palmer
FREDRICK D. PALMER
Executive Vice President --
Legal and External Affairs
and Secretary

PEABODY ENERGY
CORPORATION
-------------- ADMISSION CARD

ANNUAL MEETING OF STOCKHOLDERS
Tuesday, May 6, 2003, 10:00 A.M.
Ritz-Carlton Hotel
100 Carondelet Plaza
Clayton, Missouri 63105

IF YOU PLAN TO ATTEND THE 2003 ANNUAL MEETING OF STOCKHOLDERS OF PEABODY ENERGY CORPORATION, PLEASE DETACH THIS FORM AND BRING IT WITH YOU TO THE MEETING. This card will provide evidence of your ownership and enable you to attend the meeting. Attendance will be limited to those persons who owned Peabody Energy Corporation Common Stock as of March 15, 2003, the record date for the Annual Meeting.

When you arrive at the Annual Meeting site, please fill in your complete name in the space provided below and submit this card to one of the attendants at the registration desk.

IF YOU DO NOT BRING THIS ADMISSION CARD AND YOUR SHARES ARE REGISTERED IN YOUR OWN NAME, YOU WILL NEED TO PRESENT A PHOTO I.D. AT THE REGISTRATION DESK. IF YOUR SHARES ARE REGISTERED IN THE NAME OF YOUR BANK OR BROKER, YOU WILL BE REQUIRED TO SUBMIT OTHER SATISFACTORY EVIDENCE OF OWNERSHIP (SUCH AS A RECENT ACCOUNT STATEMENT OR A CONFIRMATION OF BENEFICIAL OWNERSHIP FROM YOUR BROKER) AND A PHOTO I.D. BEFORE BEING ADMITTED TO THE MEETING.

STOCKHOLDER NAME: --------------------------

DETACH HERE ZPBD52

PROXY

PEABODY ENERGY CORPORATION

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 6, 2003
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby constitutes and appoints Messrs. Irl F. Engelhardt, Richard A. Navarre and Fredrick D. Palmer, or any of them, with power of substitution to each, proxies to represent the undersigned and to vote, as designated on the reverse side of this form, all shares of Common Stock which the undersigned would be entitled to vote at the Annual Meeting of Stockholders of Peabody Energy Corporation (Peabody) to be held on May 6, 2003 at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri 63105 at 10:00 A.M., and at any adjournments thereof.

THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN THE MANNER INDICATED BY THE STOCKHOLDER. IN THE ABSENCE OF SUCH INDICATION, SUCH SHARES WILL BE VOTED FOR THE ELECTION OF DIRECTORS IN ITEM 1. THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED IN THE DISCRETION OF SAID PROXIES WITH RESPECT TO SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING AND ANY ADJOURNMENTS THEREOF.

If the undersigned is a participant in the Peabody Holding Company, Inc. Employee Retirement Account or other 401(k) plans sponsored by Peabody or its subsidiaries, this proxy card also provides voting instructions to the trustee of such plans to vote at the Annual Meeting, and any adjournments thereof, as specified on the reverse side hereof. If the undersigned is a participant in one of these plans and fails to provide voting instructions, the trustee will vote the undersigned's plan account shares (and any shares not allocated to individual participant accounts) in proportion to the votes cast by other participants in that plan.

SEE REVERSE SIDE		SEE REVERSE SIDE

IMPORTANT - THIS PROXY MUST BE SIGNED AND DATED ON THE REVERSE SIDE.

PEABODY ENERGY CORPORATION

C/O EQUISERVE TRUST COMPANY, N.A.
P.O. BOX 8694
EDISON, NJ 08818-8694

VOTER CONTROL NUMBER

YOUR VOTE IS IMPORTANT. PLEASE VOTE IMMEDIATELY.

VOTE-BY-INTERNET (GRAPHIC)	OR	VOTE-BY-TELEPHONE (GRAPHIC)
1. LOG ON TO THE INTERNET AND GO TO HTTP://WWW.EPROXYVOTE.COM/BTU.		1. CALL TOLL-FREE 1-877-PRX-VOTE (1-877-779-8683)
2. ENTER YOUR VOTER CONTROL NUMBER LISTED ABOVE AND FOLLOW THE EASY STEPS OUTLINED ON THE SECURED WEBSITE.		2. ENTER YOUR VOTER CONTROL NUMBER LISTED ABOVE AND FOLLOW THE EASY RECORDED INSTRUCTIONS.

IF YOU VOTE OVER THE INTERNET OR BY TELEPHONE, PLEASE DO NOT MAIL YOUR CARD.

DETACH HERE IF YOU ARE RETURNING YOUR PROXY CARD BY MAIL

ZPBDS1

{X} PLEASE MARK VOTES AS IN THIS EXAMPLE.

A VOTE FOR EACH OF THE NOMINEES LISTED IN ITEM 1 IS RECOMMENDED BY THE BOARD OF DIRECTORS.

1. Election of Directors.

The undersigned hereby GRANTS authority to elect the following nominees:
NOMINEES: (01) William E. James, (02) Robert B. Karn III,
(03) Henry E. Lentz and (04) Blanche M. Touhill

FOR ALL NOMINEES { } { } WITHHELD FROM ALL NOMINEES

{ } ______________________________

For all nominees except as noted above

MARK HERE IF YOU PLAN TO ATTEND THE MEETING [ ]

NOTE: Please sign exactly as name appears hereon. For joint accounts, each joint owner should sign. When signing as attorney, executor, administrator, trustee or guardian, please sign your full title.

Signature:____________________ Date:______ Signature:____________________ Date:______

SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP

1440 NEW YORK AVENUE, N.W.
WASHINGTON, D.C. 20005-2111

TEL: (202) 371-7000
FAX: (202) 393-5760
http://www.skadden.com

DIRECT DIAL
202-371-7007
DIRECT FAX
202-371-7956
EMAIL ADDRESS
KGROSS@SKADDEN.COM

July 17, 2003

Via Hand-Delivery

Jonathan Levin, Esq.
Federal Election Commission
999 E Street, N.W.
Washington, D.C. 20463

RE: Second Round of Follow-Up Responses to Advisory Opinion Request

Dear Mr. Levin:

This is a follow-up to our meeting on July 2, 2003, during which we discussed the advisory opinion request ("AOR") submitted on behalf of Lehman Brothers Inc. ("Lehman") on May 16, 2003. In particular, you posed additional questions regarding the relationship between Lehman and Peabody Energy Corporation ("Peabody"). The following summarizes your questions and provides our responses.

Question #1. Please describe in detail any supermajority voting requirements for Peabody shareholders.

Answer -- A supermajority vote of the shareholders is required under the following narrow circumstances:

(1) Peabody's Certificate of Incorporation gives the Board of Directors the authority to amend or repeal Peabody's By-Laws. The shareholders can modify or override the Board of Directors' action on the By-Laws only through an affirmative vote of 75%, making it more difficult for any one shareholder to alter the Board's action on the By-Laws than if there were a simple majority requirement. The shareholders can also amend or repeal the

By-Laws on their own through a 75% affirmative vote. Moreover, in order to change the provisions of the charter pertaining to the 75% voting requirement for amending or repealing the By-Laws, the staggered board requirement, and the requirement that shareholder actions be taken at duly called meetings, the affirmative vote of at least 75% of the shareholders is required.

(2) Pursuant to Peabody's Certificate of Incorporation, members of Peabody's Board of Directors may be removed only for cause and only by a 75% vote of Peabody's shareholders.

(3) Pursuant to Peabody's Certificate of Incorporation, vacancies on Peabody's Board of Directors are filled by a majority vote of the remaining Directors. However, if Delaware's General Corporation Law expressly confers power on the shareholders to fill such vacancy at a special meeting of the shareholders, such vacancy may be filled only by the affirmative vote of at least 75% vote of the shareholders.

Question #2. What is the usual number of Peabody shareholders that are present at a shareholder's meeting?

Answer – Peabody has only had two shareholder meetings since Peabody became a publicly traded company. At the annual meeting held on May 6, 2003, 88% of the shareholders were present at the meeting in person or by proxy.

Question #3. Are there any preferred shares of Peabody?

Answer – Peabody has the authority to issue preferred shares, but none has been issued nor are any preferred shares outstanding.

Question #4. Please further describe the services provided by Henry Lentz, Roger Goodspeed, and Dr. James Schlesinger to Lehman.

Answer -- As described in our letter, dated June 17, 2003, Henry Lentz, Roger Goodspeed and Dr. James Schlesinger are outside consultants to Lehman.

Messrs. Lentz and Goodspeed are former employees of Lehman. Consequently, they are being retained by Lehman to work on projects and clients with which they were involved, and developed an expertise and knowledge, while they were employees of Lehman. For example, Mr. Goodspeed is in the process of concluding the investment banking projects on which he worked while he was a Lehman employee and is expected to retire from Lehman altogether once those projects are concluded. Similarly, Mr. Lentz is working solely with the private equity clients with whom he worked while he was a Lehman employee. Mr. Lentz is retained on an annual basis and his consulting relationship with Lehman may be re-negotiated at the end of this annual period.

As for Dr. Schlesinger, he is, among other things, a former Director of the Central Intelligence Agency and former Secretary of Defense. He was never an employee of Lehman. Rather, Dr. Schlesinger acts as Senior Advisor/consultant to Lehman and also advises other clients.

Question #5. Page 36 of Peabody's most recent Proxy Statement describes certain services that Lehman provided to Peabody. In particular, the Proxy Statement states that Lehman served as joint lead arranger and syndication agent in connection with Peabody's new credit facility; Lehman served as the dealer manager in connection with Peabody's tender offer; Lehman served as the lead underwriter in connection with the offering of Peabody stock; and Lehman was a participant in the Company's previous senior credit facility and received $0.06 million in fees. You want to know whether Lehman will continue to provide these types of services to Peabody.

Answer -- The above services reflect the "financial advisory and Investment Banking services" that are described in our AOR. Lehman does not provide these services pursuant to an exclusive arrangement with Peabody, and Peabody is free to hire another broker-dealer to provide these services. However, Peabody uses, and will likely continue to use, Lehman for these services because Peabody is satisfied with Lehman's services and has developed a relationship with Lehman as its broker-dealer. Please note that the level of such services will likely decrease from the level described in the above Proxy Statement given that much of those services are related to converting Lehman-owned Peabody shares to publicly-traded shares.

Question #6. On Page 15 of Lehman's February 28, 2003 Proxy Statement, it states that Lehman provides "designated affiliates" with access to its pension system. Did Peabody ever use Lehman's pension system?

Answer -- Lehman has never designated Peabody as a "designated affiliate" for purposes of its pension system. Thus, Peabody was never covered under Lehman's pension system.

Question #7. Do Lehman and Peabody submit consolidated financial statements with the SEC or consolidated tax returns with the IRS?

Answer – Lehman and Peabody do not file consolidated SEC or IRS filings.

Question #8. Page 9 of Peabody's May 2, 2003 Prospectus refers to a "stockholders rights plan." Please describe this plan.

Answer – The "stockholders rights plan" ("Plan") is part of the procedures that Peabody has in place to protect against a hostile takeover by a third party and does not in any way relate to Lehman. Such "poison pill" procedures are common among companies. The Plan is described in greater detail in the "Rights Agreement" section on page 13, and the "Anti-takeover Effects" section on page 15, of the May 2, 2003 Prospectus. Essentially, under the Plan, if any party purchases 15% or more of Peabody's stocks, it gives the other stockholders the right to purchase additional stocks thereby diluting the power of the 15% or more owner and making the takeover more difficult.

Please call with any questions regarding this letter or if you need any further information.

Sincerely,

Kenneth A. Gross
Skadden, Arps, Slate, Meagher & Flom LLP

Ki P. Hong
Skadden, Arps, Slate, Meagher & Flom LLP

cc: Rosemary Smith, Esq.