

HUGHES HUBBARD & REED LLP
One Battery Park Plaza
New York, New York 10004
Telephone: (212) 837-6000
Facsimile: (212) 422-4726

Attorneys for James W. Giddens,
Trustee for the SIPA Liquidation of
Lehman Brothers Inc.

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re

LEHMAN BROTHERS INC.,

Debtor.

Case No. 08-01420 (JMP) SIPA

**TRUSTEE'S FIFTH INTERIM REPORT FOR THE PERIOD
OCTOBER 27, 2010 THROUGH APRIL 22, 2011**

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
I. FINANCIAL CONDITION OF THE ESTATE	6
II. CLAIMS ADMINISTRATION.....	6
III. CUSTOMER CLAIMS LITIGATION.....	13
IV. ALLOCATION OF CUSTOMER PROPERTY	18
V. RETURN OF POST-PETITION MISDIRECTED FUNDS	18
VI. TRUSTEE’S INVESTIGATION.....	19
VII. JPMORGAN CHASE.....	22
VIII. BARCLAYS CAPITAL INC.	22
IX. LEHMAN BROTHERS HOLDINGS INC.	23
X. LEHMAN BROTHERS INTERNATIONAL (EUROPE).....	25
XI. OTHER INTERNATIONAL AFFILIATES	28
XII. RECOVERY EFFORTS	30
XIII. GOVERNMENT AND THIRD PARTY INVESTIGATIONS; REGULATORY MATTERS.....	34
XIV. ADVERSARY PROCEEDINGS.....	35
XV. DATA MANAGEMENT.....	37
XVI. TAX MATTERS.....	41
XVII. EMPLOYEE BENEFITS.....	43
XVIII. EXECUTORY CONTRACTS.....	44
XIX. INTERNAL CONTROLS AND BOOKKEEPING	44
XX. PROFESSIONAL RETENTION.....	45
XXI. INSURANCE.....	46
XXII. CONCLUSION.....	47

TO THE HONORABLE JAMES M. PECK,
UNITED STATES BANKRUPTCY JUDGE:

To date the Trustee has administered more than one hundred and fifteen billion dollars. This makes the Securities Investor Protection Act (“SIPA”) liquidation of Lehman Brothers Inc. (“LBI”) the largest and most complex broker-dealer liquidation ever attempted, and one of the largest and most complex insolvency proceedings of any kind in history.

The Trustee’s primary duty under the law is the return of customer property to customers of LBI as defined under SIPA, while at the same time maximizing the estate for all creditors. Through the SIPA account transfer and SIPA customer claims processes the Trustee has dealt with approximately 125,000 customer claims seeking the return of more than \$180 billion. More than 110,000 of these claims, aggregating in excess of \$92.3 billion, were resolved through account transfers to solvent broker-dealers in prior report periods. The remaining more than 14,000 originally asserted customer claims seeking an estimated \$88 billion are subject to the SIPA customer claims process. More than ten thousand of these claims totaling an estimated \$46 billion have now been finally resolved, including approximately \$10 billion of customer claims that have been allowed. As explained below, some three thousand claims totaling more than \$42 billion remain, including principally the multibillion dollar claims of Lehman Brothers International (Europe) (“LBIE”), Lehman Brothers Holdings Inc. (“LBHI”), and a number of hedge funds. Resolving these claims, which total more than all the assets in the Trustee’s control, will be the principal focus of the rest of the liquidation.

Equally important, and key to making distributions to customers through

the claims process, are the Trustee's efforts to resolve competing claims and marshal customer property and other assets. In that connection, during the Report Period the Trustee prevailed on two of three counts in a \$7 billion litigation with Barclays Capital Inc. ("Barclays"). The decision should result in a substantial payment by Barclays to the LBI Estate, though the decision is not final and may be appealed.

In addition, during the Report Period the Trustee resolved his investigation of LBI's clearing bank, JPMorgan Chase Bank, N.A. ("JPMorgan"). The Trustee has settled all potential claims against JPMorgan in return for JPMorgan agreeing to return more than \$860 million in customer property to the estate. The settlement is currently pending court approval.

In total, the LBI Estate currently has assets of \$22.78 billion. This includes cash, cash equivalents, and other short-term liquid assets of \$8.43 billion and securities in the amount of \$14.35 billion. The estate continues to marshal assets through, among other things, trade close-outs, unwinds, collections on customer receivables, avoidance and preference actions, and other investigations and potential litigations. A major litigation against Citibank was filed during the Report Period, and other litigations are pending or in progress.

While the Trustee's efforts to marshal assets, transfer accounts, and otherwise resolve disputed claims have materially advanced the administration of the estate, very substantial claims and issues remain. These claims for customer treatment include complex, omnibus claims filed by LBIE to recover proprietary assets which alone exceed the assets available to the Trustee, as well as multibillion claims by LBHI and other affiliates of the global Lehman enterprise asserted on their own behalves. Claims

of prime brokerage, institutional, pension, and former retail clients of the firm, some of whom were LBIE's customers, are subject to objections to claims determinations that raise primarily legal questions as to whether certain financial products, valuation dates, or contractual arrangements qualify for customer status under SIPA, or whether claimants can be considered LBI customers.

The Trustee has worked diligently during the Report Period to resolve these disputes informally whenever this can be achieved consistent with SIPA, and will continue to do so. Teams have traveled to Europe, met on a weekly basis, and exchanged vast amounts of information with LBIE representatives and the Chapter 11 Debtors to reach agreement on numbers and clarify the basis for the claims. At this stage of the proceeding, however, it appears likely that litigation will be necessary to resolve several of the major categories of claims in dispute, and that such disputes may take substantial time to resolve. Because of their magnitude, the timing and extent of distributions on allowed customer claims are subject to the ultimate disposition of the LBHI and LBIE claims and certain other major contingencies for which the Trustee must continue to reserve. Among these other contingencies are any appeal of the Barclays decision and allocation of estate property between "customer property" – a priority pool of assets available only to allowed customer claims – and to the "general estate" – a pool of assets available to satisfy all other claims, as well as any potential deficiencies in customer claims.

The Trustee's goal and aspiration remains to effect a 100% distribution to customers if at all possible. The outcome of the contingencies summarized above will determine whether that goal and aspiration can be fulfilled. The Trustee intends to make

distributions on allowed customer claims as soon as there is sufficient clarity on these and other issues so to allow for a substantial distribution. The amounts at stake and complexity of the issues may, however, take substantial time to resolve. General creditor claims processing will not commence until there is clarity on the potential for a meaningful distribution to general unsecured creditors.

This Fifth Interim Report summarizes these and other matters attendant to the liquidation of the largest broker-dealer ever to fail. The Trustee has worked diligently to reduce the costs of administration while achieving greater control over information systems and assets needed to conduct the liquidation efficiently. Among other efforts, during the Report Period the Trustee transferred substantially all of the estate's securities to a new custodian, resulting in savings of several million dollars annually, and continued to reduce reliance on Barclays and attendant costs associated with access to and use of LBI's electronic systems and books and records.

At all points the Trustee and his professionals have acted in close consultation with the Securities Investor Protection Corporation ("SIPC"), and also in consultation with the United States Securities and Exchange Commission ("SEC"), the Federal Reserve Bank of New York ("FRBNY"), the Commodities Futures Trading Commission ("CFTC"), and the Financial Industry Regulatory Authority ("FINRA"). The Trustee continues to respond regularly to formal and informal information requests from regulators and others as well as a steady flow of third-party subpoenas and information requests. Equally important, the Trustee and his professionals interact with scores of LBI's customers and general creditors each week, and regularly communicate with other direct and indirect parties in interest including the Chapter 11 Debtors, their

Creditors' Committee and other creditors of those proceedings, and with LBIE and other foreign affiliates.

1. James W. Giddens (the “Trustee”), as trustee for the liquidation of LBI, respectfully submits this Fifth Interim Report (this “Report”) in accordance with the terms of the Order of the Court entered on November 7, 2008 (Docket No. 241), and pursuant to § 78fff-1(c) of SIPA, 15 U.S.C. § 78fff-1(c).¹

2. This Report covers the period from October 27, 2010 through April 22, 2011 (the “Report Period”). Prior reports covered the periods from: September 19, 2008 through May 29, 2009 (the “First Interim Report”) (Docket No. 1151); May 30, 2009 through November 11, 2009 (the “Second Interim Report”) (Docket No. 2055); November 12, 2009 through May 10, 2010 (the “Third Interim Report”) (Docket No. 3244); and May 11, 2010 through October 26, 2010 (the “Fourth Interim Report”) (Docket No. 3842, *corrected by* Docket No. 3864).

3. All Interim Reports, along with a complete docket, regular progress updates, and substantial other information about this liquidation, may be downloaded from the Trustee’s website, www.lehmantrustee.com.

I. FINANCIAL CONDITION OF THE ESTATE

4. For information relating to the LBI Estate’s finances, including cash flow, assets on hand, and professional fee disbursements, see Exhibit 1.

5. This financial information reflects cash, cash equivalents, and other short-term liquid assets in the amount of \$8.43 billion and securities in the amount of \$14.35 billion. All of these assets are currently under the Trustee’s control. This information is based on a reasonable approximation of the market value of securities held by the Trustee. As with all other financial information in this Report, the value of the securities is only an estimate, is unaudited, and is subject to revision.

II. CLAIMS ADMINISTRATION

Overview

6. Through the SIPA account transfer and SIPA customer claims processes the Trustee has dealt with approximately 125,000 customer claims seeking the return of more than \$180 billion. More than 110,000 of these claims, aggregating in excess of \$92.3 billion, were resolved through account transfers to solvent broker-dealers in prior report periods (*see* Third Interim Report ¶¶ 5-10).

7. The remaining more than 14,000 customer claims subject to the SIPA customer claims process² are made up of four categories: (i) claims to non-affiliate,

1. Subsequent references to SIPA through this Report will omit “15 U.S.C.”

2. Details of the Trustee’s process for reconciling and resolving customer claims, a process reflected in the custom-designed Claims Administration System and administered by the Trustee, accountants,

individual, and institutional customer accounts; (ii) claims to prime brokerage accounts not satisfied through the Trustee's October 14, 2008 Protocol Related to Prime Brokerage Accounts approved as part of the Court's Account Transfer Order (Docket No. 2338); (iii) customer claims asserted by the Chapter 11 Debtors and other Lehman affiliates; and (iv) LBIE customer claims on its own behalf and on behalf of underlying LBIE customers for which LBI acted as custodian and clearing broker.

8. The liquidation of any one of these four distinct groups of claims would have equaled or exceeded the complexity and dollar amount of any previous SIPA liquidation, and together these groups have entailed over 14,000 claims (including approximately 1,143 claims for LBIE clients filed by LBIE) with an estimated face value amount of over \$88 billion.

9. During the Report Period, the Trustee's professionals continued to work with claimants to reconcile deficient claims, which included reviewing and analyzing newly submitted information in support of their claims as well as having periodic meetings with claimants to discuss their claims. Many of the deficient claims involve complex issues of statutory interpretation, extensive reconciliation and analysis, and highly sophisticated and complicated financial transactions.

10. The Trustee has allowed approximately \$10 billion of claims: \$3.3 billion relate to 994 non-affiliate customer claims (this includes approximately \$442 million involved in claims objections); \$6.2 billion relate to LBIE's omnibus claim; \$523.1 million relate to four LBHI claims; and \$70.8 million relate to 9 international affiliate claims.

11. More than 10,000 claims totaling approximately \$36.6 billion have been denied customer status and are now closed and final (i.e., no objection was filed, the objection was withdrawn, or the Trustee's determination was confirmed by Court Order). This figure includes objections that have been resolved as of April 1, 2011.

12. There remain 3,146 claims with an approximate value of \$42.7 billion that are unresolved (i.e., an objection to the Trustee's determination has been filed and has not been resolved, the time to object to a determination has yet to expire, or the claimant has not provided supplemental information as requested by the Trustee). A summary of the customer claims categories by amount is set forth in the chart below:

attorneys, specialized claims consultants, and SIPC examiners, are available in the First Interim Report ¶¶ 34-45.

Customer Claims Categories (In millions)	Allowed Claims³	Denied and Closed (includes Reclassified)	Unresolved Claims⁴	Grand Total
Non-Affiliate	\$2,862.2	\$23,541.8	\$14,882.5	\$41,286.5
LBIE	6,226.0	0.0	16,113.3	22,339.3
LBHI	523.1	11,362.5	7,998.8	19,884.4
Other Affiliates	70.8	1,693.1	3,713.5	5,477.4
Total Amount	\$9,682.1	\$36,597.4	\$42,708.1	\$88,987.6

13. Additional graphical summaries of customer claims processing are available at Exhibit 2.

Non-Affiliate Customer Claims

14. The Trustee's professionals completed reconciling and determining all non-affiliate customer claims in less than 18 months after the time period for filing claims expired. These claims were asserted by, among others, individuals, pension funds, financial and other institutions, and hedge funds. The Trustee's professionals continued to respond to various claimant inquiries regarding customer claim determinations.

15. The Trustee determined 12,267 non-affiliate customer claims, allowing 994, denying 7,131 and denying and reclassifying 4,142 as general creditor claims.⁵ The non-affiliate allowed claims have an approximate value of \$3.1 billion. Of the 12,267 non-affiliate customer claims, 1,766 claims with an approximate value of \$15 billion are still potentially unresolved (including objections and claims still within the objection time period).

Prime Brokerage Related Claims

16. During the Report Period the Trustee's professionals continued to work with prime brokerage account ("PBA") related claims to resolve factual questions regarding certain claims. In addition, certain PBA claimants claimed they could be

-
3. The total allowed claims equals approximately \$10 billion when including approximately \$442 million of allowed amounts included in objections filed by non-affiliate claimants.
 4. An objection to the Trustee's determination has been filed and has not been resolved, the time to object to a determination has yet to expire, or the claimant has not provided supplemental information as requested by the Trustee. Allowed amounts of \$147.9 million, for which the time to object to a determination has yet to expire, are included in allowed claims.
 5. Once a claim is determined after review by the Trustee's professionals and SIPC examiners, a notice of determination is sent to the claimant. The notice explains the Trustee's determination and any actions required by the claimant in response to the determination. For claims that are reclassified as general creditor claims, no further action is required of the claimant.

considered LBI customers even though their accounts were with LBIE and have objected to the Trustee's denial of their claims or portions thereof (*see infra* ¶¶ 46-47).

Claims Received From LBHI and the Chapter 11 Debtors⁶

17. The Chapter 11 Debtors and their subsidiaries filed 630 claims⁷ against LBI on behalf of themselves and their customers or counterparties with a total estimated value of approximately \$19.9 billion. The Trustee has been analyzing these claims and has sent letters of determination with respect to the Chapter 11 Debtors' claims. Where appropriate, and after extended discussions with the Chapter 11 Debtors to obtain the missing information, the Trustee sent deficiency letters indicating additional information that the Chapter 11 Debtors need to supply in support of some of their claims. The Trustee and Chapter 11 Debtors are continuing to research and exchange information relating to these claims.

18. The Trustee has allowed four customer claims of the Chapter 11 Debtors, for approximately \$523 million. The Trustee issued letters of determination subordinating approximately \$13.27 billion of the Chapter 11 Debtors' claims to all other creditors' claims, because these claims are subject to subordination agreements. The Chapter 11 Debtors' remaining customer claims were reclassified as general creditor claims, determined to be deficient, have negative net equity, or were denied for other reasons. The Trustee may have other defenses or reasons to subordinate or reduce, by setoff or otherwise, some claims by the Chapter 11 Debtors.

19. After receipt of the Trustee's determination letters, the Chapter 11 Debtors confirmed that approximately \$11.36 billion of those claims are subject to contractual subordination. Subordinated claims are not entitled to customer status. SIPA defines "customer" to exclude "any person to the extent that such person has a claim for cash or securities which by contract, agreement, or understanding, or by operation of law, is part of the capital of the debtor, or is subordinated to the claims of any or all creditors of the debtor, notwithstanding that some ground exists for declaring such contract, agreement, or understanding void or voidable in a suit between the claimant and the debtor." SIPA § 78III(2)(B).

20. The Trustee has determined that an additional \$1.91 billion in customer claims is subordinated as well. For the remaining approximately \$6 billion in claims of the Chapter 11 Debtors' potentially still pending, the Trustee either disputes their customer status or requires additional information to determine whether these claims meet SIPA's requirements to qualify as customer property. For these claims, the Trustee is working closely with the Chapter 11 Debtors to prioritize answers to factual questions

6. See discussion regarding the Trustee's claims against LBHI and the Chapter 11 Debtors *infra* ¶ 90.

7. The Chapter 11 Debtors originally filed 632 claims. However, the Trustee has moved two such claims, which should have been asserted by Lehman Brothers (Luxembourg) Equity Finance SA, out of the Chapter 11 Debtors population. See *infra* Section XI regarding the Trustee's claims and dealings with other international affiliates.

and resolve discrepancies, beginning with some of the larger claims. This process includes an ongoing information exchange and frequent meetings between the Chapter 11 Debtors' and Trustee's respective financial and legal teams, as well as a joint reconciliation of the parties' respective claims. In order to allow this process to progress, at the request of the Chapter 11 Debtors, the Trustee has agreed to extend the Chapter 11 Debtors' time to respond to the letters of determination to and including June 15, 2011.

Claims Received From LBIE⁸

21. On January 30, 2009, LBIE filed an omnibus customer claim on behalf of approximately 1,143 LBIE clients (the "LBIE Omnibus Customer Claim") and a claim on its own behalf (the "LBIE House Claim"), both of which were subsequently amended by LBIE on May 29, 2009. The LBIE Omnibus Customer Claim included a securities-related cash balance of up to approximately \$4.5 billion; a securities balance of approximately \$6.3 billion; and a commodities futures balance of approximately \$1.3 billion. The LBIE House Claim included a securities-related cash balance of approximately \$5.6 billion; a securities balance of approximately \$2.2 billion; and a securities financing related balance of \$2.3 billion. In addition, LBIE asserted a failed trades claim with respect to over 100,000 "failed to deliver to LBI" trades and over 95,000 "failed to receive from LBI" trades (the "LBIE Failed Trades Claim"). On September 10, 2010, LBIE sent to the Trustee purported second amendments to the LBIE Omnibus Customer Claim and the LBIE House Claim which increased the amount of LBIE's claims. The Trustee is reviewing these purported amendments to understand their basis and determine whether they can be accepted as valid amendments.

22. On September 16, 2010, the Trustee issued letters of determination with respect to the LBIE Omnibus Customer Claim, the LBIE House Claim and the LBIE Failed Trades Claim.

23. With respect to the LBIE Omnibus Customer Claim and the LBIE Failed Trades Claim as it related to accounts covered by the LBIE Omnibus Customer Claim, the Trustee allowed the claim with respect to a specified list of securities valued at approximately \$6.2 billion. This claim was allowed as a customer claim, subject to the Trustee's review of additional information regarding the LBIE clients on whose behalf the LBIE Omnibus Customer Claim was made. In addition, this allowed claim may be subject to reduction for certain indebtedness owed to LBI.

24. The claim for cash covered by the LBIE Omnibus Customer Claim was determined to be deficient because LBIE had not provided the Trustee with adequate information regarding such claim. The Trustee has requested additional information from LBIE to enable the Trustee to determine this claim. The claim for the commodities futures balance included in the LBIE Omnibus Customer Claim was denied because the relevant accounts had been transferred to Barclays.

8. See discussion regarding the Trustee's claims against LBIE *infra* ¶¶ 98-101.

25. With respect to the LBIE House Claim, the Trustee denied the claim for cash of approximately \$2.3 billion. Substantially all of the remaining balance of the LBIE House Claim and the LBIE Failed Trades Claim as it related to accounts covered by the LBIE House Claim was denied as a customer claim and reclassified as a general unsecured claim.

26. Since the issuance of the letters of determination with respect to LBIE's claims, the Trustee's professionals and counsel have continued to work closely with the LBIE Administrators and LBIE's professionals at PricewaterhouseCoopers ("PwC") and counsel to address their questions and to share additional factual information necessary for the Trustee to evaluate the claims. Beginning in December 2010, senior members of the Trustee's professional advisors have held regular weekly meetings either in person or by conference phone with senior representatives of LBIE and PwC for this purpose, and certain of the Trustee's professional advisors have been resident in London for numerous meetings in person with LBIE and PwC. The Trustee has extended the time for LBIE to file responses to his determinations until June 30, 2011.

Other International Affiliate Claims⁹

27. In addition to the claims filed against LBI by LBIE and LBHI on behalf of several of its affiliates, claims were filed against LBI by foreign Lehman affiliates from eleven different jurisdictions: Bermuda, the Dutch Antilles, Germany, Hong Kong, India, Japan, Luxembourg, the Netherlands, Singapore, Switzerland, and the United Kingdom.

28. A total of 57 customer claims have been filed by Lehman affiliates against LBI. Of these, the Trustee has allowed 9 claims, denied 15 claims, and determined that 18 claims do not qualify for customer status under SIPA and should be reclassified as general unsecured claims. Included among the denied claims is a customer claim filed by Lehman Brothers Finance AG ("LBF") valued at approximately \$4 billion (*see infra* ¶¶ 128-129). The Trustee has determined that 8 claims are deficient and has requested additional information to enable him to make a determination. The Trustee has received 7 objections to determinations by Lehman affiliates.

29. The Trustee and his professionals continue to work with other Lehman affiliates to evaluate overall intercompany relationships and reconcile the claims of foreign Lehman affiliates against LBI on a bilateral basis and through the Global Cross-Border International Protocol (the "International Protocol") into which the Trustee and certain of the Lehman affiliates entered.

30. During the Report Period, representatives of the Trustee have attended three meetings of the signatories to the International Protocol held in New York. The next meeting is scheduled for April 29, 2011 and will also be held in New York.

9. *See* discussion regarding the Trustee's claims and dealings with other international affiliates *infra* ¶¶ 110-128.

Distributions

31. To assure that distributions to one claimant will not prejudice another, the Trustee will make distributions on allowed customer claims when major claims determination issues are resolved and there is sufficient clarity on, or resolution of, the major contingencies. Distributions may occur in stages depending on the value of all allowed claims, available assets, and forecasts on contingencies.

32. Pursuant to § 78fff-3(a), the Trustee may request advances from SIPC in satisfaction of customer net equity claims in amounts up to \$500,000, of which up to \$100,000 may be used to satisfy claims to cash (the “SIPA Limits”). The Trustee has requested and received \$14.8 million from SIPC to satisfy 448 claims, and has completed distributions to approximately 94% of these claimants. In order to qualify for an advance, among other things, a claimant must provide the Trustee with a fully executed release. The Trustee has administered SIPC advances for customer claims that are within, and in some circumstances slightly above, the SIPA Limits. The Trustee anticipates seeking additional SIPC advances for more than 110 remaining similarly situated claims once those claimants return signed releases and provide the information necessary to complete the transfer of property.

33. The Trustee has not requisitioned to date, and does not anticipate having to requisition, any funds from SIPC in the course of the liquidation to pay administrative expenses.

Dividends and Interest

34. The Trustee believes that dividends and interest received by the Trustee on securities allocated to customer property after September 19, 2008 (the “Filing Date”) are “customer property” to be returned to customers. However, the exact amounts and manner in which distribution of post-Filing Date dividends and interest could be made remains subject to the resolution of various contingencies that affect the distribution of property. The Trustee anticipates filing a motion requesting that the Court approve a method of determining and distributing dividends and interest on customer property received after the Filing Date once the universe of allowed claims is known and objections have been resolved.

35. During the Report Period, proceeds related to securities held previously in LBI’s accounts at Depository Trust & Clearing Corporation (“DTCC”) and now maintained by Bank of New York Mellon accrued in the amount of \$148 million. These amounts are specifically accounted for, separate from other estate assets, by the Trustee.

General Creditor Claims

36. The Trustee received approximately 8,800 general creditor claims. The Trustee reclassified approximately 250 of such claims as customer claims based on the assets claimed and other information provided therein. Conversely, any claim filed as a customer claim but determined to be a general creditor claim has been reclassified as

such, without requiring the claimant to re-file a claim to this effect. Of the over 14,000 customer claims received by the Trustee, approximately 4,000 have been reclassified as general creditor claims. Accordingly, the total number of general creditor claims currently subject to review and reconciliation is approximately 12,550.

37. Even when eliminating clear duplicates or claims asserted against the wrong entity, the asserted amount of secured, priority, administrative and general unsecured claims (without ascribing value to unliquidated amounts or including reclassified customer claims) appears to exceed \$47.5 billion. Moreover, in keeping with § 78fff-2(c)(1), customer claims that are not fully satisfied from the fund of customer property become claims against the general estate. In addition, any SIPC advances become priority claims against the general estate.

38. In keeping with SIPA and § 704(a)(5) of the Bankruptcy Code, at such time that the Trustee has reason to believe that there will be a meaningful distribution to general creditors, he will begin the process of reviewing general unsecured claims and determining the validity and actual allowed amounts of secured, administrative and priority claims.

III. CUSTOMER CLAIMS LITIGATION

39. In addition to the 886 allowed customer claim determinations for which no objections were filed, the Trustee has received 1,422 objections from non-affiliates in connection with the Trustee's customer claim determinations. (*See* Exhibit 3.) The time for objections has expired with respect to 10,035 claims.

40. For information on the Trustee's claims adjudication procedures, which were approved by the Bankruptcy Court on November 7, 2008 (Docket No. 241) see the Fourth Interim Report ¶¶ 43-46.

41. The objections principally involve the following categories of transactions or issues:

Non-Affiliate Objection Type	Number of Pending Objections
To Be Announced ("TBA") Contracts and Other Forward Transactions	743
LBIE Accounts	293
Repurchase Agreement	44
Soft Dollar	24
Non-LBI	22
Prime Brokerage Related Objections	18
Foreign Currency Transactions	8

Non-Affiliate Objection Type	Number of Pending Objections
Claimant Determined to be Indebted to LBI	8
Underwriting Fees	3
Unauthorized Trades	2
Other	37
Total Resolved Objections	220
Total Pending Objections	1,202

42. As described in the following sub-sections, to facilitate the efficient resolution of these matters, the Trustee has been addressing certain common legal questions relating to these categories by grouping claims on an omnibus basis and by identifying representative claims for resolution.

43. The Trustee's professionals continue to contact objecting claimants to discuss their claims and objections. In total, 186 non-affiliate objections have been voluntarily withdrawn. (*See, e.g.*, Docket Nos. 3001, 3345, 3403, 3509, 3579.) As of April 1, 2011, 34 objections have also been expunged by Court Order. (*See e.g.*, Docket Nos. 3111, 3418, 3523, 4205). The total value of the objections voluntarily withdrawn or expunged by Court Order is more than \$528 million.

44. With respect to the remaining objections that are not withdrawn, the Trustee intends to continue to move toward resolving those objections throughout 2011. If the attempts of the Trustee's professionals to explain the Trustee's determination prove unsuccessful in persuading claimants to withdraw their objections, the Trustee intends to obtain determinations from the Bankruptcy Court. For efficiency's sake, the Trustee may seek determinations first of representative claims of a given type, with the goal of having other, similarly situated claimants withdraw their objections if the Bankruptcy Court should agree with the Trustee's determinations.

TBAs and Other Forward Transactions

45. The Trustee continues his review of claimant objections to his determinations of claims arising from certain forward transactions, including TBAs ("to be announced" contracts on mortgage-related securities) that remained executory on the Filing Date. The Trustee believes that the claims in this group are not claims for the return of customer property and are not entitled to treatment as customer claims under SIPA. The Trustee's factual investigation and analysis in connection with his motion to uphold the determinations as to these claims will permit the legal issues raised by these transactions to be placed before the Court in the near term.

LBIE Account Holders

46. Objections on behalf of 293 claimants asserting claims for amounts, in aggregate, of several billion dollars remain pending relating to the Trustee's denial of customer claims to assets held in LBIE accounts. (Some of these objections are limited or contingent objections, reserving rights against LBI pending the outcome of claimants' direct claims against LBIE.) The affected parties are primarily hedge funds that entered into prime brokerage and related agreements with LBI, LBIE, and certain other Lehman entities. For these claims, the Trustee has determined that the assets claimed by these parties were not held in LBI accounts, but rather in LBIE accounts typically to take advantage of more favorable margin requirements. Where LBIE sub-custodied U.S. securities positions at LBI for the benefit of LBIE account holders, LBI's books and records show LBIE as the account holder with respect to an "omnibus" account, rather than the underlying LBIE client.

47. As discussed *supra* ¶¶ 21-26, the Trustee determined LBIE's "omnibus" customer claim with respect to securities, allowing a claim to securities that are valued at approximately \$6.2 billion as of the Filing Date. The Trustee continues to evaluate the securities-related cash balances portion of this claim. The Trustee has been working with the LBIE Administrators and their professionals to reconcile differences among LBI records, LBIE records, and the claims materials submitted by LBIE and by certain of the LBIE account holders. In addition, many of the LBIE account holders are obtaining information and pursuing remedies in the LBIE proceeding. The Trustee hopes and expects that many LBIE account holder objections will largely be resolved through the Trustee's determinations and, at the appropriate time, distributions with respect to the LBIE omnibus claim. However, some significant claims in this category may have to be litigated.

Repurchase Transactions

48. As reported in previous reports, the Trustee has denied customer treatment to claims arising out of repurchase ("repo") agreements entered into with LBI. These represent contractual financing arrangements and claims for breach damages rather than claims arising out of customer relationships. The claims have been re-classified as claims against the general estate of LBI.

49. Repo counterparties have filed 44 objections to the Trustee's determinations. The Trustee is continuing to analyze these repo claims and expects in the near term to bring before the Bankruptcy Court the question of whether a repo claimant may share in the fund of customer property where the repo transaction remained executory on the Filing Date and the repo claimant is essentially claiming damages. The Trustee has exchanged information with some claimants on an informal basis and believes some may not pursue their claims to customer treatment. The Trustee is in discussion with a group of repo claimants who may wish to pursue their claims with a view to creating an agreed factual record that will permit legal issues to be presented to the Court.

Foreign Currency Transactions (FX)

50. The Trustee denied customer status to claims for foreign currency forward transactions and related cash. In total, the Trustee has received 12 objections to such determinations. On July 19, 2010, the Trustee filed a motion to uphold his determination of four claims for termination damages related to foreign currency forward transactions allegedly due from LBI to the claimants pursuant to ISDA Master Agreements which governed the transactions (the “FX Damages Motion”) (Docket No. 3490). Prior to the hearing of the FX Damages Motion scheduled for August 19, 2010, each of the claimants entered into stipulations with the Trustee withdrawing their objections and agreeing that the claims were not customer claims. On March 9, 2011 the Trustee filed a motion to uphold his determination of four claims for cash related to foreign currency forward transactions allegedly due from LBI to the claimants (the “FX Cash Motion”) (Docket No. 4149). The FX Cash Motion scheduled for hearing on March 30, 2011 has been adjourned to a date to be determined while the Trustee and the claimants subject to the motion discuss withdrawal of the objections.

Underwriting Fees

51. On March 16, 2010, the Trustee moved to uphold the determination that underwriters are not customers and that the fees related to underwriting are not customer property (Docket No. 2833; Fourth Interim Report ¶ 55). The hearing on this motion, scheduled for December 9, 2010, has been adjourned indefinitely to accommodate ongoing discussions with the claimant.

Shorts Valuation Date

52. On June 1, 2010, the Court issued a Memorandum Decision Granting Motion to Uphold Determination of Claim by SIPA Trustee, 433 B.R. 127 (Bankr. S.D.N.Y. 2010) (the “Fifth Third Decision,” Docket No. 3330). In doing so, the Court ruled in favor of the Trustee’s position that short positions in a customer account are to be valued as of the Filing Date. *See* Fourth Interim Report ¶¶ 56-58.

53. On June 28, 2010, Fifth Third filed a Notice of Appeal (Docket No. 3430). On November 8, 2010, the District Court dismissed the appeal with prejudice, and such order has become final. (Docket No. 3883).

54. On March 9, 2011, the Trustee moved for an Order Confirming the Trustee’s Determinations With Respect to Certain Claims Based on Short Positions Held in Prime Brokerage Accounts at LBI (Docket No. 4152). The Trustee argued that in accordance with the Fifth Third Decision, the proper valuation date of a customer’s net equity is the Filing Date.

55. On March 31, 2011, the Court entered an Order granting the Trustee’s motion (Docket No. 4205), noting in the hearing on that day that the Fifth Third Decision was now the law of the case.

Other Objections

56. The Trustee denied customer status to hundreds of claims for various reasons including because the claim was (i) not based on a relationship with LBI, (ii) based on an account that was empty as of the filing date; (iii) based on wages and compensation allegedly owed by LBI; or (iv) based on an account that transferred pursuant to the Court's December 14, 2009 Order Approving the Account Transfers (Docket No. 2338; *see also In re Lehman Brothers Inc.*, Case No. 1:10-cv-05740-RJS (S.D.N.Y. June 1, 2010)).

57. The Trustee has received approximately 210 objections to such determinations. Many of the objections contend that they are entitled to loss in value of their property suffered as a result of the Lehman collapse or alleged misconduct by LBI personnel prior to the Filing Date.

58. On October 28, 2010, the Court conducted a hearing on the Trustee's Motion to Uphold Determinations Denying Customer Status to Claims Arising From Alleged Fraud, Misrepresentation and Failed Trades and Expunging Related Objections Thereto (the "Market Losses Motion") (Docket No. 3519). The Court ruled in the Trustee's favor at the hearing, finding that "[t]here has been full and appropriate compliance with the requirements of SIPA in the transfer of the accounts from [LBI] to Barclays Capital that took place shortly after the SIPA case was commenced on September 19, 2008. And these particular customers are not entitled to a recovery for the loss in value of the warrants that were contained within those accounts." (Hr'g Tr. 68:23-69:5, Oct. 28, 2010.)

59. Five objections, with a total disputed value of close to \$300 million, alleged that the claimants were entitled to customer status because their losses resulted from unauthorized trading. After a thorough analysis of the claimants' objections and further research, the Trustee concluded that the alleged damages suffered by these claimants were no different than those suffered by the claimants subject to the Market Losses Motion.

60. Accordingly, on November 18, 2010 the Trustee filed a Motion for an Order to Uphold the Trustee's Determinations Denying Claims Based on Alleged Unauthorized Trading and Expunging the Related Objections Thereto (the "Unauthorized Trading Motion") (Docket No. 3903). After further deliberations with the Trustee's staff and, with respect to certain claimants, after limited discovery, three of the five claimants agreed to withdraw their objection and proceed as general creditors. The hearing on the Unauthorized Trading Motion with respect to the final two claimants was adjourned in contemplation of the final two objections being withdrawn.

61. On December 9, 2010, the Bankruptcy Court granted the Trustee's Motion to Uphold Determinations as to Certain Claims (i) Based on Employee Compensation; (ii) Based on Investments in Funds That Are Not Held at LBI; and (iii) Based on

IV. ALLOCATION OF CUSTOMER PROPERTY

62. In the Motion for Order Approving Trustee's Allocation of Property of the Estate, filed October 5, 2009 (the "Allocation Motion") (Docket No. 1866), the Trustee identified six instances in which LBI had not complied with SEC rules which caused LBI to miscalculate its reserve requirement. The Allocation Motion also identified other areas of potential compliance lapses that were subject to ongoing investigation. The Trustee, with the support of SIPC and the SEC, sought confirmation of his authority to transfer property from other sources to customer property to compensate for compliance shortfalls. Following discussions with interested parties to achieve consensus around basic legal principles and specific compliance shortfalls, by Order dated March 2, 2010 (Docket No. 2743) the Court sustained the Trustee's authority to reallocate property from other sources to the fund of customer property as necessary to cure compliance shortfalls, including with respect to four of the six issues identified.

63. Since then, the Trustee has been working with the estate's advisers and financial consultants and has made progress with respect to its investigations into the other compliance issues identified in the Allocation Motion, as well as additional issues identified in the course of the investigations. The Trustee expects to renew his request to re-allocate property from the general estate to the fund of customer property to cure these shortfalls at the conclusion of his investigations.

V. RETURN OF POST-PETITION MISDIRECTED FUNDS

64. The Trustee continues to receive and investigate requests for the return of funds misdirected into LBI bank accounts. The Trustee has returned approximately \$556.8 million in misdirected funds since the commencement of the liquidation.

65. Court-authorized procedures implemented by the Trustee in April 2010 to increase the efficiency and reduce the costs of administering the misdirected funds return process have proven effective. These procedures included (i) returning a substantial number of transfers of misdirected funds of \$250,000 or less without the need of obtaining further court approval, (ii) surcharging new misdirected funds claims a processing fee equal to one percent (1%) of the return amount up to a maximum surcharge of \$5,000 per return, and (iii) disallowing and expunging misdirected funds claims in which the party requesting a return fails to provide information or execute required documentation within sixty days of a final written notice by the Trustee requesting such information or documentation.

66. As of March 31, 2011, the Trustee has applied surcharges to 116 returns of transfers of misdirected funds, aggregating approximately \$43,000 in processing fees. In addition, the Trustee has disallowed and expunged 14 misdirected funds claims, aggregating approximately \$396,000, due to failure of the party requesting the return to provide requested information or execute required documentation to effectuate the return.

67. In the Report Period, the Trustee received new requests for the return of approximately 39 post-petition transfers of misdirected funds, aggregating approximately \$9.4 million, and returned approximately 63 post-petition transfers of misdirected funds, aggregating approximately \$5.5 million.

68. Since October 1, 2010, the number of new requests for the return of misdirected funds decreased approximately 40% compared to the previous six-month period. Furthermore, the Trustee has closed most of the bank accounts identified to have received misdirected funds, which should further and permanently reduce requests for returns of misdirected funds.

69. As of March 31, 2011, the Trustee has made approximately 865 returns of post-petition transfers of misdirected funds, aggregating approximately \$556.8 million, and has approximately 102 requests pending for return of funds alleged to have been misdirected post-petition, aggregating approximately \$35.1 million.¹⁰ (See Exhibit 4.)

VI. TRUSTEE'S INVESTIGATION

70. The Trustee has the specific and important duty to conduct an investigation and prepare a report concerning “the acts, conduct, property, liabilities, and financial condition of [LBI], the operation of its business, and any other matter, to the extent relevant to the liquidation proceeding.” 15 U.S.C. §78fff-1(d). In furtherance of this duty, the Trustee obtained authority from the Court by Order dated January 15, 2009 to issue subpoenas in furtherance of this duty (*see* Docket No. 561), and since then has been actively engaged in pursuing numerous avenues of investigation.

71. The first of the Trustee’s reports, his Preliminary Investigation Report and Recommendations (“Preliminary Report”) (Docket No. 3604; also available at www.lehmantrustee.com), was completed and issued on August 25, 2010. The Preliminary Report addressed the broad topics of (i) the causes of LBI’s demise and the events and transactions that preceded it, (ii) challenges that have arisen in the largest broker-dealer liquidation in history, and (iii) lessons learned from the LBI liquidation and legislative, regulatory, and other policy recommendations for the future.

72. The Trustee has continued the approach of first pursuing voluntary cooperation, but resorting to invocation of his subpoena authority where necessary or at the request of the party from whom the information is being sought. In this effort, the Trustee has made document requests (both formal and informal) to financial institutions that have information relating to the events leading to LBI’s collapse and has received productions amounting to hundreds of thousands of documents in response.

73. The Trustee’s professionals have also reviewed hundreds of thousands of pages of internal LBI emails, LBI account records, contractual agreements, and other documents from LBI’s records, as well as innumerable quantities of electronic data from

10. Requests for returns of pre-petition transfers of misdirected funds are generally treated as bankruptcy claims subject to reconciliation in the General Creditor Claim process.

LBI's information systems. Some of these materials must be obtained through Barclays. The LBI materials have been critical to the Trustee's investigation of potential recoveries and causes of action against third parties, and have also led to the discovery of additional information regarding the causes of LBI's decline, matters concerning the financial condition of LBI, and events impacting the liquidation process.

74. From this review of LBI's records, one area of focus that emerged was the many operational and systems difficulties that the filings of LBHI and LBIE occasioned at LBI, which remained in business for four more days. In the Preliminary Report, the Trustee identified systemic and/or regulatory changes that could be implemented in the future to avoid the informational and operations breakdowns that occurred during the week of September 15, 2008 and that made it difficult for LBI's officers and regulators to evaluate fully LBI's financial condition.

75. With the assistance of the Trustee's professionals, the Trustee has conducted and continues to conduct various forensic analyses of LBI's books and records as well as information received from third parties.

76. The Trustee has conducted over 360 interviews of former LBI personnel as well as personnel at third parties with knowledge of information relevant to his investigation. The Trustee intends to continue to conduct interviews throughout the remainder of the year.

77. The Trustee, with the assistance of his professionals, has largely concluded the investigation of JPMorgan's seizure and liquidation of collateral and other actions described in earlier reports (*see e.g.*, Fourth Interim Report ¶¶ 74-78), culminating in the settlement described below in Section VII.

DTCC Investigation

78. The Trustee continues to review the factual details of and legal basis for DTCC's activities during September 2008 when LBI was facing liquidation and when DTCC purported to invoke rules governing ceasing to act and/or winding-down of activities on behalf of LBI. The Trustee is conducting a comprehensive investigation into the actions taken by DTCC and its subsidiaries as part of their liquidation and closeout of LBI's open positions on the filing date. As part of this investigation, the Trustee's professionals continue to work with DTCC personnel and its outside counsel to obtain information necessary to complete a full accounting of DTCC actions that affect the LBI Estate's financial position and of funds and securities of the LBI Estate held by DTCC and its subsidiaries. The Trustee is not completely satisfied with the pace of the investigation and slippage in schedules for obtaining documents, and may shortly take steps to impose enforceable deadlines.

79. DTCC, through its clearing agency subsidiaries, provides clearance and settlement services for broker-to-broker transactions in equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments, and over-the-counter derivatives. LBI relied extensively on DTCC's services to complete, in

the ordinary course of its business, the clearance and settlement of transactions effected by LBI prior to the Filing Date, and processed through accounts at the Clearing Agency Subsidiaries. DTCC indicated in its 2008 Annual Report that, as of the Filing Date, more than \$500 billion in securities trades, largely held for the benefit of customers and other LBI counterparties, were reflected in the LBI accounts held through the Clearing Agency Subsidiaries.

80. LBI had direct relationships with three of the DTCC subsidiaries – Depository Trust Company (“DTC”), National Securities Clearing Corporation (“NSCC”), and Fixed Income Clearing Corporation (“FICC”) – covering custodial, collection, clearance, and settlement services with respect to a broad range of securities. The Trustee’s professionals have requested and obtained large volumes of information with respect to each of these subsidiaries, including the property they held on the Filing Date or received thereafter and the disposition of such property – whether to Barclays and other brokers receiving account transfers, to the Trustee as return of deposits or turnover of post-petition distributions, to a DTCC subsidiary as a cost or fee associated with the wind-down, or through liquidation to satisfy or close out open commitments of LBI.

CME Investigation

81. The Trustee continues to investigate the liquidation of LBI’s proprietary options and futures positions at the CME Group, Inc. (“CME”)¹¹ in the days prior to the commencement of the SIPA Proceeding. That week, LBI transferred its customer portfolio to Barclays as part of the September 16th Purchase Agreement and, at the direction of the CME, negotiated the sale of its proprietary (“house”) positions in natural gas derivatives on the New York Mercantile Exchange to Goldman Sachs. On September 18th, at the conclusion of an auction at which a number of firms were invited to bid, which was held to avoid immediate liquidation of LBI’s positions, LBI’s remaining house positions in energy, interest rates, foreign exchange, agricultural, and equities derivatives were transferred to various firms who bid on one or more components of the LBI house portfolio. Along with LBI’s proprietary positions, the CME transferred to the winning bidders more than \$450 million in equity to offset the net short option value of the positions, as well as more than \$1 billion in risk-related “concessions,” representing nearly all of the performance bond (or “margin”) that LBI had posted with the CME’s exchanges associated with those positions.

82. At the end of the auction process, approximately \$64 million in excess margin remained at the CME. In September 2010, the CME returned to the Estate \$62,850,288.73 of that excess margin. The Trustee is investigating the validity of approximately \$1,283,059.55 worth of give-up fee claims made by other CME clearing members against LBI. The Trustee has also executed a tolling agreement with the CME in connection with funds and property posted by LBI as a clearing member to the CME’s

11. The CME Group Inc. is a Chicago-based company composed of four Designated Contract Markets: the Chicago Mercantile Exchange (CME-Exchange), the Chicago Board of Trade (CBOT), the New York Mercantile Exchange (NYMEX), and Commodity Exchange, Inc. (COMEX).

Guaranty Fund, thereby preserving any and all claims LBI has with respect to such property.

83. The Trustee is continuing to interview witnesses with knowledge of the CME auction process, and to obtain and review documents from various entities in connection with the auctions. Some, such as Barclays, have not cooperated as promised, and the Trustee intends shortly to take steps to compel compliance. In addition, the Trustee is assessing any claims and defenses relating to the subject of the investigation.

VII. JPMORGAN CHASE

JPMorgan Chase (“JPMorgan”) Settlement

84. Following the completion of an exhaustive, two-year investigation referred to in prior reports (*see* Fourth Report ¶¶ 74-78), on April 21, 2011 the Trustee and JPMorgan entered into a settlement agreement resolving claims relating to the seizure and liquidation of collateral and other pre- and post-petition actions of JPMorgan to the extent they impact LBI. The settlement does not affect litigation pending between JPMorgan and the Chapter 11 Debtors or any claims the Trustee may have to any excess proceeds realized from the Chapter 11 Debtors’ liquidation of collateral previously held by JPMorgan and now held by the Chapter 11 Debtors under the Collateral Disposition Agreement.

85. On April 21, 2011, the Trustee filed a motion seeking entry of an Order approving the settlement agreement (Docket No. 4242). If approved by the Court, pursuant to the settlement agreement, JPMorgan will transfer and deliver to the Trustee (i) \$755 million by wire transfer of immediately available funds and (ii) \$106 million in physical securities contained in certain Fixed Income Division Prime Brokerage Accounts (valued as of the Filing Date) together with principal, interest, distribution and proceeds received by JPMorgan on or with respect to such securities after December 15, 2010. The motion is currently scheduled to be heard on May 18, 2011.

86. The proposed settlement resolves a number of claims and potential claims between the parties, including some general creditor claims of JPMorgan, and will, if approved, secure the return of more than \$860 million of customer property in cash and securities to be available for customer claims. The Trustee and JPMorgan engaged in extensive discussions and negotiations, as well as extensive exchange of information and due diligence, all in good faith to reach an extensively negotiated but consensual resolution of certain disputes in a manner which the Trustee believes is fair and protects the interests of customers.

VIII. BARCLAYS CAPITAL INC.

87. Based on its interpretation of the Asset Purchase Agreement, Barclays has made formal demands and filed a motion to assert claims over \$7.0 billion of assets, the “Disputed Assets.” The Disputed Assets consist of: assets from LBI’s Rule 15c3-3 customer reserve accounts (the “Rule 15c3-3 Assets”), margin and other assets associated with LBI’s derivatives trading (the “Margin Assets”), and certain assets in LBI’s

clearance boxes at DTCC and elsewhere (the “Clearance Box Assets”). Barclays has certain Disputed Assets in its possession and has sought recovery of the remaining assets as well, which are either in the possession of the Trustee or third parties. The Trustee believes that the transfer to Barclays of any of the Disputed Assets was not part of what was agreed to or approved by the Bankruptcy Court, and constitutes an unfair windfall for Barclays at the expense of customers.

88. On September 15, 2009, the Trustee filed a motion with the Bankruptcy Court seeking declaratory judgment that the Disputed Assets belong to the LBI Estate and recovery of the Disputed Assets in Barclays’ possession. Following 34 days of evidentiary hearings and closing arguments in the Lehman-Barclays litigation (described in the Trustee’s Fourth Interim Report) the parties filed post-hearing briefs on November 22, 2010.

89. On February 22, 2011, the Bankruptcy Court issued its decision in this matter (the “February 22, 2011 Decision”) (Docket No. 4105). The Court ruled in the Trustee’s favor on the Rule 15c3-3 Assets and the Margin Assets, which amount to approximately \$4.8 billion of the Disputed Assets. The Court ruled in Barclays’ favor on the Clearance Box Assets, approximately \$1.5 billion of which were transferred to Barclays prior to the litigation.

90. On March 4, 2011, the parties each submitted proposed orders to the Court to implement the February 22, 2011 Decision. On April 11, 2011, the Court held a chambers conference to address the submitted orders. The parties agreed and the Court ordered that Barclays and the Trustee shall try to resolve any differences with regard to the form and content of the proposed orders, and submit letter briefs to the Court on any unresolved issues. The Court set aside time on May 9, 2011 to hear the parties on any unresolved issues regarding the proposed orders. The content and timing of the orders that the Court actually enters will determine the timing of enforcement of the judgment and whether any further proceedings in Bankruptcy Court are necessary to clarify the scope of relief, or the timing of appeals and cross-appeals, if any.

IX. LEHMAN BROTHERS HOLDINGS INC.

Claims Against LBHI and the Chapter 11 Debtors¹²

91. Pursuant to the Stipulation, Agreement and Order Between the Debtors and the Signatories to the Cross-Border Insolvency Protocol with Respect to the Bar Date Order approved by the Bankruptcy Court on August 25, 2009 (LBHI Docket No. 4928), the deadline for the Trustee to assert LBI’s claims against the Chapter 11 Debtors was November 2, 2009. The Trustee, with the agreement of the Chapter 11 Debtors, amended his claim. The Trustee has been involved in extensive discussions with the Chapter 11 Debtors to reconcile his claims in conjunction with reconciliation of the claims filed by the Chapter 11 Debtors, pending receipt of additional information from the Chapter 11 Debtors, and anticipates that process will be completed in the coming months. Informal

12. See discussion regarding claims filed by LBHI and the Chapter 11 Debtors *supra* ¶¶ 17-20.

communications between the Chapter 11 Debtors and the Trustee's legal and financial advisors take place on a frequent basis with more formal meetings and calls occurring regularly.

PIK Notes Received From Lehman ALI Inc.

Transferred Entities PIK Note

92. On September 19, 2008, in the hours before the commencement of the SIPA proceeding, LBI, while still under the control of LBHI, transferred stock of twenty-five entities (some of which, in turn, had multiple subsidiaries) to Lehman ALI Inc. in exchange for a payment-in-kind note ("PIK Note").¹³ Under the terms of the PIK Note, its value is to be the "fair market value of the Acquired Stock as of" September 19, 2008.

93. The Trustee and the Chapter 11 Debtors have continued their dialogue as to the appropriate methodology for determining the value of the PIK Note. As part of this effort, the Trustee has requested, and received, financial information about the transferred PIK Note entities. Additional information will be required for the Trustee to complete his analysis, and the Chapter 11 Debtors have been working to provide that information. The Trustee has retained Charles River Associates as his valuation consultant to assist in the valuation efforts. A separate, independent, valuation expert has been retained should testimony concerning the valuation of the PIK Note become necessary. The Trustee believes that the parties are engaged in a constructive dialogue that will lead either to the consensual valuation of the PIK Note or to a judicial dispute on primarily legal questions of interpretation.

Transferred Intellectual Property PIK Note

94. In addition, concurrent with the transfer of the PIK Note, LBI, while still under the control of LBHI, transferred certain intellectual property (patents and trademarks) to Lehman ALI, Inc. in exchange for a payment-in-kind note with a value to be determined at a later date (the "IP PIK Note"). The Chapter 11 Debtors informed LBI that, rather than attempt to determine the value of the IP PIK Note, they may instead return the intellectual property. The Trustee is presently evaluating this proposal.

Chapter 11 Debtors' Plan and Disclosure Statement

95. On January 25, 2011, LBHI and the Chapter 11 Debtors filed an amended Plan of Reorganization and draft Disclosure Statement. The Trustee's professionals and counsel have engaged in a productive and ongoing dialogue with the Chapter 11 Debtors with the hope of avoiding and minimizing disputes. Although the SIPA liquidation is a

13. Contrary to statements by LBHI in its public disclosure statements, the Trustee never specifically consented to the transfer of subsidiaries. The Trustee was informed about them in a telephone conversation with lawyers at Weil Gotshal & Manges LLP but had not even been appointed when this call occurred. Representatives of LBI advised by others, not the Trustee, voted for and executed the transaction.

separate proceeding from the Chapter 11 proceedings, the Trustee is a claimant in the Chapter 11 proceedings and in that capacity the Trustee's professionals and counsel have been receiving and monitoring developments with respect to the amended Chapter 11 Plan and Disclosure Statement and proposed alternative plans, and have been analyzing the effects of those filings on LBI claims and working with the Chapter 11 Debtors to ensure that the Trustee's interests are sufficiently addressed therein.

96. On April 16, 2011, the Bankruptcy Court entered an Order (LBHI Docket No. 16003) establishing discovery schedules and procedures in connection with the LBHI plan process that specifically do not apply to the SIPA proceeding or in any way limit the Trustee's investigatory powers. These procedures also mandate that requests for documents related to "plan issues" that are in the possession, custody, or control of the Chapter 11 Debtors and the Trustee, be directed to the Chapter 11 Debtors.

97. In addition, the Trustee has been participating in discussions concerning the amended plans, disclosure statements, and attendant discovery proposals with the members of the Cross-Border Insolvency Protocol to protect the Trustee's interest as a creditor and also to prevent unnecessary disruption of or interference with the separate SIPA liquidation.

X. LEHMAN BROTHERS INTERNATIONAL (EUROPE)

98. LBIE, based in London, was the principal European broker-dealer within the Lehman group. Prior to the commencement of the liquidation, LBI dealt extensively with LBIE. As a result of the insolvency of LBIE, in September 2008, certain partners of PwC were appointed as the LBIE Administrators. The Trustee and his professional advisors have continued to work extensively with the LBIE Administrators and their professional advisors in developing and sharing information about LBI and LBIE relevant to the administration of the respective estates and in determining claims that each of LBI and LBIE has against the other.

LBI's Claim Against LBIE¹⁴

99. On June 30, 2009, the Trustee filed two securities-related claims against LBIE: one on behalf of LBI customers and the other a proprietary claim on behalf of LBI. The claim on behalf of LBI customers related to 160 security positions with a filing date claim value of \$439 million and cash balances of \$259.5 million. The Trustee amended that claim on April 9, 2010, to include an additional three security positions with a filing date value of \$0.2 million and additional cash held on behalf of certain LBI prime broker customers in the aggregate amount of \$461.9 million. In addition, the amendment revised the foreign exchange rates used to calculate the U.S. dollar value of the cash originally claimed by the Trustee, resulting in an increase from \$259.5 million to \$410.4 million. LBIE has taken the position that certain of the customers on whose behalf the Trustee filed such claim were actually LBIE customers entitled to distribution of such

14. See discussion regarding claims filed by LBIE *supra* ¶¶ 21-26.

assets by LBIE. LBIE and the Trustee are currently engaged in discussions seeking to resolve this issue.

100. LBI's proprietary claim against LBIE related to 860 security positions with a filing date claim value of \$2.4 billion and cash balances of \$1.2 billion. LBI expects to file additional claims against LBIE not related to "Trust Assets" in the future.

101. On December 15, 2009, the High Court of Justice of England and Wales (the "U.K. High Court") established, at the request of the LBIE Administrators, a bar date of March 19, 2010, for the assertion of claims related to "Trust Assets" held by LBIE. "Trust Assets" consist generally of securities held by or on behalf of LBIE in segregated client accounts and certain related cash.

102. On December 10, 2010, the U.K. High Court granted the LBIE Administrators' request to set December 31, 2012, as the date for claims against LBIE (other than with respect to Trust Assets) to be made in order to qualify for an initial dividend from LBIE.

U.K. Court Proceedings

103. As noted in prior reports, the U.K. High Court has granted the Trustee's application for recognition of the SIPA liquidation of LBI as a foreign main proceeding, and in that regard the Trustee has been granted discovery rights in LBIE's proceeding.

Client Money

104. In May 2009, the LBIE Administrators made an application to the U.K. High Court seeking directions concerning LBIE's obligations under applicable U.K. regulations in relation to the handling of client money by LBIE prior to the time of administration, and judgment on this application was handed down on December 15, 2009. *Lehman Brothers International (Europe) v. CRC Credit Fund Ltd & Ors* [2009] EWHC 3228 (Ch). LBI and certain other client money claimants of LBIE appealed such decision to the U.K. Court of Appeal, and judgment on the appeals was handed down on August 2, 2010. *CRC Credit Fund Ltd & Ors v. GLG Investments Plc Sub-Fund: European Equity Fund & Ors* [2010] EWCA Civ 917.

105. The Court of Appeal overturned the U.K. High Court's judgment on two issues. First, the Court of Appeal held that the U.K. client money rules require identifiable client money held by LBIE (at the time of administration) outside its segregated accounts to be pooled with the client money held in its segregated accounts. The lower court's judgment had held that (a) the pool was comprised only of the client money in LBIE's segregated accounts and (b) identifiable client money held outside those accounts should be returned to the specific clients for whom it was held. Second, the Court of Appeal held that all clients who ought to have had money segregated for them by LBIE as client money prior to administration are entitled to share in the client money pool, regardless of whether or not LBIE did in fact segregate client money for them. The lower court's judgments had held that only segregated client money claimants were entitled to claim against the pool. The Court of Appeal upheld the lower court's

judgment that the statutory trust applicable to client money attaches at the point of receipt by LBIE, not the point of segregation, and that money which was due and payable by LBIE to a client but in respect of which no money had been specifically appropriated for that client prior to LBIE's administration is not client money. The Trustee has a claim against LBIE for a substantial amount of client money.

106. In December 2010, the U.K. Supreme Court approved the application for permission to appeal of another client money claimant, and the Trustee will be a respondent to that appeal. A directions hearing in the Supreme Court has been listed for July 21, 2011 and the substantive hearing is scheduled to commence on October 31, 2011.

107. On April 8, 2011, the LBIE Administrators made an application to the U.K. High Court seeking directions concerning the principles to be applied in identifying client money in LBIE's house accounts. The Trustee is considering that application and its implications for LBI's client money claim.

"RASCALS"

108. On November 19, 2010, the U.K. High Court issued a judgment following the three-week substantive trial of the RASCALS (Regulation and Administration of Safe Custody and Local Settlement) application that began on October 11, 2010. The application, which was commenced by the Administrators of LBIE in July 2009, sought the High Court's ruling as to the ownership of securities in LBIE's depots which were purchased by LBIE for the trading books of other Lehman affiliates, including LBI, and which were, as of LBIE's bankruptcy the subject of the internal Lehman process known as "RASCALS." The RASCALS process which was initiated by some of the affiliates in 1996, consisted of a series of stock loans and repurchase agreements. The Trustee took the position during the proceeding that the LBI never implemented the RASCALS process.

109. The UK High Court found that LBIE owned the securities acquired prior to 1996, that is, before RASCALS was ever conceived. However, as to securities acquired after RASCALS was initiated in 1996, the UK High Court found that although the affiliates had a proprietary interest in the securities at the point of acquisition, they lost that ownership when those securities were subsequently subject to the RASCALS process. The decision is currently on appeal before the UK Court of Appeal. Although the Trustee is not actively participating in the appeal, he will monitor the proceedings and will consider the outcome and its implications for the LBI Estate.

Back-to-Back Side-Letters

110. The LBIE Administrators are proposing to make an application to the U.K. High Court for directions with respect to the construction of side-letters between LBIE and certain of its affiliates in relation to over-the-counter ("OTC") derivatives transactions entered into by LBIE with those affiliates and clients on back-to-back terms. On their face, the side-letters seek to limit LBIE's market and credit risk. Given LBI's

relatively small OTC exposure, the Trustee is not presently minded to participate actively in the application, but will keep the position under review and will consider the outcome of the application in due course and its implications for the LBI Estate.

XI. OTHER INTERNATIONAL AFFILIATES

111. Since the previous interim report, the Trustee and his professional advisors have focused on working with foreign Lehman affiliates to reconcile intercompany accounts and on making determinations of customer claims against LBI filed by such affiliates. The following summarizes the Trustee's principal activities relating to the foreign Lehman affiliates (other than LBIE).

Cayman Islands

112. The Trustee's representatives continue to monitor the proceedings of Lehman Brothers Equity Finance (Cayman) Ltd. ("LBEFC").

China

113. With the assistance of Norton Rose and Deloitte in Beijing, the Trustee continued to pursue the de-registration of the LBI representative office in Beijing, China, following the sale of most of its assets prior to the commencement of the LBI proceeding. The Trustee's professionals in Beijing have had discussions with the Chinese tax authorities regarding the steps required to de-register.

Germany

114. The Trustee continues to monitor the proceedings of two German Lehman entities: Lehman Brothers Bankhaus AG and Lehman Brothers Capital GmbH ("LBCG").

115. On September 13, 2010, the Trustee sent a letter of determination to LBCG stating that its claim documentation was deficient. LBCG submitted additional information regarding its claims in response to the Trustee's request, but this information did not clear the deficiency.

116. On December 16, 2010, the Trustee issued a notice of determination reclassifying LBCG's claim to general creditor status. The time to object to that determination has expired and the extent to which the claim will be allowed as a general creditor claim will be determined at a later date.

Hong Kong

117. The Trustee's professionals continue to monitor the proceedings of the eight Lehman entities in Hong Kong and to liaise with the respective administrators regarding the respective intercompany claims.

118. Orders establishing bar dates of December 10, 2010 for the filing of claims to trust assets held by the Lehman entities in Hong Kong were granted on August 25, 2010. The Trustee filed his claims with the liquidators appointed to those companies accordingly.

119. An order related to the corporate actions application by Lehman Brothers Securities Asia Limited (in Liquidation) was granted on November 12, 2010. The Trustee's representatives have reviewed the order and the Trustee determined that no action is required at this time.

120. The Trustee's representatives filed amended claims against Lehman Brothers Securities Asia Limited, Lehman Brothers Futures Asia Limited (in liquidation) and Lehman Brothers Commercial Corporation Asia Limited (in liquidation) ("LBCCA") in advance of the December 10, 2010 bar date for claims for assets held on a segregated basis. No determination by the respective Hong Kong estates has been received.

121. Lehman Brothers Asia Capital Company Limited (in Liquidation) ("LBACC") and LBCCA filed certain customer claims against LBI related to futures and options trading. These claims were denied customer status on September 12, 2010. LBACC and LBCCA filed an objection to this determination on January 12, 2011. The Trustee is in discussions with LBACC and LBCCA concerning the determinations and the related objections.

Japan

122. The Japanese liquidators are in the process of reconciling various intercompany balances between Lehman Brothers Japan Inc. ("LBJ") and LBI that were identified in the Trustee's claim. Also being discussed is the proper and most expeditious treatment of LBJ's customer claims made in the SIPA proceeding. Amended letters of determination for six of LBJ's eight claims, allowing LBJ's claims filed on behalf of its underlying customers, were circulated to LBJ's counsel for comment and review on March 15, 2011.

123. We are currently analyzing and expect that the Court's February 22, 2011 Decision (*see supra* Section VIII) will be instrumental in the reconciliation of the intercompany balances related to futures and options with LBJ and the Japanese exchanges.

Luxembourg

124. The Trustee's professionals continue to monitor the Lehman Brothers Luxembourg S.A. and the Lehman Brothers (Luxembourg) Equity Finance S.A. ("LBLuxEF") proceedings. The Trustee and LBLuxEF have claims against each other and are discussing resolution of these claims.

Netherlands

125. The Trustee's professionals continue to monitor the Lehman Brothers Treasury Co. B.V. ("LBT") proceeding. LBI's claims were formally notified to the LBT administrators on November 8, 2010.

Singapore

126. The Trustee's professionals have held a number of working sessions with the administrators appointed for the Lehman entities in Singapore in respect of intercompany issues. LBI formally notified the Lehman entities in Singapore of its claims on January 20, 2011. The parties have continued to exchange information and reconcile the value of all of the intercompany balances.

127. Norton Rose continues to assist the Trustee with issues related to the winding-up of the LBI Singapore branch office.

Switzerland

128. The Trustee's representatives continue to monitor the proceedings of Lehman Brothers Finance AG ("LBF") in Switzerland. LBF's and the Trustee's professionals have had several conferences to discuss the extent of the intercompany transactions between LBF and LBI.

129. LBF filed a customer claim seeking the return of securities LBF held in an account that LBF had with LBIE. LBF believes these securities were ultimately held at LBI through LBIE's accounts with LBI. As reported in the Fourth Interim Report, LBF's customer claim has been denied. LBF filed an objection to the determination on December 1, 2010. LBF and the Trustee's representatives continue to discuss this customer claim among the other intercompany claims, which together have a claimed value of approximately \$4 billion.

XII. RECOVERY EFFORTS

130. This section of the Report summarizes the Trustee's efforts to recover funds through trade close-outs, unwinds, collections on customer receivables, avoidance and preference actions, and other recovery efforts to date. The Trustee has entered into over 225 tolling agreements as to these efforts. In addition to the recovery efforts described below, the Trustee successfully negotiated a settlement agreement with JPMorgan that will, if approved, secure the return of more than \$860 million of customer property in cash and securities (*see supra* Section VII).

Close-Outs and Unwinds

131. During the Report Period, the Trustee and his professionals have continued to work diligently on the recovery of value from the unwinding of financial products transactions between LBI and other broker-dealers, financial institutions, and

other parties. For a description of the transactions involved, see the Fourth Interim Report ¶ 135.

132. The Trustee continues to follow Court-approved due diligence procedures for reconciling and collecting the closeout amounts due to the LBI Estate. For a description of these procedures, see the Fourth Interim Report ¶¶ 136-37.

133. The Trustee continues to work with counterparties and their counsel who have come forward to settle the closeout value of transactions on a consensual basis. As described in the Fourth Interim Report ¶ 138, the Trustee has taken affirmative steps to contact all counterparties that did not reach out to the Trustee on their own.

134. In addition to the counterparties from whom such collections have been made or received, the Trustee and his professionals have contacted or are currently in active negotiations with all of the remaining counterparties. The Trustee's goal is to resolve all closeouts as soon as possible consensually. For those relatively few counterparties that do not consensually resolve their closeouts, the Trustee has commenced and will likely continue to commence adversary proceedings.

Fridator Trust

135. In negotiations among the Trustee, the Fridator Trust ("Fridator") and Neuberger Berman to recover funds related to a series of foreign exchange transactions, Fridator argued that it could not pay the Trustee because the funds were held by Neuberger Berman, and Neuberger Berman argued that it could not pay the Trustee because there were other entities asserting rights to the same funds. To resolve that issue, on September 16, 2010, Neuberger Berman filed two actions for (i) interpleader and declaratory judgment (LBHI Docket No. 11430), and (ii) declaratory judgment (LBHI Docket No. 11414), against LBI and the other entities asserting rights to those monies. LBI filed an answer to the first action and a statement disclaiming an interest in the funds in the second action on October 18, 2010. Thereafter, the parties have made their Initial Disclosures and document discovery is ongoing. On March 2, 2011, Neuberger Berman filed a motion to consolidate both actions.

Israel Discount Bank Ltd.

136. On December 8, 2009, as a result of (i) the failure of Israel Discount Bank Ltd. ("IDB") to deliver to the Trustee assets from LBI's cash and securities accounts at IDB, including LBI customer assets, and to pay over \$80 million from the close-out of foreign exchange transactions between LBI and IDB, and (ii) Bank Leumi Ltd. ("Bank Leumi") causing to be attached these assets and receivables in an action by Bank Leumi in an Israeli court against other entities (and IDB having consented to the said attachment), the Trustee filed a motion seeking entry of an order enforcing the automatic stay and the stays in the LBI Liquidation Order and holding IDB and Bank Leumi in contempt for violating those stays and interfering with the Trustee's administration of the LBI Estate (Docket No. 2288). The Trustee, IDB, and Bank Leumi have stipulated to an extended briefing and hearing schedule to accommodate continued information exchange

in an attempt to resolve this matter on a consensual basis. A hearing on the motion is currently scheduled for the earliest date that the matter may be heard after June 13, 2011.

Swedbank Amicus Brief

137. On August 23, 2010, the Trustee and SIPC filed a brief of amici curiae in support of LBHI in the bankruptcy appeal captioned *Swedbank AB v. Lehman Brothers Holdings Inc. (In re Lehman Bros. Holdings Inc.)*, No. 10-04532 (NRB). On January 26, 2011, the district court adopted the bankruptcy court's reasoning and affirmed its holding that the Bankruptcy Code safe harbor provisions applicable to certain derivatives transactions and derivatives counterparties do not override the Bankruptcy Code's mutuality requirement for setoff in bankruptcy. The district court wrote further to address the legislative history of the safe harbor provisions, which it found to support and confirm the bankruptcy court's interpretation of the Code. The district court's decision, which is now final, supports the Trustee's position with respect to his claims against some counterparties who have asserted third-party setoff rights in the Trustee's efforts to recover amounts owing from the unwind of financial transactions.

UBS AG

138. On November 23, 2010, the Trustee filed a motion to enforce the automatic stay and compel payment of approximately \$23 million in excess collateral that LBI posted with UBS AG ("UBS") to secure LBI's obligations to UBS in connection with foreign exchange trades entered into under an International Swaps and Derivatives Association Master Agreement executed by the parties in 2004 (Docket No. 3922). With respect to approximately \$21 million of the total, UBS has refused to return the excess collateral based on an asserted third-party setoff. The Trustee believes that the purported third-party setoff is impermissible because it violates the Bankruptcy Code's mutuality requirement for setoff in bankruptcy. UBS filed its opposition to the Trustee's motion and cross-motion on January 21, 2011 (Docket No. 4056), and the Trustee filed his reply in further support of the motion on March 15, 2011 (Docket No. 4161). A hearing on the motion is scheduled for June 23, 2011.

Customer Receivables

139. The Trustee continues to pursue open and unsettled customer receivables. The Trustee's attorneys have contacted approximately 97% of these customers. For each of the customers who responded, the Trustee's counsel engaged in discussions with them explaining the basis for the amount demanded and providing documentation of the open transactions. As a result of the process, the Trustee has collected over \$38 million and continues to engage in negotiations with the remaining customers. The Trustee anticipates that most, if not all, of its claims against these remaining customers will be resolved without court action.

Avoidance Actions / Preferences

140. The Trustee's professionals continue to pursue the avoidance and recovery of preferential transfers made by LBI in accordance with sections 544, 547, 548, and 550

of the Bankruptcy Code. During the Reporting Period, the Trustee resolved approximately 25% of the preference claims and has consummated settlements totaling over \$300,000. In order to continue to facilitate the amicable resolution of the preference claims and avoid the time and expense of litigation, the Trustee amended the original Tolling and Forbearance Agreements with all but one of the entities that received preferential transfers.¹⁵ As part of the Trustee's continuing efforts to resolve avoidance claims in an efficient and cost-effective manner, the Trustee also filed, and the Court entered on December 8, 2010, an Amended Order Establishing Procedures Governing Claims Asserted and Adversary Proceedings Commenced by Trustee Pursuant to 11 U.S.C. §§ 544, 547, 548 and 550 (Docket No. 3964). The Trustee will continue efforts to resolve the 12 adversary proceedings that are currently pending and all other tolled preference claims on a consensual basis.

141. In accordance with the Stipulation and Order between LBHI and the Trustee With Respect to Joint Claims Asserted and Joint Adversary Proceedings Commenced Pursuant to Bankruptcy Code Sections 544, 547, 548 and 550 (Docket No. 3664), the Trustee continues to confer with LBHI and its Creditors' Committee regarding settlements affecting both LBI and LBHI's interests in preferential transfers.

Recovery of Double Deliveries

142. In the course of finalizing the Private Investment Management Account Transfer (see Third Interim Report ¶¶ 5-10), the Trustee's professionals discovered certain double deliveries of securities to various broker-dealers as a result of Automated Customer Account Transfers ("ACAT"s) initiated by customers prior to the Filing Date. As a general fact pattern, LBI delivered securities from the customers' accounts prior to the Filing Date, but LBI's records did not reflect the transfer. When the accounts were then processed as part of the Account Transfers, the pre-ACAT amount was included in the conversion and the Trustee delivered the securities again to Neuberger Berman or Barclays. Subsequently, Neuberger Berman or Barclays also processed the ACAT, delivering the securities to third party brokers for the benefit of the former LBI customer. The Trustee's professionals have undertaken significant research into these double deliveries, which total approximately \$23.7 million across 74 different securities.

143. In the Report Period, the Trustee contacted various broker-dealers seeking their cooperation in the return of this property to the estate. Approximately \$4.66 million has been recovered as of the Report Date from broker-dealers. Additionally, the Trustee contacted approximately 26 former LBI customers requesting return of the double delivered property. As of the Report Date, three former customers have returned approximately \$78,000, and the Trustee is working with another nine former customers to reach resolution of their double receipt. The final nine former customers have not responded to the Trustee's demand for the return of property as of the Report Date. If the Trustee is unable to reach consensual resolution with them, he may have to initiate legal

15. The Trustee commenced one additional Adversary Proceeding during the Reporting Period: Adv. Proc. No. 11-1264. There are currently a total of 12 adversary proceedings pending relating to preference claims.

proceedings against them to secure the return of funds. If such actions were taken, they would likely also address the related broker-dealers' potential responsibility related to these funds.

Banking Matters

144. The Trustee has continued to work to transfer into his accounts at Union Bank, N.A. all remaining U.S. dollar and foreign currency balances held in legacy LBI bank accounts maintained at domestic and overseas banks and to close such accounts.

145. During the Report Period, the Trustee established a custodial relationship with Bank of New York - Mellon N.A. ("BNY Mellon"). Eventually, BNY Mellon will serve as the sole custodial location for securities positions comprising LBI estate property. Consolidation at BNY Mellon reduces the administrative burden on the LBI Estate. Upon opening of the BNY Mellon account, the Trustee's professionals transferred all of the estates' securities held in legacy LBI accounts at DTCC to BNY Mellon. In addition, the Trustee's professionals have been working to close foreign depository relationships and transfer securities custodied there to BNY Mellon. In addition to reducing administrative fees, the electronic platform provided by BNY Mellon should make distributions of estate property, when appropriate, more efficient. The Trustee will no longer need to comply with burdensome transfer requirements implemented by DTCC, and certain operational matters will shift to professionals at BNY Mellon.

146. The Trustee continues to negotiate with certain banks that maintain legacy LBI bank accounts in order to collect the funds in, and then close, such accounts. To the extent that banks maintaining such accounts continue to be unresponsive or uncooperative in honoring the Trustee's instructions to return the funds held therein to the Trustee, the Trustee may be compelled to initiate appropriate legal proceedings to obtain these funds.

XIII. GOVERNMENT AND THIRD PARTY INVESTIGATIONS; REGULATORY MATTERS

Government and Third Party Investigations

147. The flow of requests to the Trustee for historical LBI information from dozens of federal, state, and local government agencies has yet to ebb. Cooperation with investigations by these agencies is of paramount importance to the Trustee and SIPC. In addition, the Trustee has received and is responding in due course to an ever-increasing number of non-party subpoenas issued in connection with various litigations and arbitrations around the United States. Together, the Trustee has made a total of over 500 document productions in response to these governmental and non-party requests. These productions represent a volume of documents exceeding one million pages, in addition to hundreds of gigabytes of data in electronic form. Notwithstanding an appreciation for regulators and litigants' need for LBI historical information, the productions continue to be a significant expense for the LBI Estate. In some cases investigators and third parties

are referred to the Trustee by Barclays or LBHI, which are actually in an equal or better position to supply the information.

Regulatory Matters

148. As a result of the complexities of administering the LBI Estate, the Trustee regularly meets and coordinates with the SEC, FRBNY, CFTC, FINRA, and other domestic and foreign regulatory agencies. The Trustee has also terminated LBI's former broker-dealer registrations with the 50 states and other regulatory agencies, saving LBI Estate from the significant costs associated with maintaining its registration status.

XIV. ADVERSARY PROCEEDINGS

149. The Trustee has continued to enforce the automatic stay provisions of 11 U.S.C. § 362 and the LBI Liquidation Order (together, the "Automatic Stay") with respect to new complaints that name LBI as a defendant but are filed outside the Court in violation of the stay. In most of these instances, the Trustee has obtained dismissal of the action as against LBI.

150. Before this Court, the Trustee has defended against eleven adversary proceedings, including successfully negotiating the voluntary dismissal of claims in two actions, moving to dismiss in two actions, one of which was granted, and reaching settlement agreements in three others. To date, the most advanced of the remaining actions is *The Options Clearing Corporation v. Barclays Capital Inc.*, Adv. Pro. No. 08-01759 (the "OCC Proceeding"). The OCC seeks to interplead LBI, Barclays, Australia & New Zealand Banking Group Ltd., Bank of Tokyo-Mitsubishi UFJ and Lloyds TSB Bank to adjudicate rights relating to the disposition of funds held by the OCC in connection with its draw down on five letters of credit (totaling ~\$80mm) deposited as margin in LBI's account. The parties exchanged their initial disclosures, served their initial document requests and interrogatories, served their written responses and objections to initial document requests and interrogatories, and produced responsive documents. On the commencement of the litigation between the Trustee and Barclays relating to the Asset Purchase Agreement, the parties to the OCC Proceeding agreed in December of 2009 to stay further discovery pending a ruling in that litigation. After the Court issued its decision on the issues in the Barclays litigation on February 22, 2011, the parties to the OCC Proceeding subsequently agreed on a schedule to complete discovery within 120 days of the expiration of the time to appeal from that decision, or the entry of a final order on any appeal therefrom relating to the margin assets.

151. The Trustee has also commenced thirteen adversary proceedings with respect to certain preference claim matters, discussed in more detail *supra* ¶¶ 140-41.

152. Separately, the Trustee has briefed objections to Rule 2004 requests by the Newport Global entities, the Deferred Compensation Parties, Bank of New York Mellon, and Carret and Evansville Insurance Ltd., as to the last of which the Court denied the Rule 2004 requests on March 31, 2009, after a hearing on the motion on March 25, 2009 (*see* Docket No. 913). Thereafter, the Trustee has continued to work with Newport

Global with the goal of resolving on a consensual basis their individual information requests without incurring additional significant expense to the LBI Estate.

153. The Trustee is continuing the process of determining amounts owed to the LBI Estate as a result of over 270 employee loans that were in collection as of the Filing Date (see discussion on employee benefits *infra* ¶ 193) and is employing cost-effective means to maximize collection of those amounts through a minimum of administrative expense.

MainStay

154. On August 27, 2010, the MainStay High Yield Opportunities Fund (“MainStay”) filed a motion with the Court for relief from the automatic stay, seeking immediate access to approximately \$50 million of cash and securities held at a third-party bank (Docket Nos. 3614-16). On October 8, 2010 the Trustee filed his opposition to the motion, pointing out that the agreements MainStay and LBI had entered into unequivocally established that the property at issue is customer property under SIPA (Docket Nos. 3788). On October 28, 2010, the Court held oral argument on the motion. Following the hearing, and at the Court’s request, MainStay and the Trustee filed a joint stipulation of undisputed facts in connection with the motion (Docket No. 3965). On February 16, 2011, the Court entered a Stipulation and Order withdrawing MainStay’s motion without prejudice (Docket No. 4101).

Citibank

155. Matters attendant to Citibank are being handled by Menaker & Herrmann LLP (“Menaker & Herrmann”), special counsel to the Trustee. Menaker & Herrmann report as follows:

156. The Trustee filed an adversary proceeding¹⁶ against Citibank, N.A., Citigroup, Inc. and various of their affiliates (“Citibank”) on March 18, 2011 to recover more than \$1.3 billion in cash and other assets. The Trustee seeks the return of a \$1 billion deposit LBI made with Citibank during LBI’s last week in operation which Citibank claims it set off shortly before commencement of LBI’s liquidation. The Trustee is also seeking the turnover of approximately \$300 million deposited in LBI accounts at various Citibank locations around the world. The major component of the LBI obligations (approximately \$1.26 billion) is related to a settlement service provided by Citibank, namely the settlement of payments for foreign exchange transactions through the Continuous Linked Settlement (“CLS”) system.

157. The Trustee’s claims raise issues regarding the scope of the Bankruptcy Code safe-harbor provisions and so-called triangular setoffs. Claims are also asserted to recover funds in connection with custody services, termination of foreign exchange ISDA Master Agreements, securities lending activities, account overdrafts, a demand note covering certain vested benefits under deferred compensation plans and other transactions

16. Adversary Proceeding No. 11-01681.

and relationships. The commencement of litigation follows months of investigation and efforts by the Trustee and his special counsel to reach consensual resolution.

XV. DATA MANAGEMENT

Data Migration – Collection of LBI’s Books and Records

158. Consistent with the LBI Liquidation Order, which authorized the Trustee to take possession of LBI’s books and records (LBI Liquidation Order ¶ XIV), the Trustee has collected the historical LBI data and migrated it to his own information infrastructure. The Trustee requires this data to liquidate LBI and perform his duties under SIPA and the Bankruptcy Code, including completing the Account Transfers, reconciling claims, resolving contingencies, and conducting the litigations and investigations described elsewhere in this Report. The Trustee’s infrastructure also supports the Trustee’s ongoing efforts to manage the estate’s inventory of securities, as well as remaining customer accounts.

159. The Trustee’s infrastructure includes a fully functioning data center, several large trading systems, a general ledger system, and several other systems. The hosting and management of the data center and the larger systems have been outsourced to leading technology service providers, and the entire infrastructure is integrated with, and accessible from, the Trustee’s liquidation office. (*See* Exhibit 5.) At present, the Trustee is largely self-sufficient for his data and information needs, except for certain types of information that, for cost and practical reasons, he continues to access under an agreement with Barclays.

Collection of LBI’s Books and Records – Data Migration

160. When Barclays purchased LBI’s assets, it took possession of LBI’s computer systems and the data stored within those systems. The Trustee’s professionals identified 130 systems of interest out of the more than 2,700 Lehman computer systems that were in use as of the Filing Date. During the Report Period, the Trustee has completed the process of migrating the data from these 130 systems of interest to his own data center.

161. The Trustee is now able to manage this data independently of Barclays, and, since the Fourth Interim Report, has decommissioned all 130 systems from which he has collected data, as well as other systems that contained no data themselves, but supported or provided functionality to the data systems. As previously reported, the decommissioning of these systems has resulted in reduced transition services fees of approximately \$31 million annually.

162. During the Report Period, the Trustee identified eight additional computer systems that contain data needed to support the Trustee’s investigations into the collapse of LBI and claims against third-parties. The Trustee’s professionals have completed the migration of data from five of these systems and expect to complete the migration of the data in the remaining three systems in the next few months.

Capturing and Recreating the Large Trading Systems

163. Prior reports have discussed the migration of the large trading systems that were in use at LBI prior to the Filing Date. These systems posed a special challenge because they were complex, contained enormous amounts of data, and, unlike other systems that the Trustee no longer needed, continue to be used to manage activity in cash and security positions.

164. These trading systems were too big to move and therefore remain at Barclays, but the Trustee has contracted with a third-party vendor, Broadridge Securities Processing Solutions, Inc. (“Broadridge”), that is able to recreate the functionality of these systems on its own platforms. The Trustee’s professionals migrated the relevant active data in each system to the platform provided by Broadridge in order to support the ongoing operation of the system at Broadridge. Each trading system also contained historical data that is no longer needed for the day-to-day operation of the system. The Trustee’s professionals extracted this historical data and migrated it to the Trustee’s data center.

165. During the Report Period, the Trustee’s professionals have completed the work of capturing these large trading systems and the data associated with them. The Fourth Interim Report discussed the work that was ongoing with respect to the ADP/TMS trading system. The Trustee’s professionals have now completed this work and migrated all of the historical data in TMS to the Trustee’s data center.

Amount of Data Migrated

166. With the collection of the historical data and the migration of the trading systems now complete, to date, the Trustee has successfully migrated more than 223 billion transaction records and more than 142 terabytes of data to his data center. If printed, this amount of data would yield a stack of paper nearly 1,350 miles high, more than 245 times the height of Mt. Everest. (*See Exhibit 5.*)

167. This data is critical to the liquidation of the estate and the resolution of claims. The Trustee’s counsel and consultants have the ability to access portions of this data directly and all of this data indirectly, by making requests of the Trustee’s data management professionals. To date, the Trustee’s data management professionals have processed more than 1,800 data requests, including requests that originated from government regulators, claimants, and other third-parties who were seeking information relating to LBI’s historical activities (*see supra* ¶ 147). As each data request typically seeks multiple categories of information, the 1,800 data requests processed by the Trustee’s professionals have resulted in more than 15,300 data deliveries.

168. Although the Trustee has taken control of an enormous amount of data and completed the migration of the “books and records” systems, this is only a fraction of the data and information that existed at Lehman prior to the Filing Date. The remaining Lehman-legacy data remains largely within the possession, custody or control of Barclays, and the Trustee expects that he will continue to access this data when and as the

need arises. Thus, for example and as already explained, while the Trustee captured the data in 130 systems of interest, he has since discovered data in 8 other systems that is needed for his investigations. Barclays also retains an enormous number of hard copy (i.e., paper) records and back-up tapes that the Trustee has started to review in the course of his investigations. As explained in greater detail below, the Trustee has entered into a tri-party agreement with Barclays and LBHI that creates a protocol for accessing this data.

The Trustee's Data Center

169. As previously reported, the Trustee established a secure, fully operational data center at his offices in New York. The data center houses the data migrated from the Barclays systems, as well as scanned versions of critical hard copy records. The data center has enabled the Trustee's professionals to access the Trustee's data and to fulfill data requests efficiently and independently, without having to rely on Barclays IT and non-Trustee resources.

170. During the Report Period, the Trustee and his professionals have completed the outsourcing of the data center, including a general ledger system, to a third-party vendor, SunGard Availability Services LP ("SunGard"). Outsourcing the management, operations and maintenance of the data center to SunGard has enabled the Trustee to reduce costs, as it has eliminated the need for the Trustee to employ his own dedicated IT staff to perform those functions. It has also provided advantages over the existing data center that will better support the Trustee's data needs on a going-forward basis.

171. As previously reported, the Trustee's data needs have shifted as he has shed his reliance on Barclays' systems and personnel, and has assumed complete responsibility for managing the estate's securities positions. Moving the data center to SunGard has given the Trustee and his professionals greater flexibility and support in performing these remaining activities. SunGard provides the Trustee with increased security, enhanced service and maintenance capabilities, improved data access, and a full-scale disaster recovery solution.

172. The Trustee has also realized structural advantages in moving his existing hardware to SunGard. SunGard can now maintain the hardware and, as it nears the end of its use-life, replace it or upgrade it. As this is likely to become necessary as the liquidation progresses, the arrangement with SunGard will enhance the Trustee's ability to replace or upgrade his servers on a cost-effective basis. Moving the data center out of the Trustee's offices has also given him greater flexibility for the future. If, as the liquidation progresses, the Trustee is able to down-size his offices, he will be able to find new space without having to move the then-existing data center and the personnel dedicated to its maintenance and management.

The Iron Mountain Email Archive

173. The Trustee continues to require access to email and other electronic messages that had been received and sent by LBI employees. LBI stored its employees' email and other electronic messages in a third-party email archive provided by Iron Mountain Information Management Inc. ("Iron Mountain"). The Iron Mountain digital archive houses an estimated 3.2 billion messages, making it one of the largest email archives in the financial services industry.

174. Barclays assumed the Iron Mountain contract and has been charging the Trustee and LBHI a share of the monthly costs to access the digital archive. The Barclays TSA (defined below) provides the Trustee with continued access to the Iron Mountain digital archive at a reduced cost to the estate. Commencing as of November 1, 2009, the Trustee has been paying Barclays 25% of the costs relating to the data stored in the digital archive. The Trustee also pays all costs corresponding to assisted searches or project-based work that the Trustee requests through Barclays. As contemplated by the Barclays TSA, the Trustee is close to reaching a direct agreement with Iron Mountain for assisted search services.

The Barclays TSA and the Amendment

175. On December 23, 2009, the Trustee and Barclays entered into a Transition Services Agreement that has governed the Trustee's access to LBI data, systems and legacy-Lehman personnel employed by Barclays (the "Barclays TSA"). On March 22, 2010, the Court approved the Barclays TSA (Docket No. 2883.) On March 16, 2011, the Barclays TSA terminated under its terms, with the exception of certain provisions that survived such termination.

176. Prior to the termination of the Barclays TSA and a separate Transition Services Agreement between Barclays and LBHI (together with the Barclays TSA, the "TSAs"), the Trustee, LBHI, and Barclays negotiated an amendment to their respective TSAs to provide a protocol for continued access to certain information and personnel at Barclays following termination of their TSAs (the "TSA Access Amendment"). On February 23, 2011, the parties entered into the TSA Access Amendment. On March 2, 2011, the Court approved the TSA Access Amendment (Docket No. 4130).

177. The TSA Access Amendment sets forth procedures and billing arrangements for each of the Trustee and LBHI to access (i) copies of electronic records on systems, (ii) copies of electronic records on tapes and or other electronic media, (iii) hard copy records or copies thereof, and (iv) Barclays employees whose knowledge is reasonably required by the Trustee or LBHI to respond to specific factual questions regarding the Business (as defined) and systems and processes related to the Business.

178. Prior to and then pursuant to the Barclays TSA, Barclays had charged the Trustee amounts ranging from more than \$2 million to more than \$5 million per month for its services. With the expiration of the Barclays TSA, as well as the successful completion of the data and systems migrations, these expenses will largely disappear.

Under the TSA Access Amendment, the monthly amount paid by the Trustee to Barclays is expected to be greatly reduced, as the Trustee is largely self-sufficient and operating independently from Barclays.

179. The Trustee has endeavored to perform his duties in a cost-effective manner, and he and his professionals continually evaluate the services required to support LBI's liquidation, including whether it is desirable for particular services to be provided by Barclays or other vendors, or through the Trustee's own staff. Through the TSA Access Amendment and the migration described above and otherwise, the Trustee has achieved this goal. Indeed, the Trustee expects to reduce his reliance on Barclays and other vendors, significantly reducing related expenses in 2010 and 2012.

Agreements with LBHI and LBIE/LBL

180. The Trustee has a data sharing agreement with LBHI. On June 2, 2010, the Trustee entered into a transition services agreement with LBHI covering services of a more modest scope than those required from Barclays.

181. Certain data required by the Trustee in connection with LBI's liquidation resides on former systems of Lehman Brothers International (Europe) ("LBIE") and Lehman Brothers Limited ("LBL"). On August 11, 2010, the Trustee entered into an agreement with LBIE and LBL, pursuant to which LBIE and LBL agreed (i) to determine whether LBI data requested by the Trustee is obtainable from these systems and (ii) under certain conditions to obtain the data and deliver it to the Trustee. Since then, the Trustee has received significant portions of the data that he requested from LBIE, and is waiting for the remaining data to be delivered.

XVI. TAX MATTERS

182. The Trustee's professionals continue to monitor or respond to several federal, state, and local tax audits; to respond to requests for tax-related information from international, federal, state, and local authorities; and to coordinate all tax reporting requirements.

183. *Federal: general.* LBI is currently included in consolidated federal income tax returns filed by LBHI. The Trustee's professionals have maintained ongoing discussions with LBHI's counsel, who has been handling substantial federal refund claims for the years 1997 through 2000 and audits for 2001 through 2007 in which the Internal Revenue Service (the "IRS") is asserting deficiencies, as well as an ongoing IRS investigation regarding possible tax shelter promotion penalties that began pre-bankruptcy. Outside counsel for the then-consolidated group has been working on this matter for several years; that counsel is now engaged by LBHI. The Trustee's professionals are evaluating LBI's allocable share of any consolidated federal income tax deficiencies (for which each member of the group is fully liable as a matter of tax law) as well as its entitlement to a share of any refunds (the checks generally would be issued to LBHI in the first instance as a matter of tax law). In addition to and separate from the refund claims that relate to consolidated taxes, LBI filed a claim for a refund of \$9.5

million from the IRS, attributable to an overpayment of payroll taxes for the third quarter of 2008. Representatives of the IRS advised the Trustee's tax professionals that the IRS would hold any refunds to which LBI would otherwise be entitled pending a disposition of all outstanding IRS audits and assessments as to LBI. The IRS filed claims in both the LBI and the LBHI proceedings on December 28, 2010 totaling approximately \$2 billion.¹⁷

184. *State: general.* LBI is currently included in LBHI consolidated and combined state income tax returns in a number of states and local jurisdictions. State tax refunds have also been claimed on consolidated and combined returns filed by LBHI. The Trustee's professionals are monitoring the status of these claims. There are also separate company state tax audits. The Trustee's professionals are working with MMOR, a small firm that historically handled all state tax audits for LBHI and LBI, to address these audits. As of the date of this Report, creditor claims for prepetition periods from state and local tax authorities that total approximately \$700 million in value have been filed in the LBI Proceeding.

185. *State audits and refund claims: New York State.* New York State timely filed a claim against LBI for \$5,165,101.75 in sales tax liability. New York filed a claim for sales taxes in the same amount against LBHI; in addition, New York timely filed claims against LBHI for over \$1 billion in corporation income tax liability with respect to combined returns of the LBHI group and approximately \$8 million in withholding tax liability, but failed to file such claims in the LBI Proceeding. LBI filed a claim with New York State requesting a refund of \$2.8 million, attributable to an overpayment of payroll taxes. New York denied the refund; the Trustee reserved the right to appeal this decision. LBHI has entered settlement negotiations with New York State regarding all outstanding tax issues on behalf of the combined group, and is maintaining ongoing discussions with the Trustee's tax professionals on these matters.

186. *State audits and refund claims: New York City.* New York City timely filed claims against both LBI and LBHI for general corporation tax totaling approximately \$615 million with respect to combined returns of the LBHI group, and for commercial rent tax for approximately \$12 million. There are ongoing audits as to both types of tax. LBI is contesting assessments for commercial rent tax resulting from the audit; MMOR is defending the audit. LBHI has entered settlement negotiations with New York City regarding the general corporation tax audit, and is maintaining ongoing discussions with the Trustee's tax professionals on these matters.

Transfer of REMICs

187. As reported in the Fourth Interim Report, the Court entered an order approving the transfer of certain REMICs (Real Estate Mortgage Investment Conduits) held by LBHI and LBI to Citibank, N.A., and a cost-sharing agreement between LBI and

17. LBI and LBHI had jointly entered into a stipulation extending the claims bar date for the IRS to December 31, 2010.

LBHI, on August 18, 2010 (Docket No. 3578). The Trustee paid LBI's share of the costs to LBHI on December 17, 2010.

Ongoing Compliance

188. *Federal return.* The Trustee's professionals continue to hold bi-weekly calls with LBHI to coordinate preparation of an amended 2008 federal income tax return. The timing of the amended return depends upon when the end-of-year financial statements for 2008 are finalized. The Trustee's professionals have been delayed in completing these statements due to numerous erroneous entries of a very large magnitude in LBI's historical accounting system.

189. LBHI timely filed the 2009 federal income tax return for the Lehman Group based on estimated financial statements. The 2009 financial statements cannot be finalized until the 2008 financial statements are finalized. The 2009 return will have to be amended once final financial statements for 2008 and 2009 are complete.

190. *State returns.* The completion of several separate company LBI state income tax returns for 2007 has been delayed due to the discovery that LBHI, which had prepared the returns for Deloitte Tax's review, had not taken certain tax items into account. For 2008, although final information is not yet available, state tax returns were prepared and timely filed based on estimated financials. When audited financial statements are available, amended state income tax returns will be filed if the audited information varies from the information originally reported in the tax returns. The Trustee timely filed all required 2009 state income tax returns or return extensions that were due in 2010 and has timely filed those 2010 tax returns and/or extensions which were due in the first quarter of 2011. These returns were also filed using estimated financial information; as the financials are finalized, amended tax returns will be filed if needed.

191. The Trustee has filed closure forms with respect to employment and/or withholding tax accounts in all those states in which final employment and/or withholding tax returns were filed and is responding to related queries.

192. *Other taxes.* The Trustee's tax professionals continue to work with the Trustee's real estate attorneys and Deloitte Tax to determine any real or personal property tax liability, and possible nexus issues for state income tax liability or reporting obligations for the post-bankruptcy period, for LBI.

XVII. EMPLOYEE BENEFITS

193. For information regarding the Aceso Holdings Health Care Trust, see the Fourth Interim Report ¶ 196. The Trustee continues to pursue a resolution of all claims relating to, and the final disposition of, the Health Care Trust. For information regarding bonus advances and tuition payment programs, see the Fourth Interim Report ¶¶ 197-98. For information regarding the termination of the LBHI Retirement Plan, see the Fourth Interim Report ¶ 200.

Demand Note in Favor of LBI

194. In connection with an Asset Purchase Agreement from 1993 between Shearson Lehman Brothers, Inc. (now LBI) and Smith Barney, a buyer's demand note was issued in favor of LBI in respect of certain vested benefits under its deferred compensation plans as of the date of the asset sale. The adversary complaint against Citibank and its affiliates (being handled by the Trustee's special counsel, Menaker & Herrmann) includes a count seeking payment under the note, from which remains approximately \$10 million left to be drawn.

XVIII. EXECUTORY CONTRACTS

195. During the Report Period, the Court granted the Trustee's request to extend the time within which the Trustee may assume, assign or reject LBI's executory contracts and certain unexpired leases, as provided in section 365(d)(1) of the Bankruptcy Code to, and including, May 9, 2011. (*See* Docket No. 3983, the "Extension Order.") The Extension Order has allowed the Trustee to continue to determine whether such remaining contracts would be beneficial to the estate and further the purposes of the liquidation or result in consideration to the estate through assignment to third parties.

196. In particular, during the Report Period, the Trustee has resolved certain ongoing contractual commitments of the LBI Estate in a consensual manner that has resulted in payments of outstanding amounts owed to the estate and resolution of related litigation issues in connection with such contracts. (*See e.g.*, Docket Nos. 3799, 3868.) In addition to these open contractual commitments, the Trustee has marshaled approximately \$4 million in connection with fees and commissions due to LBI.

197. The Trustee continues to negotiate the potential cost-effective resolution of certain ongoing contractual commitments of the LBI Estate and the Trustee may notice for rejection pursuant to Court order additional contracts, eliminating potential administrative expense claims. In addition, the Trustee is also evaluating potential assumption and assignment of certain contracts in the name of LBI to the Chapter 11 Debtors and their non-Debtor affiliates to assist those entities' respective operations.

XIX. INTERNAL CONTROLS AND BOOKKEEPING

198. The Trustee continues to employ administrative professionals who over the performance of the major efforts and work streams, provide guidance and review functions related to invoices, assist with information and technological needs, provide historical knowledge of LBI's operations, and provide consultative advice on various matters. The Trustee and his professionals continue to monitor LBI's proprietary assets including, as appropriate, soliciting and/or evaluating bids for such assets.

199. The Trustee's professionals have established daily and monthly processes to support the ongoing processing of LBI's former brokerage business. These include:

- reconciling cash to approximately 420 legacy bank accounts (approximately 60 accounts have been closed), including ongoing research of 3,770 current and historical outstanding bank items;
- resolving 1,000 current and historical cash reconciliation items during Report Period;
- consolidating and closing legacy bank accounts as reconciliations have been completed and accounts are no longer needed for the estate;
- reconciling to depositories on a daily basis over 10,000 unique securities that equate to a share or par amount of over \$22.8 billion of equity and debt securities;
- processing journal entries to record transactions related to securities and cash movements authorized by the Trustee; and
- processing over 47,000 corporate actions related to securities held at various depositories around the world.

200. The Trustee's professionals rely on established controls for the payment and journaling of all expenses which include recording payment instructions and supporting documentation, reviewing time-entry diaries, and assessing the reasonableness of all rates and bills for services performed.

201. The Trustee continues to maintain a dedicated research team that investigates inquiries relating to asset movement and related issues arising from customer claims and other historic and ongoing activities that affect the LBI Estate from time to time. To date, this team has completed research related to 400 independent requests in response to over 450 inquiries from the Trustee and his counsel.

XX. PROFESSIONAL RETENTION

202. At the request of and in consultation with SIPC, nearly every professional firm and consultant retained by the Trustee has agreed to a voluntary "public interest discount" of 10% or more from standard rates and has further agreed not to charge for a number of categories of expenses regularly paid to professionals in large bankruptcy proceedings, including overtime meals and after-hour travel services.

203. During the Report Period, Hughes Hubbard & Reed LLP ("HHR"), pursuant to the LBI Liquidation Order and the Order Regarding Disinterestedness of the Trustee and Counsel to the Trustee (Docket No. 243), continued to perform numerous tasks for the LBI Estate, its customers and creditors as the Trustee's primary counsel.

204. HHR has not, does not, and will not represent any current or former client or their respective affiliates in this proceeding, the LBHI Chapter 11 proceedings, any other Lehman insolvency proceeding, or in any other matter adverse to the Trustee or the LBI Estate. Menaker & Herrmann, as special counsel, represents the Trustee on all

matters relating to Citigroup Inc. and affiliates or syndicates, including Citibank, N.A., as well as to certain other parties.

205. As noted above, given the global nature of the LBI business and that Lehman insolvency proceedings have been commenced in numerous jurisdictions, the Trustee requires additional counsel to attend to certain matters. During the Report Period, Norton Rose LLP continued to advise the Trustee with respect to his and the LBI Estate's rights, duties and powers in connection with the U.K. Administration and, in particular, representing LBI in before the U.K. High Court in connection with the Client Money Application and RASCALS Application (*see supra* ¶¶ 103-110).

206. In addition, during the Report Period, (i) Steinmetz, Haring, and Gurman & Co. acted as special Israeli counsel to the Trustee before the District Court for Tel Aviv-Jaffa in the proceedings that have been commenced in Israel regarding other Lehman entities (*see supra* ¶ 136); and (ii) City-Yuwa Partners acted as Special Japanese Counsel in connection with LBI matters (*see supra* ¶¶ 122-23).

XXI. INSURANCE

207. The Trustee's professionals have analyzed available insurance policies under which the LBI Estate and/or customers could benefit to determine their applicability, including an excess surety bond issued to LBI by the Customer Asset Protection Company.

XXII. CONCLUSION

The foregoing report represents a summary of the status of this proceeding and the material events that have occurred from October 27, 2010 through April 22, 2011. It will be supplemented and updated with further interim reports.

Dated: New York, New York
April 22, 2011

Respectfully submitted,

HUGHES HUBBARD & REED LLP

By: /s/ James B. Kobak, Jr.
A member of the firm

One Battery Park Plaza
New York, New York 10004
Telephone: (212) 837-6000
Facsimile: (212) 422-4726

Attorneys for James W. Giddens,
Trustee for the SIPA Liquidation of
Lehman Brothers Inc.

EXHIBIT 1

Financial Condition of the Estate – Assets on Hand

Summary of Assets and Customer Property on Hand

As of March 31, 2011

Unaudited (in millions)

Cash and Cash Equivalents	\$4,075
Cash and Cash Equivalents – Post Petition Dividend and Interest	<u>1,314</u>
Total Cash and Cash Equivalents	5,389
Securities (a), (b)	
BNYM	12,923
International Depositories ^(c)	255
Goldman Sachs	1,993
Union Bank	2,199
Other	<u>23</u>
Total Securities	17,393
Total Assets Under Trustee Control (d)	<u>22,782</u>

(a) Market value of securities calculated by the LBI Estate utilizing available market data; excludes value of customer name securities.

(b) See Summary of Securities on Hand on following page.

(c) International Depositories represents securities held by depositories that are under Trustee control.

(d) Does not include assets held in certain depositories, which are not under Trustee control.

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

Financial Condition of the Estate – Summary of Securities on Hand as of March 31, 2011

	Number of CUSIPS	Number of Shares / Par Value	Market Value (USD)
BNYM			
Corporate Equities	6,678	811,035,292	10,171,012,340
Corporate Bonds	1,004	4,666,061,993	2,090,366,049
Municipal Bonds	94	120,570,826	105,014,442
Mortgage and asset-backed securities	294	6,340,768,200	184,883,846
Government and Agency Bonds	28	95,437,449	83,440,556
Other	921	1,960,118,667	288,312,615
International Depositories			
Corporate Equities	257	242,303,870	79,693,699
Corporate Bonds	105	3,210,148,298	121,748,373
Government Bonds	36	58,441,933	49,824,271
Other	31	113,469,784	3,472,725
Goldman Sachs			
Corporate Equities	112	2,581,354	65,055,736
Corporate Bonds	5	6,577,122	56,402
Government and Agency Bonds	3	9,972,997	4,059,316
Promissory Notes	19	1,915,000,000	1,923,772,465
Union Bank			
Corporate Equities	14	1,624,177	3,466,292
Corporate Bonds	82	14,365,792	3,471,170
Government and Agency Bonds	122	832,573,716	1,055,356,993
Certificates of Deposit	3	1,130,000,000	1,137,394,218
Other (DTC, Vault, and Money Markets)			
Corporate Equities	90	13,082,729	22,055,594
Corporate Bonds	1	13,000	14,077
Mortgage, asset-backed securities, other	102	1,294,826,808	1,000,899
TOTAL	10,001	22,838,974,008	17,393,472,078

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

Financial Condition of the Estate – Cash Flow

Schedule of Cash Receipts and Disbursements ^(a)

September 19, 2008 – March 31, 2011

Unaudited (in millions)

Beginning Cash ^(b) (9/19/08)	Receipts	Disbursements	Investment in Liquid Assets	Ending Cash and Cash Equivalents (03/31/11)
\$1,555	\$11,247	(\$4,368)	(\$3,045)	\$5,389

(a) Represents cash flows for Trustee controlled bank accounts. Foreign currency amounts are reflected in USD equivalents.

(b) Represents cash in legacy LBI bank accounts under Trustee control as of September 19, 2008. In interim reports, prior to the Fourth Interim Report, this balance was reported as \$1,221 million. Based on information obtained subsequent to September 19, 2008, the beginning cash balance was adjusted by \$153 million in August 31, 2010 and by \$181 million in January 31, 2011, resulting in a beginning cash balance of \$1,555. These adjustments were made to reflect the removal of account balances that were in an overdraft position or not under the control of the Trustee as of September 19, 2008 and accounts that were subsequently seized.

Financial Condition of the Estate – Schedule of Administrative Expenses

Unaudited (in thousands)		Disbursed as of March 31st, 2011
Professional Fees		
Deloitte	Accountants and Consultants	283,325
EPIQ	Noticing and Claims Agent	9,104
Financial Industry Technical Services, Inc.	Claims Processing Consultants	4,784
Hughes Hubbard & Reed LLP	Counsel to the Trustee	141,112
Norton Rose	Special Counsel	8,860
Other Consultants (e.g., technology, valuation services)		8,337
Other legal Counsel		1,163
Other Legal Services (e.g., e-Discovery)		322
Trustee's Staff		5,749
TSA Services		
Barclays		80,245
LBHI		1,267
Other (ongoing rent of \$34k/month, Iron Mountain, Broadridge information technology, office equipment, etc.)		12,682
Total		\$ 556,950

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

EXHIBIT 2

Claims Administration – Summary of Customer Claims Processing

	<u>Claims</u>	<u>Total Amount (in Millions)</u>
Total Customer Claims ¹	124,987	\$181,288.9
Claims resolved by transfers to Barclays	72,527	\$43,249.3
Claims resolved by transfers to Neuberger Berman	38,106	\$45,566.7
Claims resolved through Trustee's Prime Brokerage Protocol	287	\$3,485.3
Claims Determined through the Claims Process	14,067	\$88,987.6
Total Customer Claims closed through the Claims Process ^{2, 3}	10,921	\$46,131.6
Claims Allowed ⁴	886	\$9,534.2
Claims Reclassified as General Creditor Claims	3,047	\$11,122.8
Claims Denied	6,988	\$25,474.6
Total Unresolved Customer Claims⁵	3,146	\$42,856.0

(Additional details related to unresolved claims in subsequent page)

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

1. Excludes three Barclays Omnibus claims (House, Admin and duplicate).
2. No objection to the Trustee's determination has been filed, the objection has been withdrawn or the Trustee's determination has been confirmed by Court Order.
3. Does not include 108 allowed, 1,145 reclassified and 512 denied claims which are reported as Objections to Claims Determinations.
4. LBIE claims consist primarily of eight LBIE Omnibus customer claims (representing approximately 1,100 accounts), and three proprietary claims. The allowed amount of \$6,226.0M is in the Allowed Category and the following amounts are in the Unresolved LBIE Claims Categories: \$6,895.3M of reclassified amount, \$5,968.0M of denied amount and \$3,250.0M determined to be deficient. The majority of the 1,100 accounts are allowed whereas a portion may be reclassified or denied.
5. An objection to the Trustee's determination has been filed and has not been resolved, the time to object to a determination has yet to expire, or the claimant has not provided supplemental information as requested by the Trustee.

Claims Administration – Summary of Customer Claims Processing

	<u>Claims</u>	<u>Total Amount (in Millions)</u>
Total Unresolved Non Affiliate Customer Claims¹	1,766	\$14,959.6
Claims Allowed	4	\$77.1
Claims Reclassified as General Creditor Claims	0	\$0.0
Claims Denied	10	\$433.4
Objections to Claims Determinations ²	1,752	\$14,449.1
Total Unresolved Affiliate Customer Claims	1,380	\$27,896.4
LBIE Claims ³	1,112	\$16,113.3
LBHI Claims ⁴	242	\$7,998.8
Other Affiliates ⁵	26	\$3,784.3

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

1. An objection to the Trustee's determination has been filed and has not been resolved, the time to object to a determination has yet to expire, or the claimant has not provided supplemental information as requested by the Trustee.
2. Of 1,752 objections, approximately 108 represent allowed claims with allowed amount of \$442.1M.
3. LBIE claims consist primarily of eight LBIE Omnibus customer claims (representing approximately 1,100 accounts), and three proprietary claims. The allowed amount of \$6,226.0M is in the Allowed Category and the following amounts are in the Unresolved LBIE Claims Categories: \$6,895.3M of reclassified amount, \$5,968.0M of denied amount and \$3,250.0M determined to be deficient. The majority of the 1,100 accounts are allowed whereas a portion may be reclassified or denied.
4. LBHI unresolved claims include 37 reclassified claims totaling \$4,659.4M, 174 denied claims totaling \$812.7M, and 31 deficiency related claims totaling \$2,526.7M (unresolved claims include 6 objections).
5. Other Affiliate unresolved claims include 9 allowed claims totaling \$70.8M, 7 reclassified claims totaling \$161.8M, 2 denied claims totaling \$3,241.4M and 8 deficiency related claims totaling \$310.3M (unresolved claims include 7 objections).

Claims Metrics Summary

Claims Determined Through the Claims Process

Customer Claims Categories (In millions)	Allowed Claims¹	Denied and Closed (Includes Reclassified)	Unresolved Claims²	Grand Total
Non- Affiliate	\$ 2,862.2	\$ 23,541.8	\$ 14,882.5	\$ 41,286.5
LBIE	6,226.0	0.0	16,113.3	22,339.3
LBHI	523.1	11,362.5	7,998.8	19,884.4
Other Affiliates ³	70.8	1,693.1	3,713.5	5,477.4
Total Amount	\$ 9,682.1	\$ 36,597.4	\$ 42,708.1	\$ 88,987.6

1. The total allowed claims equals approximately \$10 billion when including approximately \$442 million of allowed amounts included in objections filed by non-affiliate claimants.
2. An objection to the Trustee's determination has been filed and has not been resolved, the time to object to a determination has yet to expire, or the claimant has not provided supplemental information as requested by the Trustee. Allowed amounts of \$147.9 million, for which the time to object to a determination has yet to expire, are included in allowed claims.
3. An affiliate objection received after the filing of the Fourth Report resulted in an approximated \$3 billion decrease in "Denied and Closed" and corresponding increase in "Unresolved Claims."

EXHIBIT 3

Claims Administration – Summary of Objections Received as of April 1, 2011

Claim Type/Issue	Number of Pending Objections
To-Be-Announced (“TBA”) Contracts and Other Forward Transactions	743
LBIE Accounts	293
Repurchase Agreement	44
Soft Dollar	24
Non-LBI	22
Prime Brokerage Related Objections	18
Foreign Currency Transactions	8
Claimant Determined to be Indebted to LBI	8
Underwriting Fees	3
Unauthorized Trades	2
Other	37
Total Pending Objections	1,202 ¹
Total Resolved Objections	220

¹The 1,202 objections relate to 1,765 filed customer claims.

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

EXHIBIT 4

Return of Misdirected Funds

- The Trustee continues to receive requests for the return of misdirected funds alleged to have been sent in error to LBI bank accounts.
- The Trustee developed and implemented court-authorized procedures for return of misdirected wires:
 - Protocol Regarding Misdirected Funds and Request Form for the Return of Misdirected Funds available on the Trustee's website (www.lehmantrustee.com).
 - Court authorization to return misdirected funds of \$250k or less without need for further court approval.
- The Trustee continues to investigate allegedly misdirected funds to confirm whether funds were in fact sent in error, and to return funds determined to have been sent in error.

POST-PETITION MISDIRECTED WIRE STATISTICS (THROUGH 03/31/11)		
	Number of Wires	Approximate Amount (USD in millions)
Returned		
• Without further court authorization	506	\$7.7
• With further court authorization	359	\$549.1
TOTAL	865	\$556.8
Pending	102	\$35.1

MISDIRECTED WIRES RETURNED (BETWEEN 10/01/10 AND 03/31/11)	
Number of Wires	Approximate Amount (USD in millions)
75	\$13.4

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.

EXHIBIT 5

Summary of Data Migrated by the Trustee as of April 1, 2011

- To date the Trustee has moved and secured a significant amount of information to support the ongoing work. The volume of information moved and stored is illustrated below.

Systems Fully Migrated: 130 of 130

Number of Databases: 651

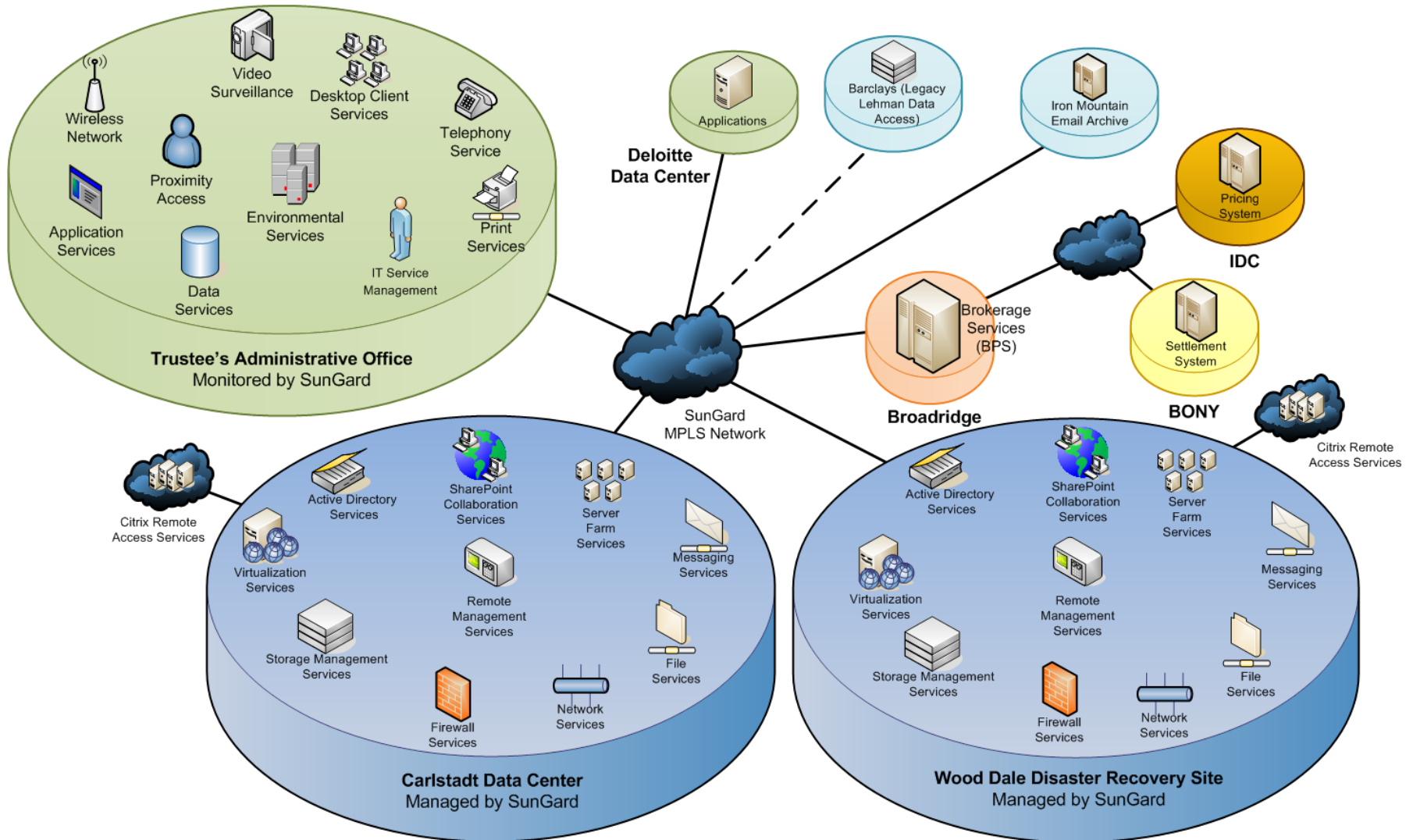
Number of Tables: 128,509

Data Collected (GB): 142,535

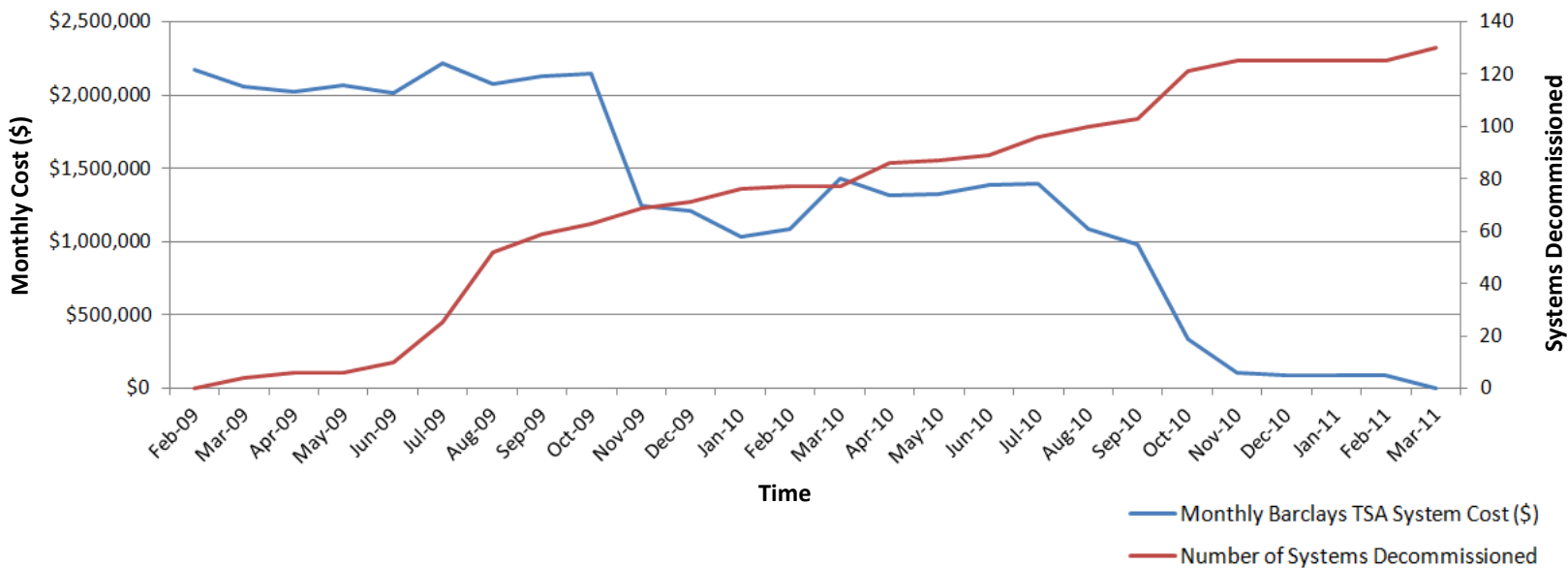
Number of Records: 223,166,163,324

- The amount of information moved to date exceeds 142.5 Terabytes. This amount, if printed, would yield a stack of paper nearly 1,350 miles high, or more than 245 times the height of Mt. Everest.
- The Trustee has collected more than 223,000,000,000 records documenting historical transactions carried out by LBI. This information is stored in more than 128,000 tables in 651 databases.

Trustee's Information Infrastructure



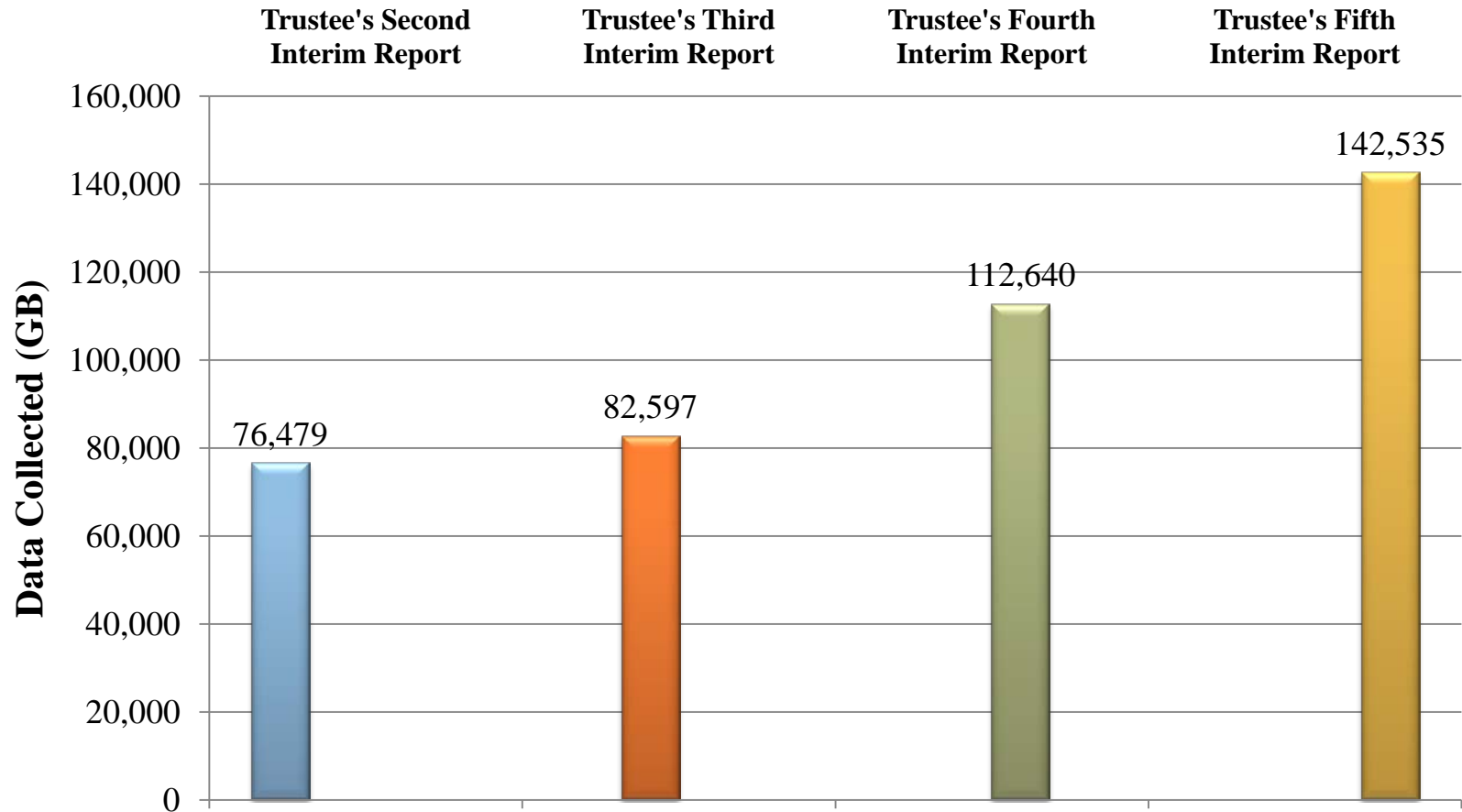
Summary of System Cost vs System Decommission Progress



Monthly system costs have decreased over the life of the liquidation as data has been extracted from the systems, the systems decommissioned and the Trustee has become independent from Barclays for IT support.

The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time.

Data Migration Progress



The information and data included in this exhibit are derived from sources available to the Trustee and his professionals. This exhibit is based on the information available at this time. All amounts are unaudited and subject to revision.