

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 FOURTH INTERIM REPORT FOR THE PERIOD
MAY 11, 2010 THROUGH OCTOBER 26, 2010**

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

To date the Trustee has administered nearly one hundred and thirteen 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 nearly \$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 customer claims seeking \$88 billion are subject to the SIPA customer claims process. Notably, during the Report Period, and less than 15 months after the bar date for the filing of all claims in the proceeding, each of these claimants had received a notice of claim determination from the Trustee. Indeed, as of the date of this Report, more than 10,000 claims involving \$47.6 billion have been resolved to final determination. Of these claims, more than 800 claims have been allowed as customer claims with an allowed amount of roughly \$9.5 billion; nearly 2,800 claims seeking \$10.5 billion have been reclassified as general creditor claims to be reconciled, if appropriate, at a later date; and nearly 6,900 claims seeking \$27.5 billion have been denied.

While the account transfer and claims processes have materially advanced the administration of the LBI Estate, very substantial claims and issues remain. These claims include complex, omnibus claims filed by Lehman Brothers Holdings Inc. (“LBHI”), Lehman Brothers International (Europe) (“LBIE”), and other affiliates of the global Lehman enterprise, as well as claims of prime brokerage, institutional, pension, and retail clients of the firm, any single group of which would rival if not exceed the size of any prior SIPA liquidation. Thus, 3,500 asserted customer claims seeking \$40.5 billion remain pending. Many of these claims are subject to objections to claims determinations that primarily involve legal questions as to whether certain financial products, valuation dates, or contractual arrangements qualify for customer status under SIPA.

The Trustee has worked diligently during the Report Period to resolve such disputes informally whenever this can be achieved consistent with SIPA and will continue to do so. In particular, the Trustee has a team dedicated to the resolution of LBHI’s customer claims that during the Report Period has cooperatively reduced those pending customer claims from \$19.9 billion to \$7.9 billion (more than \$500 million in LBHI claims were allowed in prior Report Periods). The Trustee similarly has a team dedicated to the resolution of LBIE’s \$22.2 billion claim that during the Report Period lead to an allowed amount of \$6.2 billion for LBIE customers. The Trustee believes that cooperative efforts will reduce other portions of LBIE’s claims. Nonetheless, the Trustee expects that a number of the objections currently filed with the Court (and potentially certain disputes with LBHI and LBIE) will require judicial intervention. The Trustee expects to seek to bring any such disputes before the Court in the next nine to fifteen

months.

Against these claims the estate currently has assets of \$20.64 billion. This includes cash, cash equivalents, and other short-term liquid assets of \$7.69 billion and securities in the amount of \$12.95 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. These efforts have brought over \$5 billion into the Trustee's possession as of the date of this Report. During the Report Period, the Trustee entered into over 200 tolling agreements to allow these efforts to continue.

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. Chief among these other contingencies is litigation between the Trustee and Barclays Capital Inc. ("Barclays") involving nearly \$7 billion. Trial of that dispute concluded during the Report Period. Distributions also remain contingent on the 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, but due to the amounts at stake and

complexity of the issues such contingencies may take substantial time to resolve to a sufficient degree to make such a distribution prudent. General creditor claims processing will not commence until there is clarity on the potential for a meaningful distribution to general unsecured creditors.

Finally, the Trustee continues to fulfill his duty to investigate the acts, conduct, property, and financial condition of LBI, including the causes of the broker-dealer's demise and lessons that may be learned from a regulatory perspective. During the Report Period the Trustee issued his [Preliminary Investigation Report and Recommendations](#). The report chronicles LBI's demise and includes practical lessons learned in the course of the liquidation and recommendations for the future. A final report, which among other things will comment on certain of the Trustee's litigations, will be issued at the conclusion of the liquidation.

This Fourth 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, and among other efforts during the Report Period effectively ended the estate's dependence on Barclays for access to electronic systems and other books and records resulting in a monthly savings of several million dollars.

It is important to note as well that 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. Equally important, the Trustee and his professionals interact with scores of LBI’s customers and general creditors each week, and regularly liaise 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 Fourth Interim Report (this “Report”) in accordance with the terms of the Order of the Court entered on November 6, 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 May 11, 2010 through October 26, 2010 (the “Report Period”).

3. Prior reports covered the period 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), and November 12, 2009 through May 10, 2010 (the “[Third Interim Report](#)”) (Docket No. 3244).

4. On August 25, 2010, the Trustee filed his Preliminary Investigation Report And Recommendations (“[Preliminary Report](#)”) (Docket No. 3604) (*see infra* Section V).

5. The Trustee’s reports are part of a continuing effort to administer the LBI Estate in a transparent manner and to encourage constructive dialogue with creditors and other parties in interest. All reports and other information, including a complete docket, background on the nature of the SIPA proceeding, and resources for customers, are available on the Trustee’s website, www.lehmantrustee.com.

I. FINANCIAL CONDITION OF THE ESTATE

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

7. This financial information reflects cash, cash equivalents, and other short-term liquid assets in the amount of \$7.693 billion and securities in the amount of \$12.947 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

8. Through the SIPA account transfer and customer claims processes, the Trustee has received 125,000 customer claims seeking the return of nearly \$180 billion. At the commencement of the proceeding the Trustee began the process of transferring over 110,000 accounts allowing former LBI customer access to over \$92 billion in assets. Barclays did not assume all the accounts remaining after the agreed upon transfer of

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

Private Asset Management (“PAM”) accounts to Neuberger Berman LLC (“Neuberger Berman”), and more than a week after September 19, 2008 (the “Filing Date”), on September 29, 2008, Barclays rejected the prime brokerage accounts that had been expected to be transferred. As a result, the Trustee was left to administer four categories of customer accounts: (i) claims to non-affiliate, 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 (the “Prime Brokerage Protocol”); (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.

9. 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 1,100 claims for LBIE clients filed by LBIE) with an estimated face value amount of over \$88 billion.²

10. All claims have now been determined or have received a letter from the Trustee requesting supplemental information because the Trustee’s professionals determined that such claims could not be reconciled based on information submitted with the claim. Over 9,600 claims totaling approximately \$38.1 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).

11. The Trustee has allowed approximately \$10.1 billion of claims: \$3.3 billion relate to 980 non-affiliate customer claims (this includes approximately \$300 million involved in claims objections); \$6.2 billion relate to LBIE’s omnibus claim; \$523.1 million relate to four LBHI claims; and \$70.7 million relate to eleven international affiliate claims. There remain 3,561 claims with an approximate value of \$40 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:

2. During the claims administration process additional analyses resulted in revisions to the total customer claimed amount. This includes a substantial reconciliation of LBIE’s claims based on information previously not provided by LBIE. These analyses led to an increase of previously reported claimed amounts.

Customer Claims Categories (In millions)	Allowed Claims³	Denied and Closed (includes Reclassified)	Unresolved Claims⁴	Grand Total
Non-Affiliate	\$ 2,971.5	\$ 20,960.9	\$ 15,895.7	\$ 39,828.1
LBIE	6,226.0	788.5	16,028.6	23,043.1
LBHI	523.1	11,471.3	7,909.6	19,904.0
Other Affiliates	70.7	4,915.6	323.0	5,309.3
Total Amount	\$ 9,791.3	\$ 38,136.3	\$ 40,156.9	\$ 88,084.5

12. The processing of more than 14,000 claims since the time period for filing claims expired less than eighteen months ago often involved complex issues of statutory interpretation, extensive reconciliation and analysis prior to each claim's determination. Thousands of claims involved highly sophisticated and complicated financial transactions such as To-Be-Announced ("TBA") trades, repurchase agreements, reverse repurchase agreements, stock loans, foreign exchange transactions, failed trades, swaps, various types of options, and alternative investments. 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, attorneys, specialized claims consultants, and SIPC examiners, are available in the First Interim Report at ¶¶ 34-45.

13. In many cases a single claim was associated with numerous accounts involving an assortment of these transactions and attached hundreds of pages of documents. The large portion of claims not supported by a specific customer account number also added to the complexity of processing claims. As a result, for each of these claims, the Trustee's professionals conducted various searches using the claimant name and tax identification number which many times resulted in the review and analysis of multiple accounts across various intricate account systems just to locate the claimed property or transaction. As in other areas of the liquidation, the process of obtaining information or understanding complex accounts has been hindered by the fact that while Barclays acquired only some of the customer accounts, it acquired virtually all the books, records, and computer systems and hired most of the knowledgeable personnel.

14. In addition to the further information provided in this section, additional graphical summaries of customer claims processing are available at Exhibit 2.

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3. The total allowed claims equals approximately \$10.1 billion when including approximately \$300 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.

Non-Affiliate Customer Claims

15. The Trustee’s professionals have completed reconciling and determining all non-affiliate customer claims. These claims have been asserted by, among others, individuals, pension funds, financial and other institutions, and hedge funds. The claims process includes determining the validity of each claim, the applicability of SIPA coverage, and the claimant’s net equity.

16. The Trustee determined 12,223 nonaffiliated customer claims, allowing 980, denying 7,302, and denying and reclassifying 3,941 as general creditor claims.⁵ The non-affiliate allowed claims have an approximate value of \$3.3 billion. Of the 12,223 non-affiliate customer claims, 2,145 claims with an approximate value of \$16 billion are still potentially unresolved (including objections and claims still within the objection time period).

17. To assist in reaching determinations for all claims, the Trustee’s professionals continued to contact claimants regarding requests for additional information and related matters, to otherwise update the claimant as to the status of claims processing, and to respond to any inquiries that claimants may have.

Prime Brokerage Related Claims

18. The Trustee completed the determination of all 1,208 prime brokerage account (“PBA”) related claims during the Report Period. The Trustee’s professionals continue to work with PBA claimants to resolve questions regarding the claim determinations. This includes reconciling accounts and portions of claims with PBA claimants in a consensual manner in an effort to reduce the number of PBA-related objections. The PBA-related claims are among the most complex in the liquidation, and touch on issues of arranged financing, inter-affiliate relationships, and transactions in complex financial instruments. In some instances, limited access to foreign depositories has prevented the Trustee’s professionals from confirming trade activity captured on LBI’s books and records in the final days leading up to the Filing Date.

19. Two hundred seventy-four of the PBA claimants objected to the Trustee’s denial of claims (or portions thereof) because the account was with LBIE, not LBI (*see infra* ¶¶ 47-49), and 35 claimants have objected for other reasons (*see infra* ¶¶ 47-49).

Claims Received From LBHI and the Chapter 11 Debtors⁶

20. The Chapter 11 Debtors and their subsidiaries filed 632 claims against LBI on behalf of themselves and their customers or counterparties with a total estimated

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.

6. See discussion regarding the Trustee’s claims against LBHI and the Chapter 11 Debtors *infra* ¶ 100.

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.

21. The Trustee has allowed four customer claims of the Chapter 11 Debtors, for approximately \$523 million. The Trustee issued letters of determination related to claims subordinated to all other creditors in excess of \$11 billion of the Chapter 11 Debtors because claims are subject to subordination agreements. The remaining customer claims submitted by the Chapter 11 Debtors have been 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.

22. Since receipt of the Trustee's determination letters, the Chapter 11 Debtors have recently confirmed that approximately \$11 billion of such 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." § 78III(2)(B).

23. For the approximately \$8 billion of claims potentially still pending, the Trustee and the Chapter 11 Debtors are discussing a process for prioritizing answers to factual questions and resolution of issues, beginning with some of the larger claims. 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 December 29, 2010, without prejudice to further requests for extensions of time.

Claims Received from LBIE⁷

24. On January 30, 2009, LBIE filed an omnibus customer claim on behalf of approximately 1,100 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

7. See discussion regarding the Trustee's claims against LBIE *infra* ¶¶ 106-108.

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. The Trustee is reviewing these purported amendments to determine whether they are valid amendments.

25. Since the last interim report, the Trustee and his professional advisors have been analyzing the LBIE claims and reconciling them with LBI’s records. This process has involved a continued exchange of information with the LBIE Administrators and their professional advisors.

26. 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.

27. 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 is subject to reduction for certain indebtedness owed to LBI. The determination of the claim for cash covered by the LBIE Omnibus Customer Claim was deferred 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.

28. With respect to the LBIE House Claim, the Trustee denied the claim for cash of approximately \$2.3 billion. Substantially all of the 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.

29. As with the Chapter 11 Debtors, the Trustee’s professionals and counsel continue to work closely with the LBIE Administrators and LBIE’s professionals at PricewaterhouseCoopers (“PwC”) and counsel to address their questions regarding the Trustee’s determinations of the LBIE claims. The Trustee has extended the time for LBIE to file responses to his determinations until January 14, 2011, without prejudice to requests for further extensions of time.

30. The Trustee, in coordination with SIPC, has drafted and discussed with the LBIE Administrators a possible protocol regarding the treatment of allowed claims of LBIE clients covered by the LBIE Omnibus Customer Claim and subsequent distribution of property. The issue is complex because of differences between the British and U.S. laws. The Trustee contemplates seeking Bankruptcy Court approval of any such protocol. If a formal protocol cannot be adopted in a reasonable timeframe, the Trustee

will proceed to seek information and cooperation from LBIE to assure correct treatment of individual claimants.

Other International Affiliate Claims⁸

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

32. A total of 57 customer claims have been filed by Lehman affiliates against LBI. Of these, the Trustee has determined that 11 claims are allowed, 22 claims do not qualify for customer status under SIPA and have been reclassified as general unsecured claims, and 17 claims are denied. The Trustee's professionals have requested additional information regarding the remaining 7 claims to enable the Trustee to make a determination.

33. 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. Since the last interim report, representatives of the Trustee have attended four meetings of the signatories to the International Protocol held in London (twice), Berlin and Zurich. The Trustee is hosting the next meeting of this group on November 2, 2010, in New York.

Distributions

34. Except as described below, 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 and other issues described in this Report. (*See infra* ¶¶ 90-97.) Distributions may occur in stages depending on the value of all allowed claims, available assets, and forecasts on contingencies.

35. 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 \$8.2 million from SIPC to satisfy 301 claims each with an allowed amount under SIPA Limits. As of the Report Date, the Trustee has substantially completed distributions to these claimants.

36. The Trustee anticipates seeking additional advances from SIPC for the remaining 233 claims that are valued at less than the SIPA Limits once those claimants

8. See discussion regarding the Trustee's claims and dealings with other international affiliates *infra* Section X.

return signed releases and provide the information necessary to complete the transfer of property. This population of allowed customer claims involve approximately \$8 million.

Post-Petition Dividends and Interest

37. The Trustee believes that dividends and interest received by the Trustee on securities allocated to customer property after the Filing Date are “customer property” to be returned to customers. However, due to the various contingencies that affect the distribution of property (*infra* ¶¶ 90-97), the exact amounts and manner in which distribution of post-Filing Date dividends and interest could be made remains subject to further resolution. 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.

38. The Trustee continues to receive post Filing Date distributions related to property in the LBI Estate (whether previously held for customers or for its own behalf). Proceeds related to LBI’s accounts at the Depository Trust Company Corporation (“DTCC”) accrued in the amount of \$283 million in the Report Period. All post Filing Date receipts are held by the Trustee in a specifically designated account at Union Bank (*Infra* ¶ 147.)

General Creditor Claims

39. 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.

40. 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.

41. 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

Overview

42. The Trustee has received 1,391 requests for hearings (often styled as “objections”) from non-affiliates in connection with the Trustee’s customer claim determinations. (See Exhibit 3.)

43. Litigation concerning the Trustee’s determinations is governed by the Court’s November 7, 2008 Order Approving Form and Manner of Publication and Mailing of Notice of Commencement, Specifying Procedures and Forms for Filing, Determination, and Adjudication of Claims, Fixing a Meeting of Customers and Other Creditors, and Fixing Interim Reporting Pursuant to SIPA (Docket No. 241) (the “November 7 Order”).

44. Under the November 7 Order, if a claimant disputes any part of the Trustee’s determination, the claimant is required to request a hearing within thirty days of the date on which the Trustee mailed his determination. In many instances, the claimant has styled this request as a formal objection, though that is not necessary. For such requests, at an appropriate time, the Trustee will ask the Court to set a time and date for a hearing and as a general matter will set forth an appropriate briefing schedule.

45. The Trustee, and SIPC, believe that the requests for hearing generally involve legal questions involving the SIPA statute, but recognize that all claimants are entitled to due process, which, in certain instances, may also require discovery in addition to legal briefing.

46. The November 7 Order also permits the Trustee, in his discretion and with the approval of SIPC, to establish certain other procedures for the adjudication of claims that would lead to the most efficient and orderly administration of the claims process for all claimants.

47. The Trustee’s professionals continue to contact objecting claimants to discuss their claims and objections. Of the 1,391 non-affiliate objections, 91 were voluntarily withdrawn. (See, e.g., Docket Nos. 3001, 3345, 3403, 3509, 3579.) Furthermore, as of September 30, 2010, 22 claims have been expunged by Court Order. (See Docket Nos. 3111, 3418, 3523.) With respect to any remaining objections that are not withdrawn, the Trustee intends to continue to move toward resolving those objections in omnibus fashion throughout 2010 and first half of 2011.

48. Many of the requests for hearings are based on certain categories of transactions:

Primary Objection	Number of Pending Objections
To Be Announced (“TBA”) Contracts and Other Forward Transactions	728
LBIE Accounts	274
Empty Account/Non-LBI/Account Transferred	90
Repurchase Agreement	39
Prime Brokerage Related Objections	35
Reservation of Rights	25
Soft Dollar	24
Foreign Currency Transactions	10
Claimant Determined to be Indebted to LBI	8
Fraud/Market Loss	8
Unauthorized Trades/Auction Rate Securities	5
Short Positions are Valued at 9/19	5
Other	27
Total Resolved Objections	113
Total Pending Objections	1,278⁹

49. As described in the following sub-sections, to facilitate the efficient resolution of these matters, the Trustee has begun a process to address certain common legal questions relating to these categories on an omnibus basis.

TBAs and Other Forward Transactions

50. The Trustee continues his review of claimant objections to his determinations of claims arising from certain forward transactions, including TBA contracts that remained executory on the Filing Date.¹⁰ 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,

9. The 1,278 objections relate to 2,009 filed customer claims. In addition to the claimants who objected, the Trustee has received 192 letters from indirect investors who are not filing objections but are seeking to reserve their rights should the law change and entitle them to a recovery.

10. TBAs are forward contracts for the purchase and sale of mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.

initially scheduled for filing during the Report Period, has involved a significant review of LBI's practices and disposition of open transactions after the Filing Date.

LBIE Account Holders

51. The Trustee has received 274 objections relating to the Trustee's denial of customer claims to assets held in LBIE accounts. The affected parties were hedge funds that entered into prime brokerage and related agreements with LBI, LBIE, and certain other Lehman entities. For these claims, Trustee has determined that the assets claimed by these parties were not held in LBI accounts, but rather in LBIE accounts. 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. Accordingly, the "omnibus" customer claim filed by LBIE on behalf of its clients covers any claim that these parties have for the relevant assets against LBI.

52. As discussed *supra* ¶¶ 24-27, 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 hopes and expects that LBIE account holder objections will largely be resolved through the Trustee's determination and, at the appropriate time, distributions with respect to the LBIE omnibus claim.

Repurchase Transactions

53. As reported in the Third Interim Report, the Trustee has denied customer treatment to claims arising out of repurchase ("repo") agreements entered into with LBI, which represent financing arrangements rather than customer securities transactions. Approximately 39 claimants have objected to these determinations. The Trustee is continuing to analyze these claims and prepare for potential litigation.

Foreign Currency Transactions (FX)

54. On July 19, 2010, the Trustee filed a motion to uphold his determination of four claims for termination damages of open foreign currency forward transactions allegedly due from LBI to the claimants pursuant to International Swaps and Derivatives Association ("ISDA") Master Agreements which governed the transactions. (Docket No. 3490.) The Trustee had denied each claim customer status and reclassified it as a general creditor claim. The parties objected, prompting the Trustee's motion. Prior to the hearing scheduled for August 19, 2010, each of the claimants entered into stipulations with the Trustee withdrawing their objections.

Underwriting Fees

55. The Trustee's March 16, 2010 motion to uphold his determination that underwriters are not customers and that the fees related to underwriting are not customer property (Docket No. 2833; Third Interim Report ¶ 51) is scheduled to be heard by the Court on December 9, 2010. The hearing, originally scheduled for June 24, 2010, was

adjourned to accommodate claimants' informal discovery demands, which concluded with the entry of a joint stipulation of undisputed facts in connection with the motion. (Docket No. 3478.) The Claimants filed their responsive motion on July 16, 2010 (Docket Nos. 3480 and 3481) and on August 16, 2010, the Trustee filed his reply brief (Docket No. 3566).¹¹

Shorts Valuation Date

56. In furtherance of the Trustee's efforts to select test cases for briefing and argument of complex or novel issues of law, on December 1, 2009, the Trustee moved for an Order Upholding the Trustee's Determination Regarding Claim of Fifth Third Structured Large Cap Plus Fund. (*See* Docket Nos. 2044, 2045, 2128, 2129, 2131, 2132, 2472, 2539, 2543.) At issue was the proper date to value short positions in Fifth Third's customer account. The Trustee argued that, pursuant to SIPA's net equity definition, short positions must be valued as of the Filing Date like all other credits and debits in a customer's account.

57. The Court issued a Memorandum Decision Granting Motion to Uphold Determination of Claim By SIPA Trustee on June 1, 2010. 433 B.R. 127 (Bankr. S.D.N.Y. 2010). (Docket No. 3330.) The Court held that the filing date is an "immutable element of every case under SIPA" and that "nothing in the safe harbor provisions of the Bankruptcy Code is inconsistent with that central liquidation premise." (*Id.* at 4.) The Court also held that the property in question was "customer property" under SIPA and thus subject to the SIPA claims process. (*Id.* at 10.)

58. On June 28, 2010, Fifth Third filed a Notice of Appeal. (Docket No. 3430). At Fifth Third's request, the Trustee has agreed to a modest extension of the briefing schedule. The matter has not yet been briefed in the District Court.

Miscellaneous Objections

59. The Trustee denied customer status to hundreds of claims for various reasons including because the claim was (1) not based on a relationship with LBI, (2) based on an account that was empty as of the filing date, or (3) 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)). In total, the Trustee has received over 175 objections to such determinations.

60. Many of the objections received to the above described determinations do not dispute the actual determination, but nonetheless contend they are entitled to a customer claim equal to the loss in value of their property suffered as a result of the Lehman collapse. A small number of claimants in this group allege that their claim for trading losses based on prepetition misconduct on the part of LBI personnel (such as fraud, misrepresentation, or breach of contract) entitles them to customer status. It is well

11. SIPC also submitted a reply brief in support of the Trustee's motion (Docket No. 3557).

settled that claims for damages based on such allegations are at best general unsecured claims, not customer claims and the Trustee has filed a motion to uphold his determinations relating to claims that fall into this category, which is scheduled to be heard on October 28, 2010.

Timing and Litigation

61. The Trustee anticipates moving to uphold his determinations as to substantially all pending of the objections that cannot be resolved consensually within the next nine to fifteen months. The timing of such motions will depend in part on cooperation from claimants. The Trustee has and will continue to negotiate and resolve factual disputes where possible.

IV. RETURN OF MISDIRECTED FUNDS

62. The Trustee continues to receive and investigate requests for the return of funds misdirected into LBI bank accounts. The Trustee has returned more than \$543 million in misdirected funds since the commencement of the liquidation. In April 2010, the Trustee implemented Court-authorized procedures to increase the efficiency and reduce the costs of administering the return process, including: (a) returning a substantial number of transfers of misdirected funds of \$250,000 or less without the need of obtaining further court approval; (b) 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 (c) 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.

63. As of September 30, 2010, the Trustee has made approximately 790 returns of post-petition transfers of misdirected funds, aggregating approximately \$543.4 million. Currently, the Trustee has approximately 125 requests pending for return of funds alleged to have been misdirected post-petition, aggregating approximately \$38.2 million, and approximately 85 requests pending for return of funds alleged to have been misdirected pre-petition, aggregating approximately \$28.7 million. (*See Exhibit 4.*)

64. As of September 30, 2010, the Trustee has applied surcharges to 54 returns of transfers of misdirected funds, aggregating approximately \$13,863 in processing fees. In addition, the Trustee has disallowed and expunged 3 misdirected funds claims, aggregating approximately \$329,468, due to failure of the party requesting the return to provide requested information or execute required documentation to effectuate the return.

V. TRUSTEE'S INVESTIGATION

65. 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. . . ." §78fff-1(d)(1). 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.

Preliminary Report

66. Though investigation reports are often issued at or near the end of a SIPA liquidation, due to the magnitude of Lehman and the fact that many aspects of the recently enacted financial reform legislation were developing concurrently, the Trustee viewed a preliminary report less than two years into the liquidation as appropriate. The Trustee's [Preliminary Report](#), completed and issued on August 25, 2010, 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; (iii) lessons learned from the LBI liquidation; and (iv) legislative, regulatory, and other policy recommendations for the future.

67. The Preliminary Report concluded that, at least until relatively late in the day when confusion set in, LBI's compliance with regulatory requirements largely had the effect they were supposed to have. LBI generally complied with applicable regulations at the U.S. broker-dealer level, and the regulators and LBI's own compliance personnel "largely did their jobs." With several exceptions that are highlighted in the report, most customer property was intact and accessible for satisfaction of customer claims or transfer to other brokers – precisely the purpose of the regulations. For example, the report found general compliance with rules designed to prevent commingling of broker-dealer and investor assets.

68. The Preliminary Report did not report on all potential causes of action or other matters that are or are likely to be subjects of litigation. Instead, it focused on an overview of LBI's relationship with some of the other Lehman entities, the dissipation of LBI's assets following the well-publicized Bear Stearns emergency in early 2008 as affected by LBI's relationships with other Lehman entities, and lessons learned and recommendations for the future based on LBI's history and the course of the liquidation up to that point.

69. The Preliminary Report noted several gaps in the liquidation process, and recommended that the industry regulators and, if necessary, legislators take appropriate steps to establish or improve: (i) broker-dealer pre-liquidation plans; (ii) pre-liquidation negotiations and provisions on the mechanics of asset transfers; (iii) the balance between clearing banks' rights and broker-dealers' obligations related to the segregation of customer property; (iv) clearing agencies' emergency rules and operations; (v) SIPC's financial resources, borrowing authority, and flexibility; (vi) provisions for liquidation of collateral; and (vii) rules for unwinding outstanding non-customer financial transactions. The Trustee also recommended considering replacing the unitary fund of customer property in favor of funds for different types of accounts.

Ongoing Investigation

70. The investigation of potential causes of action and other matters affecting the assets and property of the debtor is continuing. With the active participation of SIPC, the Trustee has continued the approach of first pursuing voluntary cooperation, but resorting to invocation of his subpoena authority where necessary. In this effort, the Trustee has made document requests (both formal and informal) to dozens of parties that may have information relating to the events leading to LBI's collapse and has received productions amounting to hundreds of thousands of documents in response.

71. The Trustee's professionals have also reviewed hundreds of thousands of pages of internal LBI emails, including those of numerous high-level officers during the critical months leading up to the Filing Date, LBI account records, contractual agreements, and other documents from LBI's records, as well as innumerable quantities of electronic data from LBI's information systems. The LBI materials have been critical to the Trustee's investigation of causes of action against third parties, but 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.

72. From this review of LBI's records, one area of interest 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 days after LBHI and LBIE filed for bankruptcy and administration. 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 fully evaluate LBI's financial condition.

73. At this time the Trustee has conducted nearly 300 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 next several months. The Trustee anticipates that by the conclusion of the liquidation proceeding, he will submit additional reports that will focus on other investigative areas set forth in SIPA, such as the examination of causes of action.

JPMorgan Chase ("JPMC") Investigation

74. JPMC remains a focus of the Trustee's investigation. The Trustee, with the assistance of his professionals, is nearing the completion of his investigation regarding the seizure and liquidation of collateral and other pre- and post-petition actions of JPMC to the extent they impact LBI.

75. This has included, among other things, investigation of JPMC's seizure of: (i) cash and securities contained in certain Fixed Income Division Prime Brokerage Accounts; (ii) certain municipal bonds purchased by Lehman Brothers Commercial Bank on September 12, 2008; and (iii) other property which may constitute fully paid for customer securities or the property of LBI. JPMC has (without prejudice) completed its

production of documents to the Trustee, and is also continuing to work with the Trustee's professionals in attempting to reconcile numerous transactions. The Trustee has also obtained information regarding the actions of JPMC from additional parties including former employees of LBI, as well as DTCC and Woodlands Bank f/k/a Lehman Brothers Commercial Bank ("LBCB").

76. The Trustee's counsel, with the assistance of the Trustee's financial professionals, has to date reviewed over one million pages of documents, and more than 29,000 spreadsheets and other files produced by JPMC, regarding JPMC's relationship with LBI and its role as LBI's clearing bank. (See Exhibit 5 discussing the well-understood role of a clearing bank for a broker-dealer.) The Trustee has also reviewed LBI custodian documents related to JPMC, and has sought documents and other information regarding JPMC from DTCC, Barclays, and LBCB among others.

77. The Trustee's counsel interviewed current and former JPMC employees concerning: (i) the business relationship between LBI and JPMC; (ii) the events leading up to the Filing Date; (iii) the winding down of LBI's transactions; and (iv) the liquidation of LBI securities held by JPMC. The Trustee's professionals have also communicated with JPMC with respect to these matters on numerous other occasions. The Trustee's counsel has sought information from former Lehman employees regarding matters related to JPMC and to date has conducted two depositions and seventeen interviews. The Trustee's counsel has also interviewed employees of DTCC in connection with its investigation of JPMC.

78. As reported previously, the Court approved a Collateral Disposition Agreement (the "CDA") (as revised) on March 24, 2010. Under the CDA, LBHI stepped into the shoes of JPMC as subrogee to JPMC's claims against LBI (to the extent LBHI's property was used to satisfy such claims). In addition to preserving the Trustee's rights with respect to the collateral, and in particular the Trustee's rights to challenge JPMC's liens on the collateral, and the secured status of its claims, the Order approving the CDA obligates LBHI to provide the Trustee with at least quarterly reporting regarding its management and liquidation of the securities collateral, and accrual of principal and interest, payment of dividends on or any maturities of securities pledged or owned by LBI. The Trustee and his counsel continue to cooperate with LBHI to permit LBHI to maximize the value of property, while endeavoring to preserve the Trustee's rights with respect to any collateral that is the property of the LBI Estate.

DTCC Investigation

79. The Trustee continues to review the factual details of and legal basis for DTCC's activities beginning during the week of September 22, 2008, when DTCC purported to invoke rules governing ceasing to act and/or winding-down of activities on behalf of LBI. The Trustee continues to conduct a review of the liquidation of collateral by DTCC during the ensuing period as well as the fees and expenses charged by DTCC in connection with those activities.

80. 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.

81. 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.

82. The Trustee is conducting a comprehensive due diligence investigation into the actions taken by DTCC and its subsidiaries as part of their liquidation and close-out of LBI's positions. 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's professionals have also requested various categories of documents to verify the value of funds and securities held by DTCC and its subsidiaries and the propriety of fees and expenses charged to the LBI Estate, as well as a full explanation of decisions made by and actions taken by DTCC and its subsidiaries in relation to LBI during the wind-down. DTCC has promised to cooperate fully in this effort to understand the full effect of its actions and decisions and its accounting for LBI Estate property in its possession.

CME Investigation

83. The Trustee continues to investigate the liquidation of LBI's proprietary options and futures positions at the CME Group, Inc. (“CME”)¹² 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

12 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).

18th, at the conclusion of an auction conducted without LBI's participation, the CME transferred LBI's remaining house positions in energy, interest rates, foreign exchange, agricultural, and equities derivatives 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.

84. At the end of the auction process, approximately \$64 million in excess margin remained at the CME. Since the filing of the Trustee's Third Interim Report, 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 Guaranty Fund, thereby preserving any and all claims LBI has with respect to such property.

85. 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. In addition, the Trustee is assessing any claims and defenses relating to the subject of the investigation. The Trustee has executed tolling agreements with the CME and each of the successful bidders of the auctions, thereby preserving any and all claims LBI has in connection with the auctions.

Citibank Investigation

86. Matters attendant to Citibank are being handled by Menaker & Herrmann LLP, special counsel to the Trustee. Menaker & Herrmann report as follows:

87. The Trustee is continuing to address a number of issues involving Citibank. The major component of Citibank's claims consists of Citibank's claimed right to offset a \$1 billion deposit made by LBI with Citibank against short balances totaling approximately \$1.26 billion for settlement of foreign exchange transactions through the Continuous Linked Settlement ("CLS") system. The balance of \$260 million is claimed as a right of offset against various LBI accounts at Citibank affiliates around the world. Citibank also asserts numerous other claims not based on CLS.

88. The Trustee has been investigating the validity of Citibank's claims. With respect to the CLS-related matters, the Trustee has focused particular attention on the validity of Citibank's contention that certain safe-harbor provisions of the Bankruptcy Code insulate Citibank from reversal of its setoffs. Other related issues are also being addressed. Review of the non-CLS issues, which relate to matters such as securities lending activities, account overdrafts, terminated non-CLS foreign exchange transactions, securities under Citibank custody and pre-petition misdirected wires, with the help of the Trustee's professionals to determine the accuracy of the sums claimed and the appropriateness of Citibank's legal position is nearing completion. The Trustee has been

working cooperatively with Citibank to complete the release to the Trustee the remaining securities held by Citibank affiliates in LBI customer segregated accounts around the world.

89. Menaker & Herrmann have met on several occasions with Citibank's professionals to discuss legal issues, including Citibank's reliance on Bankruptcy Code safe harbors and on so-called triangular setoffs. To resolve factual issues, former LBI personnel have been interviewed and thousands of pages of Citibank emails have been reviewed.

VI. CONTINGENCIES

90. Unprecedented progress has been made in reducing more than \$180 billion in potential customer claims to the currently pending \$40 billion, as well as in marshalling billions of dollars of assets, returning customer name securities and misdirected wires, and other matters. Nevertheless, the pending customer claims alone exceed the LBI Estate's current assets by tens of billions of dollars and, together with certain other multibillion dollar contingencies, force the Trustee to maintain reserves that impact the timing and extent of distributions on allowed customer net equity claims as well as the significance, if any, of potential distributions on account of allowed general estate claims. Several of the contingencies are already the subject of litigation, and may take several years to resolve. Such contingencies include, as discussed below, litigation with Barclays, claims filed by LBHI and LBIE, hundreds of disputes over SIPA customer status, and final allocation of estate assets as between the "fund of customer property" and the "general estate" pursuant to SIPA.

91. First, the Trustee must continue to reserve for the pending litigation with Barclays (*see infra* ¶¶ 98-99). The Barclays dispute involves nearly \$7 billion, including claims by Barclays against the LBI Estate for approximately \$3 billion (this \$3 billion is counted in the LBI Estate's total assets at present; *see supra* ¶¶ 6-7).

92. Second, while substantial portions of LBHI's claims have been resolved through allowance or cooperative reduction (*see infra* ¶¶ 98-99), \$7.9 billion remain in issue. Many of the accounts underlying these claims were not reflected on LBI's books and records as potential customer claims. The Trustee disputes some or all of these claims and the assertion that they are all necessarily entitled to treatment on parity with claims of non-affiliated, public customers. There are also many factual questions concerning the calculation and reconciliation of the amount of many claims. This work is ongoing in a cooperative dialogue with the Chapter 11 Debtors, though at this point it is still not clear whether or not litigation will be necessary to resolve any disputes.

93. Third, LBIE has filed substantial claims on behalf of more than 1,100 of its customers, as well as its own account, that together total \$22.2 billion. The reconciliation and determination of the LBIE claims are ongoing. The Trustee has allowed \$6.2 billion of claims on behalf of LBIE's customers, but significant issues as to the LBIE House Claim (i.e., proprietary claim) are presently unresolved and may result in litigation.

94. Fourth, the Trustee also must reserve for disputed claims. Customer claims have been asserted for financial products across the entire spectrum of derivatives and other instruments offered at LBI, as well as for various methodologies for computing claim value. To date, more than 1,200 objections relating to over 2,100 customer claims have been filed. While some objections have and will be withdrawn, resolution of several issues will likely involve litigation, and it is already apparent that disputed claims amount to several billion dollars in value.

95. The Trustee and SIPC do not believe that all these products or valuations comport with customer status under SIPA. While the Trustee and SIPC believe that most, if not all, of these disputes involve legal determinations regarding the SIPA statute, each claimant is entitled to due process, and in many instances claimants have asked the Trustee to delay litigation of the underlying legal issue until discovery has progressed. The Trustee has generally cooperated with claimants in this regard; however, the overall administration of the estate may require the Trustee to move as to certain categories of claims, and the Trustee expects all to be before the court in 9 to 15 months.

96. Finally, while the principles of allocation under SIPA and the SEC's customer protection regime were codified by the Bankruptcy Court on February 25, 2010, final allocation of the estate's assets between the fund of customer property and the general estate will be made as part of an application to the Court on notice to all interested parties. The Trustee expects that a substantial percentage of estate assets will ultimately be in the fund of customer property, but the total value of the fund remains undetermined. In addition, dividends and interest received by the estate post-filing and aggregating into the hundreds of millions of dollars are being accounted for separately, and will be the subject of a separate application to the Court prior to their distribution.

97. The Trustee is doing everything in his power to narrow disputed issues with third parties and to reduce these contingencies with the goal – but not the certainty – of returning 100% of allowed net equity claims for customer property and maximizing value for all stakeholders.

VII. BARCLAYS CAPITAL INC.

98. In addition to the assets Barclays has already received under the Asset Purchase Agreement, Barclays has made formal demands and filed a motion (and filed corresponding claims in the claims process) seeking an additional \$3 billion or more of assets based on its interpretation of the Asset Purchase Agreement and Clarification Letter. Barclays demands delivery of funds from LBI's former Rule 15c3-3 customer reserve account and margin and other property at exchanges or clearing agencies, which may be needed to satisfy customer claims. Barclays also demands property from LBI's "clearance boxes" at DTCC and elsewhere, which may also be needed to satisfy customer claims, and the vast majority of which Barclays, the Trustee, and DTCC specifically agreed in a letter agreement were excluded assets under the Asset Purchase Agreement. The Trustee believes that the transfer of these additional assets, as well as an amount in excess of \$3 billion of similar assets that are already in the possession of Barclays, was

not approved by the Bankruptcy Court, and that the transfer of these assets would constitute an unfair windfall for Barclays at the expense of public customers.

99. Following the discovery and motions described in the Trustee's Third Interim Report, the evidentiary hearing in this dispute commenced on April 26, 2010, and an initial two week phase was completed on May 7, 2010. There were four additional evidentiary hearing days in June 2010 before an adjournment until August 2010. The evidentiary hearing resumed on August 23, 2010, and the final fact witness testified on September 29, 2010. The parties began presenting expert witness testimony on September 20, 2010 and completed this phase on October 7, 2010. The parties presented closing arguments to the Bankruptcy Court on October 21, 2010 and will file post-hearing briefs on November 22, 2010. In all, 31 fact witnesses and 8 expert witnesses testified, portions of 52 deposition transcripts were designated as part of the record, and more than 1,100 trial exhibits were moved into evidence.

VIII. LEHMAN BROTHERS HOLDINGS INC.

Claims Against LBHI and the Chapter 11 Debtors¹³

100. 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, is in the process of amending his claim. The Trustee has been involved in extensive discussions with the Chapter 11 Debtors to reconcile his claims and anticipates that process will be completed in the coming months.

PIK Notes Received From Lehman ALI Inc.

Transferred Entities PIK Note

101. 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").¹⁴ 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.

102. 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

13. See discussion regarding claims filed by LBHI and the Chapter 11 Debtors *supra* ¶¶ 20-23.

14. 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 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.

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

103. 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 recently 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

104. 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. The Trustee’s professionals and counsel have been receiving and monitoring developments with respect to the Chapter 11 Plan and Disclosure Statement, and have been analyzing the effects of those filings on LBI claims. In addition, the Trustee has been actively participating in discussions concerning the Plan and Disclosure Statement with the members of the Cross-Border Insolvency Protocol.

IX. LEHMAN BROTHERS INTERNATIONAL (EUROPE)

105. 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 LBIE¹⁵

106. 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

15. See discussion regarding claims filed by LBIE and certain LBIE customers *supra* ¶¶ 24-30.

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. LBIE extended the bar date for LBI to April 9, 2010. The bar date does not apply to general unsecured claims against LBIE, claims arising only from security interests in Trust Assets, or claims to monies held by LBIE pursuant to certain U.K. regulations.

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

108. 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. 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.

U.K. Court Proceedings

109. *Client Money.* 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. LBI and certain other client money claimants of LBIE appealed such decision to the Court of Appeal, and judgment on the appeals was handed down on August 2, 2010. 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) that identifiable client money held outside such accounts should be returned to the specific clients for whom it was held.

110. 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 which attaches 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.

111. The LBIE Administrators, the Trustee and another client money claimant of LBIE have sought permission of the Supreme Court to appeal the Court of Appeal's judgment to such court. The outcome of those applications is not yet known.

112. "RASCALS." Substantive trial of the RASCALS (Regulation and Administration of Safe Custody and Local Settlement) application began in the U.K. High Court on October 11, 2010. The application, which was commenced by the Administrators of LBIE in 2009, seeks 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. The Trustee believes that claims to approximately \$300 million of securities believed to be held for LBI may be affected by the court proceeding and is therefore participating actively in it through U.K. counsel.

X. OTHER INTERNATIONAL AFFILIATES

113. 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).

Germany

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

115. The Trustee's counsel from Norton Rose attended a meeting of the LBBA creditors on September 28, 2010. The LBBA insolvency administrator announced that it has determined to make an advance distribution to creditors whose claims it does not dispute. The LBBA insolvency administrator has advised the Trustee that, in order to make such distribution, it must determine all claims filed, including claims by the Trustee and other Lehman affiliates for which additional legal and factual investigation is required. Accordingly, the LBBA insolvency administrator has denied the Trustee's claims with the understanding that such claims are still subject to further review and possible allowance by the administrator.

116. LBCG had previously filed a customer claim against LBI. A letter requesting additional information required in order for the Trustee to determine LBCG's claim against LBI was sent on September 13, 2010.

Switzerland

117. 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.

118. On May 14, 2010, the Trustee denied LBF's customer claim against LBI for securities. The Trustee has granted LBF an extension to respond to this determination until December 1, 2010.

Luxembourg

119. The Trustee's professionals continue to monitor the Lehman Brothers Luxembourg S.A. ("LBLux") proceeding.

120. The Trustee's professionals have identified a claim against Lehman Brothers (Luxembourg) Equity Finance S.A. and are seeking to have it recognized in that proceeding.

Japan

121. In July 2010, Lehman Brothers Japan Inc. ("LBJ") issued a Civil Rehabilitation Plan (the "LBJ Plan") detailing how and when LBJ would liquidate after disposing of its assets and paying its creditors. In connection with the LBJ Plan, the Tokyo District Court set a special investigation period for claims of August 26 and 27, 2010. On August 27, 2010, the Trustee received notice through his counsel at City Yuwa Partners that LBJ disapproved all of LBI's claims against LBJ during the August special investigation period. As a result, on September 24, 2010, the Trustee's professionals filed a petition for assessment of LBI's claim against LBJ with the Tokyo District Court.

122. On September 14, 2010, the Trustee issued letters of determination to LBJ and a number of its underlying customers allowing certain customer claims against LBI. A letter requesting additional information regarding LBJ's proprietary claim was also issued at this time.

123. The Trustee's professionals have had several conferences with representatives of LBJ to discuss reconciliation of the intercompany balances between LBJ and LBI.

Hong Kong

124. 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.

125. On June 11, 2010, the liquidators of Lehman Brothers Securities Asia Limited (in Liquidation) ("LBSAL") filed an application with the Hong Kong High Court

for general directions and orders to enable them to respond to corporate actions arising in respect of securities held by LBSAL on behalf of third parties in its stock accounts at overseas custodian banks and the Hong Kong Central Clearing and Settlement System. Although LBI was identified by LBSAL as a potentially interested third party, after review of the assets held by LBSAL on behalf of LBI and its customers, the Trustee chose not to participate in the application. Norton Rose continues to monitor the proceeding. The substantive hearing for the corporate actions application in Hong Kong has been set for November 12, 2010.

126. The liquidators of five Lehman entities in Hong Kong filed applications with the Hong Kong High Court in respect of setting a bar date by which claimants are to present their claims for assets held by the Lehman Hong Kong entities on a segregated basis. The substantive hearing on the bar date applications occurred on August 25, 2010, and was attended by the Trustee's counsel from Norton Rose. An order was issued fixing December 10, 2010, as the bar date for notifying the liquidators of claims.

127. The Trustee filed claims against the Hong Kong entities in August 2009. These claims are currently being reexamined and may be amended prior to the December 10, 2010 bar date.

China

128. 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.

Singapore

129. 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.

130. Norton Rose continues to assist the Trustee with issues related to the winding-up of the LBI Singapore branch office. Requisite notices were filed with the Singapore Accounting and Corporate Regulatory Authority and the Inland Revenue Authority of Singapore.

Cayman Islands

131. The Trustee's representatives continue to monitor the proceedings of Lehman Brothers Equity Finance (Cayman) Ltd. ("LBEFC"), and the Trustee's professionals have discussed intercompany issues with a representative of LBEFC.

Bermuda

132. The Trustee's professionals have had discussions with representatives of Lehman Re Ltd. in Bermuda regarding the intercompany balances between LBI and Lehman Re Ltd.

Netherlands

133. The Bankruptcy Trustees of Lehman Brothers Treasury Co. B.V. ("LBT") issued their sixth report on July 30, 2010. The report indicates that the LBT Trustees do not intend to request the Amsterdam District Court to set dates for the filing of claims or to hold the required claims admission meeting before the end of 2010. The Trustee's professionals continue to monitor this proceeding and are preparing LBI's claim against LBT.

XI. RECOVERY EFFORTS

134. 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. These efforts have brought over \$5 billion into the Trustee's possession. In addition, the Trustee has entered into over 200 tolling agreements as these efforts continue.

Close-Outs and Unwinds

135. 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. These transactions include foreign exchange derivatives, repurchase agreements, securities lending agreements and TBAs ("to be announced" trades on mortgage-related securities). Most of these transactions were documented using form agreements generally utilized by market participants such as the Master Agreement of the International Swaps and Derivatives Association ("ISDA"), the Master Repurchase Agreement and Master Securities Lending Agreement of the Bond Market Association/Securities Industry and Financial Markets Association, and the Master Securities Forward Transaction Agreement of the Bond Market Association. The legal steps involved with the termination mechanics are thus well understood in the market and benefit from legal certainty.

136. On October 29, 2009, the Trustee filed a motion with the Court to seek the Court's approval for the procedures that have been adopted to reduce to cash and recover amounts due from financial products and other trading counterparties (Docket No. 2006). The motion was granted by the Court on November 19, 2009 (Docket No. 2078). Pursuant to the motion, all resolutions of financial products closeouts and other trading counterparty receivables in amounts of \$3 million or more are being submitted and will continue to be submitted for approval by the Court in a streamlined court approval process. As for transactions valued at under \$3 million dollars, the motion recognized the

Trustee's discretion to resolve consensually such transactions without the necessity for further Court approval.

137. The Trustee continues to follow the due diligence procedures for reconciling and collecting the closeout amounts due to the LBI Estate as previously established by the Trustee's professionals. These procedures generally include the following steps: (i) an analysis of LBI books and records for the identification of the trade population and a calculation of closeout amounts as of September 19, 2008; (ii) a review of the relevant termination provisions of the agreement governing the transaction; (iii) a review of any applicable notice of termination sent by the counterparty and an evaluation regarding the selection of valuation date; (iv) a review of the pricing and valuation data submitted by the counterparty; (v) an assessment of any legal issues asserted; and (vi) negotiations over any differences in valuation and/or methodology applied for purposes of valuation. In arriving at the calculations of amounts due, the Trustee and counterparties have taken into account a substantial number of unsettled trades from the week of September 15, 2008, as well as the termination values of amounts that were due after the commencement of the SIPA proceeding.

138. The Trustee has been working with many counterparties and their counsel who have come forward to settle the closeout value of transactions on a consensual basis. The Trustee took affirmative steps to contact all counterparties that did not reach out to the Trustee on their own. Such contact consisted of the Trustee writing to and calling such counterparties to initiate a dialogue with the goal of engaging in a consensual discussion. The Trustee and his professionals have contacted approximately 300 counterparties that appeared to owe closeout amounts to the LBI Estate, based on the books and records of LBI.

139. In addition to the counterparties from which 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. Due to issues regarding statutes of limitations, the Trustee obtained tolling agreements from over 200 remaining counterparties. The Trustee's goal is to resolve all closeouts as soon as possible consensually, with a view toward resolution prior to the expiration of the tolling agreements. For those counterparties that have not consensually resolved their closeouts in advance of that date, the Trustee will likely commence adversary proceedings where necessary to avoid statute of limitations arguments. In addition, other counterparties have taken positions that appear likely to force the Trustee to resort to court proceedings to resolve the Trustee's claims.

140. In negotiations between 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 Nos. 10-3610, 10-3612), and (ii) declaratory judgment, 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.

Israel Discount Bank Ltd.

141. 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 \$74 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 January 31, 2011.

Swedbank Amicus Brief

142. The Trustee and SIPC filed a brief, on August 23, 2010, of *amici curiae* in support of Lehman Brothers Holdings Inc. in the pending bankruptcy appeal captioned *Swedbank AB v. Lehman Brothers Holdings Inc. (In re Lehman Bros. Holdings Inc.)*, No. 10-04532 (NRB). The Trustee and SIPC believe that the District Court should adopt the Bankruptcy Court’s reasoning and affirm 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, an issue which affects the Trustee’s claims against some counterparties who have asserted third party setoff rights in the Trustee’s efforts to recover amounts owing from unwind of financial transactions. The Trustee believes that this interpretation is amply supported and confirmed by the legislative history surrounding the enactment of the Bankruptcy Code’s safe harbor provisions and subsequent amendments thereto.

Customer Receivables

143. In conducting his duty to marshal assets, the Trustee enlisted his financial professionals to reconcile, among other claims, open and unsettled claims. The Trustee’s accounting professionals examined LBI’s books and records as of the Filing Date and found that approximately 109 customers, representing over 530 accounts, had accounts that were open and unsettled. The Trustee’s professionals reconciled each such account to determine the net equity therein and then aggregated accounts which contained a negative net equity by entity. Upon further analysis, the Trustee determined that there was no legal basis to pursue approximately 60 customers representing 223 accounts.

144. Demand letters were sent to customers whose account reconciliation resulted in a negative net equity that was non-de minimis. The demand letters instructed each customer to call one of the Trustee's attorneys to arrange payment. The Trustee's attorneys have been in contact with approximately 95% of these customers. For each of the customers who did respond, the Trustee's counsel engaged in discussions with them explaining the basis for the amount demanded and providing documentation of the open transactions. In return, the customers submitted their own documentation surrounding the trades. Second notices were sent to customers who failed to respond to the Trustee's first notices, and the Trustee anticipates that most, if not all, of these claims will be resolved without court action. As a result of this process, the Trustee has collected approximately \$35 million and continues to engage in negotiations with the remaining customers.

Avoidance Actions / Preferences

145. During the Reporting Period, the Trustee's professionals continued to analyze transfers made by LBI to vendors prior to the Filing Date to determine whether such transfers constitute actionable preferential and/or fraudulent transfers pursuant to sections 544, 547, 548 and 550 of the Bankruptcy Code. The Trustee's professionals have also continued to meet and confer with LBHI's and its Creditor's Committee's professionals in order to determine LBI's and LBHI's respective interests in Lehman avoidance actions and to coordinate the sending of demand letters to, and if necessary institution of litigation against, recipients of such transfers. As a result of the Trustee's and LBHI's collaborative efforts, on September 10, 2010, the Bankruptcy Court entered a 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), which, among other things, establishes a protocol for the pursuit of avoidance actions that involve both LBHI and LBI interests and which aims to reduce costs and maximize the potential recoveries of such transfers for the LBI and LBHI estates.

146. While coordinating with these constituencies, in August 2010, the Trustee sent demand letters to 121 entities and/or individuals seeking the return of preferential transfers. The Trustee has entered Tolling and Forbearance Agreements with approximately 90% of these entities in order to allow the parties additional time to discuss potential defenses to the claims and attempt to resolve such matters without the time and expense of litigation. Despite the Trustee's efforts to enter Tolling Agreements or otherwise resolve potential preferential transfer claims, the Trustee, in order to preserve the estate's claims, commenced 13 adversary proceedings on September 15, 2010.¹⁶ Although litigation is pending, the Trustee will continue to work to resolve these adversary proceedings and all other remaining claims on a consensual basis.

16. The following adversary proceedings were filed: Adv. Proc. No. 10-3568; Adv. Proc. No. 10-3569; Adv. Proc. No. 10-3570; Adv. Proc. No. 10-3573; Adv. Proc. No. 10-3576; Adv. Proc. No. 10-3577; Adv. Proc. No. 10-3578; Adv. Proc. No. 10-3581; Adv. Proc. No. 10-3583; Adv. Proc. No. 10-3584; Adv. Proc. No. 10-3591; Adv. Proc. No. 10-3592 and Adv. Proc. No. 10-3594.

Banking Matters

147. During the Report Period, 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. During such period the Trustee's counsel sent letters to over 30 banks seeking withdrawal and transfer of such balances and the closing of such accounts. Most of these banks transferred cash to the Trustee following this correspondence and have closed the applicable bank accounts. The Trustee continues to negotiate with the remaining banks to collect assets and close the accounts. To the extent that the 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 expects to initiate appropriate legal proceedings to obtain such funds.

XII. GOVERNMENT AND THIRD PARTY INVESTIGATIONS; REGULATORY MATTERS

Government and Third Party Investigations

148. 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. Accordingly, to date the Trustee has produced in response to these requests a volume of documents approaching nearly a million pages as well as hundreds of gigabytes of data in electronic form. 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 400 document productions in response to these governmental and non-party requests. 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 have been referred to the Trustee by Barclays or LBHI, who also may be in an equal or better position to supply the information.

Regulatory Matters

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

XIII. ADVERSARY PROCEEDINGS

150. 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.

151. Before this Court, the Trustee has defended against eleven adversary proceedings, including successfully negotiating the voluntary dismissal of claims in one action, moving to dismiss in two actions, and reaching settlement agreements in three others. To date, the most advanced of the remaining actions is *Federal Home Loan Bank of Pittsburgh v. Lehman Brothers Holdings Inc.*, in which FHLB is seeking \$41.5 million in cash deposited with Lehman Brothers Special Finance (“LBSF”) as collateral for derivative transactions. LBSF was supposed to hold the collateral in a segregated account. FHLB alleges that LBSF transferred the collateral to bank accounts belonging to defendants, including LBI. After the defendants filed and argued motions to dismiss, the Bankruptcy Court instructed the parties to engage in a limited discovery period, followed by supplemental briefing and an evidentiary hearing, to occur at the end of 2010 or in early 2011, if necessary.

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). In September 2010, Newport Global sought additional Rule 2004 discovery. Despite the Trustee's efforts to cooperate with Newport and respond to discovery requests on an informal basis, Newport has insisted on moving forward with its motion. The Trustee filed an objection to the motion (*see* Docket No. 3799), but the parties have subsequently agreed to adjourn the motion *sine die* while the parties continue a cooperative dialogue.

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* Section XVI) and is employing cost-effective means to maximize collection of those amounts.

XIV. DATA ACCESS AND TRANSITION SERVICES

Data Migration – Collection of LBI's Books and Records

154. When Barclays purchased LBI's assets, it took possession of LBI's computer systems and the data stored within those systems. 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 been working diligently to collect the data from those systems and migrate 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 investigating potential causes of action against third-parties.

155. Since the Third Interim Report, the Trustee has substantially completed the data migration process. With some limited exceptions, the Trustee has captured the

data of interest and is operating independently of Barclays. The Trustee expects to complete the last part of the data migration process well before the March 2011 deadline set forth in the Barclays TSA (described below). At that point, the Trustee will be completely independent of Barclays for data access.

156. As previously reported, the Trustee's professionals began the data migration process by rigorously evaluating the more than 2,700 Lehman computer systems that were in use prior to the Filing Date in order to identify the data that would be necessary for the liquidation of LBI. Many of the 2,700 systems that were in use as of the Filing Date were no longer needed now that LBI had ceased operations as a going concern, and much of the data needed for the LBI liquidation was stored within a relatively small number of larger systems. The Trustee's professionals identified 130 systems of interest and have now completed the collection of data from 123 of these systems.

157. The migration process itself is a multi-step process. For each system, the Trustee's professionals review the available system documentation and consult with Barclays information technology ("IT") professionals, many of whom are legacy Lehman employees with historical knowledge of the system. Through these efforts, the Trustee's professionals gain an understanding of how the system works, how the data is organized, and how the data can be extracted. Then, working cooperatively with Barclays IT professionals, the Trustee's professionals design a process to extract the data from the system.

158. Once extracted, the Trustee's professionals transfer the data to a forensic laboratory, where the data is validated to make sure that the data has not been corrupted and that key tables, fields, and relationships between data points have remained intact. The data is then classified and archived based on expected future needs. When the Trustee's professionals are satisfied that they have captured the data and that the system is no longer needed, they notify Barclays to "decommission" the system, so that the fee for using the system is no longer included on the Trustee's monthly invoice for transition services.

159. The Trustee has decommissioned the majority of the 123 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. This has resulted in reduced transition services fees of approximately \$31 million annually.

Capturing and Recreating the Large Trading Systems

160. Migrating the large trading systems used by LBI posed a special challenge. These systems are incredibly complex, contain enormous amounts of data, and, unlike other systems that the Trustee no longer needed, the Trustee needed the functionality of the large trading systems to continue managing the day-to-day trading of the Estate's inventory of cash and security positions, as well as the remaining customer accounts. Since the Third Interim Report, the Trustee's professionals have completed the

work of capturing these large trading systems and almost all the data associated with them.

161. The systems themselves are 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 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.

162. The Third Interim Report discussed the Trustee’s efforts to migrate the following three systems to Broadridge: (i) the MTS system, which supports the trade capture and settlement of US-dollar denominated fixed-income products, (ii) the ITS system, which is a multi-currency and multi-entity settlement system for international trading, and (iii) the RISC system, which is a global processing system for the futures and foreign exchange business. Since the Trustee has completed the migration of these systems and their active data to Broadridge, as well as the migration of the historical data to his own data center. The Trustee now obtains this functionality independently from Barclays and has decommissioned them so that they have come off the monthly invoice for transition services.

163. Another trading system, ADP/TMS, consists of two interrelated applications: ADP, which had been hosted by and located at Broadridge prior to the Filing Date, and TMS, which is a system at Barclays. As previously reported, the Trustee has assumed control of the ADP system. The Trustee has completed the migration of TMS and its active data to Broadridge. The Trustee is still completing the extraction and migration of the historical data in TMS, but has nevertheless been able to decommission TMS and remove it from the monthly invoice.

164. One of the difficulties in migrating these larger systems to Broadridge was their interconnectivity to other systems. Through careful planning and execution, the Trustee’s professionals successfully severed the links between these large trading systems and the smaller feeder systems and operational reconciliation tools that supported them. In shutting down the feeder systems and reconciliation tools, the Trustee’s professionals had to be careful not to interfere with the ongoing operations of the trading systems. With this work now complete, the Trustee has scheduled the remaining feeder systems and tools for decommissioning once the migration of the remaining historical data is complete.

Amount of Data Migrated

165. With the collection of the historical data from the large trading systems, the amount of data that the Trustee has migrated to his data center has increased dramatically. To date, the Trustee has successfully migrated more than 154 billion transaction records and more than 112 terabytes of data. If printed, this amount of data

would yield a stack of paper nearly 1,067 miles high, more than 194 times the height of Mt. Everest. (See Exhibit 6.)

166. These data are critical to the liquidation of the estate and the resolution of claims. With the decommissioning of the systems at Barclays and the upcoming expiration of the Trustee's data access rights under the Barclays TSA (described below), the Trustee will access this data independently of Barclays. Thus, in addition to capturing this data in the Trustee's own information infrastructure, the Trustee's professionals have created a knowledge base that will allow them to continue to access and analyze the data in an efficient way.

The Trustee's Data Center

167. 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 (i.e., paper) 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.

168. Since the Third Interim Report, there has been a surge in data requests as a result of increased claims processing and litigation support. To date, the Trustee's professionals have processed more than 1,500 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* ¶¶ 148-149). As each data request typically seeks multiple categories of information, the 1,500 data requests processed by the Trustee's professionals have resulted in more than 14,500 data deliveries.

The Transition to SunGard

169. As the Trustee is nearing the end of the data migration effort, his professionals are working to outsource the data center, as well as 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 is expected to enable the Trustee to realize cost savings, as it will eliminate the need for the Trustee to employ his own dedicated IT staff to perform those functions. It will also provide advantages over the existing data center that will better support the Trustee's data needs on a going forward basis.

170. The Trustee's data needs are shifting as he sheds his reliance on Barclays' systems and personnel, and assumes complete responsibility for managing the estate's trading inventory and customer accounts. Moving the data center to SunGard gives the Trustee and his professionals greater flexibility and support in performing these remaining activities. By outsourcing the data center, the Trustee expects to enhance service and maintenance, the ability to access the data, and disaster recovery capabilities.

171. There are structural advantages as well. The Trustee plans to move his existing hardware to SunGard so that SunGard can maintain it 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 also gives 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 data its maintenance and management.

The Iron Mountain Email Archive

172. 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.

173. 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 (described 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 negotiating a direct agreement with Iron Mountain for assisted search services.

The Barclays TSA

174. After extensive negotiations, on December 23, 2009 the Trustee and Barclays entered into a Transition Services Agreement (the "Barclays TSA"), in order to provide a legal foundation as well as a mechanism by which the Trustee can maintain access to the crucial Barclays employees, services, facilities and assistance necessary for the Trustee to evaluate claims and liquidate LBI. These transition services include, among other things, certain finance, treasury, front office, operations and IT infrastructure services (including systems access and services relating to the migration described above). The Barclays TSA, which was approved by the Court on March 22, 2010 (*see* Docket No. 2883), is scheduled to terminate no later than March 16, 2011.

175. The Barclays TSA supersedes the parties' Data Access Agreement, dated February 24, 2009 (the "Data Access Agreement") and approved by the Court on April 22, 2009 (*see* Docket No. 1018). As described in the First Interim Report (¶¶ 111-12), the Second Interim Report (¶¶ 180-81) and the Third Interim Report (¶¶ 171-72), the Trustee and Barclays entered into the Data Access Agreement to facilitate timely and effective access to the LBI data in the computer systems now in Barclays' possession.

Like the Data Access Agreement, the Barclays TSA provides that Barclays will grant the Trustee and his representatives access to certain of Barclays' computer systems. With respect to any system containing commingled (i.e., LBI and non-LBI) data, access is provided for the sole purpose of enabling the Trustee to access and use LBI's data in order to effect, or otherwise fulfill his duties with respect to, the LBI liquidation. Access to Barclays' systems will end on March 16, 2011 (the Trustee expects to complete the data migration process well before the March 2011 deadline).

176. Pursuant to the Barclays TSA (and, previously, the Data Access Agreement), Barclays has charged the Trustee amounts ranging from more than \$2 million to more than \$5 million per month for its services (including transition services pending negotiation of the Barclays TSA). The Trustee's professionals review all charges related to these services carefully and object to or withhold payment for services where appropriate.

177. In finalizing the Barclays TSA, the parties agreed to a costing methodology and certain amounts previously invoiced by Barclays (and withheld by the Trustee) were eliminated or reduced. The Barclays TSA also provides that the Trustee will not be charged for (i) Barclays providing the Trustee with reasonable access, during the two years following the closing under the Asset Purchase Agreement, to Barclays personnel previously employed by LBI, and who have material knowledge about matters relevant to LBI's liquidation, for the purpose of seeking information that can be given without a lot of effort or expense (this provision expired on September 22, 2010); (ii) Barclays responding to data production requests made by the Trustee to fulfill his or LBI's obligations under subpoenas from governmental bodies or third parties, to the extent the Trustee is unable to respond to such requests based on information he has or can obtain directly; (iii) Barclays' personnel participating in interviews or depositions conducted by the Trustee as part of his investigation under SIPA, or by governmental bodies or third parties relating to LBI; and (iv) Barclays providing information or services related to data utilized in reconciling Barclays' own claims under SIPA or those of its customers whose accounts were transferred from LBI to Barclays in the Private Investment Management ("PIM") transfer approved by the Court. (*See supra* ¶ 8.)

178. The Trustee 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. In the Barclays TSA, the Trustee agreed to use commercially reasonable efforts to reduce his use of services from Barclays, and the Trustee (through the migration described above and otherwise) is endeavoring to do so as promptly as practicable, consistent with the needs of the LBI Estate.

179. The monthly amount paid by the Trustee to Barclays is significantly less now than it was for services provided in late 2008, and the number of Barclays personnel providing services to the Trustee, determined on a "full time equivalent" basis, has declined significantly over that period. For example, it is anticipated that Barclays' monthly bill, which in the past has been as high as more than \$5 million per month, will

be less than \$400,000 for services rendered in October 2010. The Trustee expects that these amounts will continue to decline in the coming months.

180. In addition, several former Barclays employees have recently joined the Trustee's staff as consultants, in order to perform functions that would otherwise be provided by Barclays under the Barclays TSA.

Agreements with LBHI and LBIE/LBL

181. 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.

182. 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. The Trustee does not expect to incur substantial fees under this agreement.

XV. TAX MATTERS

183. 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.

Tax Audits and Refund Claims

184. LBI is currently included in consolidated federal income tax returns filed by LBHI as well as consolidated and combined state income tax returns in a number of states and local jurisdictions. The Trustee's professionals have maintained ongoing discussions with LBHI's counsel, who is handling substantial federal refund claims for the years 1997 through 2000 and audits for 2001 through 2007 where the Internal Revenue Service (the "IRS") is asserting deficiencies. In addition to the consolidated and combined tax disputes, there is 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.

185. State tax refunds have also been claimed on consolidated and combined returns filed by LBHI. Again, the Trustee's professionals are monitoring the status of these claims. With respect to all these refund claims, the Trustee's professionals are evaluating LBI's entitlement to a share of these refunds (the checks generally would be issued to LBHI in the first instance as a matter of tax law).

186. The Trustee's counsel continues to await or negotiate with federal and state tax authorities for other refunds, including a refund of \$9.5 million from the IRS, attributable to an overpayment of payroll taxes,¹⁷ and a refund of \$2.8 million from New York State, attributable to an overpayment of payroll taxes.¹⁸

187. There are also separate company state tax audits. The Trustee's professionals are working with a small firm that historically handled all state tax audits for LBHI and LBI to address these audits.

188. Together with this firm, the Trustee's tax professionals have negotiated a settlement with Massachusetts that would reduce the amount of Massachusetts' timely filed claim with respect to prepetition state sales and use and withholding taxes from more than \$500,000 to approximately \$250,000. The Trustee expects to sign a withdrawal of protest of the assessment by the end of 2010, under which the Trustee would agree not to object to the amount of the claim.

Transfer of REMICs

189. Before and after the commencement of the Proceeding, both LBHI (as well as certain affiliated entities) and LBI held residual interests in certain real estate mortgage investment conduits ("REMICs"). REMICs are special purpose vehicles that are used for the securitization of mortgages. Holders of residual interests in REMICs are required to include "phantom" (noneconomic) income, which cannot be sheltered by losses, in their taxable income, resulting in income tax liability. The Trustee, together with LBHI, entered into an agreement (the "Transfer Agreement") with Citibank ("Citi") under which LBHI agreed to make a \$24 million payment to Citi as consideration for Citi's agreement to acquire the residual interests and assume the associated income tax liabilities. The Trustee also entered into an inter-estate agreement with LBHI (the "Cost Sharing Agreement") under which the Trustee agreed to reimburse LBHI for LBI's share of the \$24 million payment. LBI's share of the payment will be allocated by dividing the number of residual interests owned by LBI by the number of total residual interests to be transferred and applying this ratio to the payment. The Court entered an order approving the Transfer Agreement and the Cost Sharing Agreement on August 18, 2010 (Docket No. 3578).

17. Representatives of the IRS have advised in informal conversations that the IRS is holding any refunds to which LBI would otherwise be entitled pending a disposition of all outstanding IRS audits and assessments as to LBI. LBI and LBHI jointly entered into a stipulation in this proceeding extending the claims bar date for the IRS to December 31, 2010.

18. New York State indicated in correspondence that it would not provide this refund to LBI based on "resulting audit assessments and lack of documentation." The Trustee has reserved his right to appeal the decision, but has not yet appealed pending a conciliation conference that has been rescheduled for October 25, 2010.

Ongoing Compliance

190. *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 discovered numerous erroneous entries of a very large magnitude (for example, \$40 billion) in LBI’s historic accounting system. These errors have further delayed the finalization of the financial statements.

191. 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.

192. *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 has timely filed the required 2009 state income tax returns or return extensions that were due in the second quarter of 2010 and is currently in the process of filing those tax returns and/or extensions which are due in the third quarter of 2010. These returns were also filed using estimated financial information; as the financials are finalized, amended tax returns will be filed if needed.

193. The Trustee is in the process of filing 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.

194. *Tax services.* The Trustee’s professionals have finalized the services agreement between the Trustee and LBHI.

195. *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.

XVI. EMPLOYEE BENEFITS

Aceso Holdings Health Care Trust

196. Prior to the SIPA liquidation, Aceso Holdings, Inc., a wholly-owned subsidiary of LBI, transferred \$95 million in connection with its establishment of a health care trust (the “Health Care Trust”) to fund the payment of benefits under the Lehman Brothers Holdings Inc. Group Benefits Plan (the “Health Plan”). Until the beginning of

April 2009, funds continued to be wired out of the Health Care Trust bank account to pay tail Medco Health and Aetna charges as well as to fund other costs of the Health Plan for employees of all sponsoring employers on a daily basis. As a result of discussions among the Trustee, LBHI and the Department of Labor regarding the ownership and disposition of the Health Care Trust assets, as of January 1, 2010 the Trustee agreed, without prejudice to any future claims LBI may have to the funds, to permit resumption of the use of Health Care Trust funds to pay for post-retirement health care benefits previously offered under the Health Plan. The Trustee continues to pursue a resolution of all claims relating to, and the final disposition of, the Health Care Trust.

Bonus Advances & Tuition Payment Programs

197. Certain employees of LBI were entitled to participate in advance programs that entitled them to immediate receipt of a cash award in return for executing a promissory note that obligated them to repay the cash award in full with margin rate interest upon certain terminations of employment. LBHI continues to assert that even though LBI is the named holder of the promissory notes, the loans were transferred to LBHI and any recoveries thereunder belong to LBHI.

198. Despite the difference in opinion as to the ownership of any proceeds, the Trustee has negotiated and entered into a cooperative stipulation with LBHI that allows LBHI to pursue amounts owed under the promissory notes pending a final determination as to ownership. The terms of the stipulation generally provide for the party prevailing on ownership to bear the costs of recovery. LBHI continues to pursue recoveries under the promissory notes and to report to the Trustee on a regular basis as to the amount recovered.

Demand Note in Favor of LBI

199. 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 Trustee's special counsel has been conferring with Citibank's counsel in an effort to resolve questions regarding rights to demand payment under the note, from which there remains approximately \$10 million left to be drawn.

Termination of the LBHI Retirement Plan Issues

200. The Trustee continues to monitor the effect of the settlement agreement reached among LBHI, the LBHI Retirement Plan's plan administrator, Neuberger Berman and the PBGC with respect to LBI's liability in connection with the termination of the LBHI Retirement Plan. The Trustee has been involved in discussions with LBHI concerning invoices sent to LBI whereby LBHI requested reimbursement for professional fees incurred by it in connection with services it performed in analyzing the termination of the LBHI Retirement Plan.

XVII. EXECUTORY CONTRACTS

201. During the Reporting Period, the Trustee’s professionals continued to determine whether contracts that remained with the estate after the Barclays transaction, 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.

202. In order for the Trustee’s professionals to conduct this review, and preserve the rights of the estate in executory contracts and unexpired leases, during the Reporting Period, the Court granted the Trustee’s requests to extend the time within which the Trustee may assume, assign or reject the LBI’s executory contracts and certain unexpired leases, as provided in section 365(d)(1) of the Bankruptcy Code to, and including, January 7, 2011. (*See* Docket Nos. 3263, 3708, the “Extension Orders.”)

203. In particular, since entry of the Extension Orders, 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. 3376, 3535, 3709, 3720, 3722.) In addition, the Trustee has terminated certain contracts pursuant to Court order, eliminating potential administrative expense claims. (*See e.g.*, Docket No. 3313.)¹⁹

XVIII. INTERNAL CONTROLS AND BOOKKEEPING

204. 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.

205. 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 440 legacy bank accounts (approximately 40 accounts have been closed), including on-going research of 3,700 current and historical outstanding bank items, as well as continuing efforts in research of legacy ledger items;
- resolved 1,200 current and historical items cash reconciliation items since May 2010;
- 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 \$24.5 billion of equity and debt securities;

19. As the Trustee’s professionals complete their analysis of LBI open contractual commitments, there may be additional contracts noticed for rejection.

- processing journal entries to record transactions related to securities and cash movements authorized by the Trustee; and
- processing over 40,000 corporate actions related to securities held at various depositories around the world.

206. 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. (See discussion regarding Trustee’s “public interest discount,” *infra* ¶ 209.)

207. The Trustee maintains a dedicated research team that investigates inquiries submitted by the Trustee and his counsel relating to asset movement and related issues arising from customer claims or former LBI customer inquiries, 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.

208. The Trustee and his professionals continue to monitor LBI’s proprietary assets including, as appropriate, soliciting and/or evaluating bids for such assets.

XIX. PROFESSIONAL RETENTION

209. 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.

210. 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.²⁰

211. 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

20. On June 25, 2010, the Court entered the Order Approving Fourth Application of Hughes Hubbard & Reed LLP for Allowance of Interim Compensation For Services Rendered and Reimbursement of Actual and Necessary Expenses Incurred from October 1, 2009 through January 31, 2010 (Docket No. 3425) providing for the allowance of interim compensation of \$23,948,553.80 and expenses of \$354,344.87. HHR’s fees and expenses are reviewed by SIPC and submitted for Court approval pursuant to the Second Amended Order Establishing Procedures Governing Interim Monthly Compensation of the Trustee and Hughes Hubbard & Reed LLP entered by the Court on April 8, 2010 (Docket No. 3025).

LBI Estate.²¹ Menaker & Herrmann, as special counsel, represents the Trustee on all matters relating to Citigroup Inc. and affiliates or syndicates, including Citibank, N.A.²²

212. 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 before the U.K. High Court in connection with the Client Money Application and RASCALS Application.²³ (*See supra* ¶ 112.)

213. 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* ¶ 141);²⁴ and the Court approved the Trustee's retention of City-Yuwa Partners as Special Japanese Counsel in connection with LBI matters (*see supra* ¶ 121).²⁵

XX. INSURANCE

214. The Trustee has evaluated insurance coverage under which the LBI Estate and/or customers could benefit. The Trustee's team has analyzed available insurance policies to determine their applicability, and monitored proceedings in the bankruptcy court to assess the potential exhaustion of such policies. Additionally, the Trustee is

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21. *See* Fourth Supplemental Declaration of James B. Kobak, Jr. on Behalf of Hughes Hubbard & Reed LLP Regarding Disinterestedness of Counsel dated May 19, 2010 (Docket No. 3287).
 22. On June 23, 2010, the Court entered the Order Approving Second Application of Menaker & Herrmann LLP For Allowance of Interim Compensation for Services Rendered and Reimbursement of Actual and Necessary Expenses Incurred from January 1, 2010 Through April 30, 2010 (Docket No. 3413) providing for the allowance of interim compensation of \$322,659.00 and expenses of \$12,152.87.
 23. On June 23, 2010, the Court entered the Order Approving Fourth Application of Norton Rose LLP for Allowance of Interim Compensation for Services Rendered and Reimbursement of Actual and Necessary Expenses Incurred from September 24, 2009 through March 30, 2010 (Docket No. 3414) providing for the allowance of interim compensation of \$2,184,690.82 and expenses of \$921,674.14.
 24. On June 23, 2010, the Court entered the Order Approving Second Application of Steinmetz, Haring, Gurman & Co. for Allowance of Interim Compensation for Services Rendered and Reimbursement of Actual and Necessary Expenses Incurred from January 1, 2010 Through April 30, 2010 (Docket No. 3412) providing for the allowance of interim compensation of \$5,225.25 and expenses of \$1,088.98.
 25. *See* Order Authorizing the Trustee to Retain and Employ City-Yuwa Partners as Special Japanese Counsel, Nunc Pro Tunc to August 10, 2009 (Docket No. 3264). On June 23, 2010, the Court entered the Order Approving First Application of City-Yuwa Partners for Allowance of Interim Compensation for Services Rendered and Reimbursement of Actual and Necessary Expenses Incurred from August 10, 2009 Through April 30, 2010 (Docket No. 3411) providing for the allowance of interim compensation of \$11,615.04 and expenses of \$66.05.

continuing to investigate facts to determine the existence and/or scope of insurable losses and whether notice under additional insurance policies would be appropriate.

CONCLUSION

The foregoing report represents a summary of the status of this proceeding and the material events that have occurred from May 11, 2010 through October 26, 2010. It will be supplemented and updated with further interim reports.

Dated: New York, New York
October 26, 2010

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 on Hand

As of September 30, 2010

Unaudited (in millions)

Cash and Cash Equivalents	\$1,048
Cash and Cash Equivalents – Post Petition Dividend and Interest	<u>1,178</u>
Total Cash and Cash Equivalents	2,226
Securities (a), (b)	
DTCC	11,553
Other International Depositories ^(c)	230
Goldman Sachs	2,113
Union Bank	<u>4,518</u>
Total Securities	18,414
Total Assets Under Trustee Control (d)	<u><u>20,640</u></u>

(a) Market value of securities calculated by the LBI Estate utilizing available market data; excludes value of customer name securities. Prior to the Third Interim Report, market values were reported from depository statements.

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

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

(d) Does not include assets held in certain foreign 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 September 30, 2010

	Number of CUSIPS	Number of Shares/Par	Market Value (USD)
DTCC			
Corporate Equities	6,821	862,856,913	8,735,886,923
Corporate Bonds	1,103	4,945,647,208	2,186,911,384
Municipal Bonds	103	135,006,791	121,685,246
Mortgage and asset-backed securities	294	6,283,776,522	203,483,263
Government and Agency Bonds	28	95,505,449	80,341,790
Other	894	2,167,446,299	225,012,480
Other International Depositories			
Corporate Equities	305	242,940,366	53,396,416
Corporate Bonds	115	3,218,517,420	127,798,781
Government Bonds	39	58,665,585	47,883,445
Other	31	114,993,057	690,786
Goldman Sachs			
Corporate Equities	47	1,640,945	46,069,335
Corporate Bonds	4	15,001,649	4,526,916
Promissory Notes	5	1,726,044,564	1,730,609,526
Certificate of Deposit	1	330,000,000	331,812,605
Union Bank			
Corporate Equities	15	1,626,284	3,029,640
Corporate Bonds	84	14,745,960	2,778,844
Government and Agency Bonds	128	847,707,069	1,107,116,932
Certificates of Deposit	9	3,396,600,000	3,404,761,501
TOTAL	10,026	24,458,722,081	18,413,795,813

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 – September 30, 2010

Unaudited (in millions)

Beginning Cash ^(b) (9/19/08)	Receipts	Disbursements	Investment in Liquid Assets	Ending Cash and Cash Equivalents (09/30/10)
\$1,374	\$10,464	(\$4,159)	(\$5,453)	\$2,226

(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 prior interim reports this balance was reported as \$1,221 million. Based on information obtained subsequent to September 19, 2008, the beginning cash balance was adjusted as of August 31, 2010 by \$153 million to reflect the removal of account balances that were not under control of the Trustee as of September 19, 2008 (net total of these balances was in an overdraft position) and accounts that were subsequently seized.

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 – Schedule of Administrative Expenses

Unaudited (in thousands)	Disbursed as of
	<u>September 30, 2010</u>
Professional Fees	
Deloitte Accountants and Consultants	199,717
EPIQ Noticing and Claims Agent	8,510
Financial Industry Technical Services, Inc. Claims Processing Consultants	4,613
Hughes Hubbard & Reed LLP Counsel to the Trustee	107,819
Norton Rose (includes barrister fees) Special Counsel	4,976
Other Consultants (e.g., technology, valuation services)	5,542
Other legal Counsel	836
Other Legal Services (e.g., e-Discovery)	279
Trustee's Staff	4,078
TSA Services	
Barclays	73,254
LBHI	1,180
Other (ongoing rent of \$34k/month, Iron Mountain, Broadridge information technology, office equipment, etc.)	9,168
Total	<u><u>\$419,972</u></u>

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 Claims¹	124,977	\$180,385.8
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	14,057	\$88,084.5
Total Customer Claims closed through the Claims Process^{2, 5}	10,496	\$47,612.7
Claims Allowed ³	837	\$9,476.4
Claims Reclassified as General Creditor Claims	2,784	\$10,457.3
Claims Denied	6,875	\$27,679.0
Total Unresolved Customer Claims⁴	3,561	\$40,471.8
<small>(Additional details related to unresolved claims in subsequent page)</small>		

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 was filed, the objection was withdrawn or the Trustee's determination was confirmed by Court Order.
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: \$6,793.3M of reclassified amount, \$5,977.0M of denied amount and \$3,250.0M determined to be deficient. The majority of the 1,100 accounts are allowed where as a portion may be reclassified or denied.
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.
5. Does not include 104 allowed, 1,140 reclassified and 763 denied claims which are reported as Objections to Claims Determinations.

Claims Administration – Summary of Customer Claims Processing

	<u>Claims</u>	<u>Total Amount (in Millions)</u>
Total Unresolved Non Affiliate Customer Claims¹	2,145	\$16,139.9
Claims Allowed	43	\$244.2
Claims Reclassified as General Creditor Claims	26	\$21.5
Claims Denied	69	\$1,258.2
Objections to Claims Determinations ²	2,007	\$14,616.0
 Total Unresolved Affiliate Customer Claims	 1,416	 \$24,331.9
LBIE Claims ³	1,116	\$16,028.6
LBHI Claims ⁴	263	\$7,909.6
Other Affiliates ⁵	37	\$393.7

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 2007 objections, approximately 104 represent allowed claims with allowed amount of \$334.3M.
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: \$6,793.3M of reclassified amount, \$5,977.0M of denied amount and \$3,250.0M determined to be deficient. The majority of the 1,100 accounts are allowed where as a portion may be reclassified or denied.
4. LBHI claims in dispute include 56 reclassified claims (\$4,651.8M), 177 denied claims (\$711.5M), and 30 deficiency related claims (\$2,546.3M).
5. Other Affiliate claims in dispute include 11 allowed claims (\$70.7M), 13 reclassified claims (\$172.6M), 6 denied claims (\$19.8M) and 7 deficiency related claims (\$130.6M).

Claims Administration – Summary of Customer Claims Processing

Claims Determined Through the Claims Process

Customer Claims Categories (In millions)	Allowed Claims¹	Denied and Closed (includes Reclassified)	Unresolved Claims²	Grand Total
Non-Affiliate	\$ 2,971.5	\$ 20,960.9	\$ 15,895.7	\$ 39,828.1
LBIE	6,226.0	788.5	16,028.6	23,043.1
LBHI	523.1	11,471.3	7,909.6	19,904.0
Other Affiliates	70.7	4,915.6	323.0	5,309.3
Total Amount	\$ 9,791.3	\$ 38,136.3	\$ 40,156.9	\$ 88,084.5

1. The total allowed claims equals approximately \$10.1 billion when including approximately \$300 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.

EXHIBIT 3

Claims Administration – Summary of Objections Received as of September 30, 2010

Claim Type/Issue	Number of Pending Objections
Forward Transactions / To-Be-Announced (“TBA”) Contracts	728
LBIE Accounts	274
Empty Accounts /Non-LBI/Account Transferred	90
Repurchase Agreement	39
Miscellaneous Prime Brokerage Related Objections	35
Reservation of Rights	25
Soft Dollar	24
Foreign Currency Transactions	10
Claimant Determined to be Indebted to LBI	8
Fraud	8
Unauthorized Trades / Auction Rate Securities	5
Short Positions are Valued at 9/19	5
Other	27
Total Resolved Objections	113
Total Received Objections	1,391 ¹

1. The 1,278 objections relate to 2,149 filed customer claims.

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.

MISDIRECTED WIRE STATISTICS (THROUGH 09/30/10)		
	Number of Wires	Approximate Amount (USD in millions)
Returned		
• Without further court authorization	439	\$5.5
• With further court authorization	351	\$537.9
TOTAL	790	\$543.4
Pending		
• Pre-petition	85	\$28.7
• Post-petition	125	\$38.2
TOTAL	210	\$66.9

MISDIRECTED WIRES RETURNED (BETWEEN THIRD INTERIM REPORT AND 09/30/10)	
Number of Wires	Approximate Amount (USD in millions)
116	\$23.7

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EXHIBIT 5

Clearance Bank Role for Broker-Dealers

START OF DAY

- Clearance Bank processes the unwind of Tri Party Repo between the Broker-Dealer (“Cash Borrower”) and Cash Investor
- Cash Borrower account debited (decreased) by Clearance Bank, Cash Investor bank account credited (increased)
- Collateral securities returned to Cash Borrower’s account

INTRA DAY

- Negotiation of repo quantity (based on Cash Borrower projections), acceptable collateral and repo rate during the day
- Intraday credit to Cash Borrower provided by Clearance Bank to facilitate securities settlement

END OF DAY

- Repo quantity, rate and collateral finalized, Clearance Bank locks up securities in Cash Investors account
- Funds credited by Clearance Bank to Cash Borrower’s account (eliminates overdrawn position)

Broker Dealer Clearance Bank Account Example

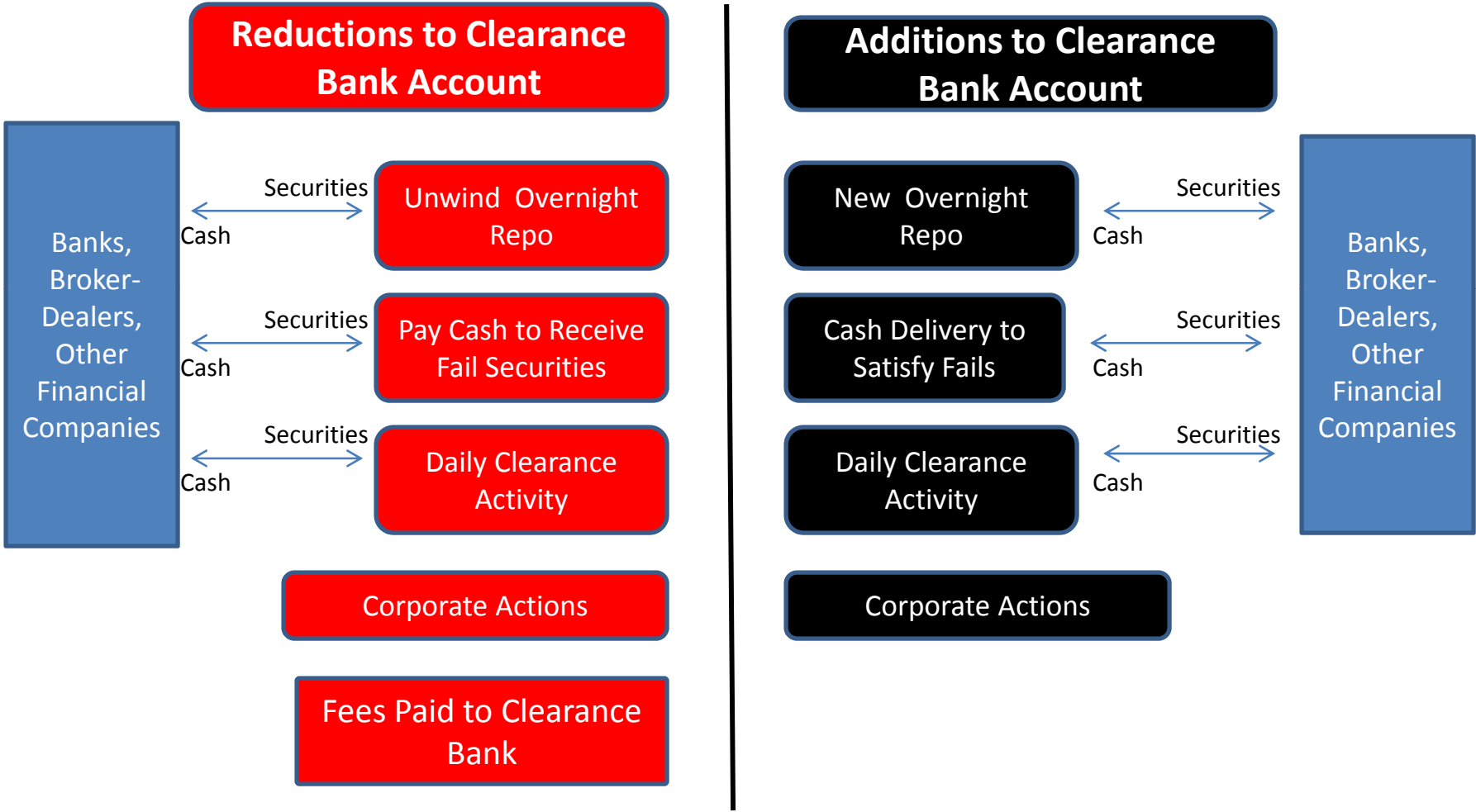


EXHIBIT 6

Summary of Data Migrated by the Trustee as of September 30, 2010

- 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.

Key Systems Identified: 130 of 2,700

Systems Fully Migrated: 123 of 130

Number of Databases: 538

Number of Tables: 116,448

Data Collected (GB): 112,640

Number of Records: 154,200,818,485

- The amount of information moved to date exceeds 112.6 Terabytes. This amount, if printed, would yield a stack of paper nearly 1,067 miles high, or more than 194 times the height of Mt. Everest.
- The Trustee has collected more than 154,000,000,000 records documenting historical transactions carried out by LBI. This information is stored in more than 116,000 tables in 538 databases.

Technology/Systems & Data Management

- Reducing reliance on Barclays for applications and technology infrastructure

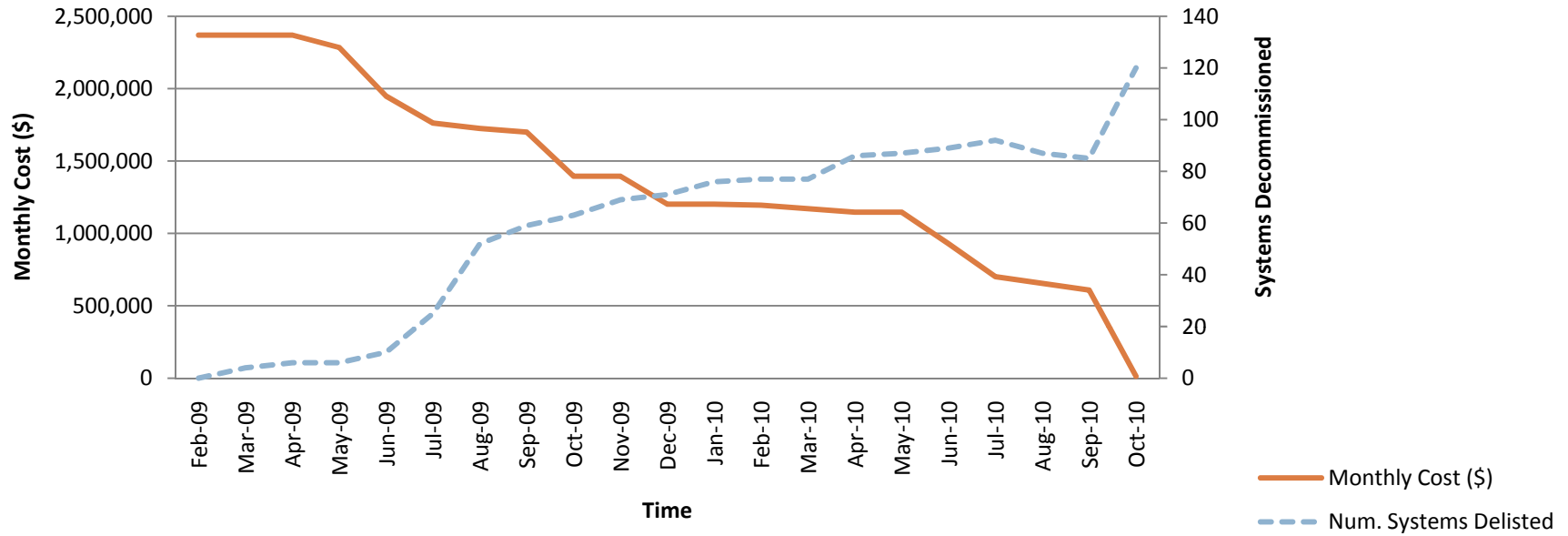
Completed

- Defined the future state Trustee operating environment
- Established a technology environment and infrastructure and application support
- Completed the migration of a majority of the books and records data to the Trustee's platforms
- Established databases for use in responding to requests from regulators, and for managing correspondence and inquiries from customers and others

Continuing

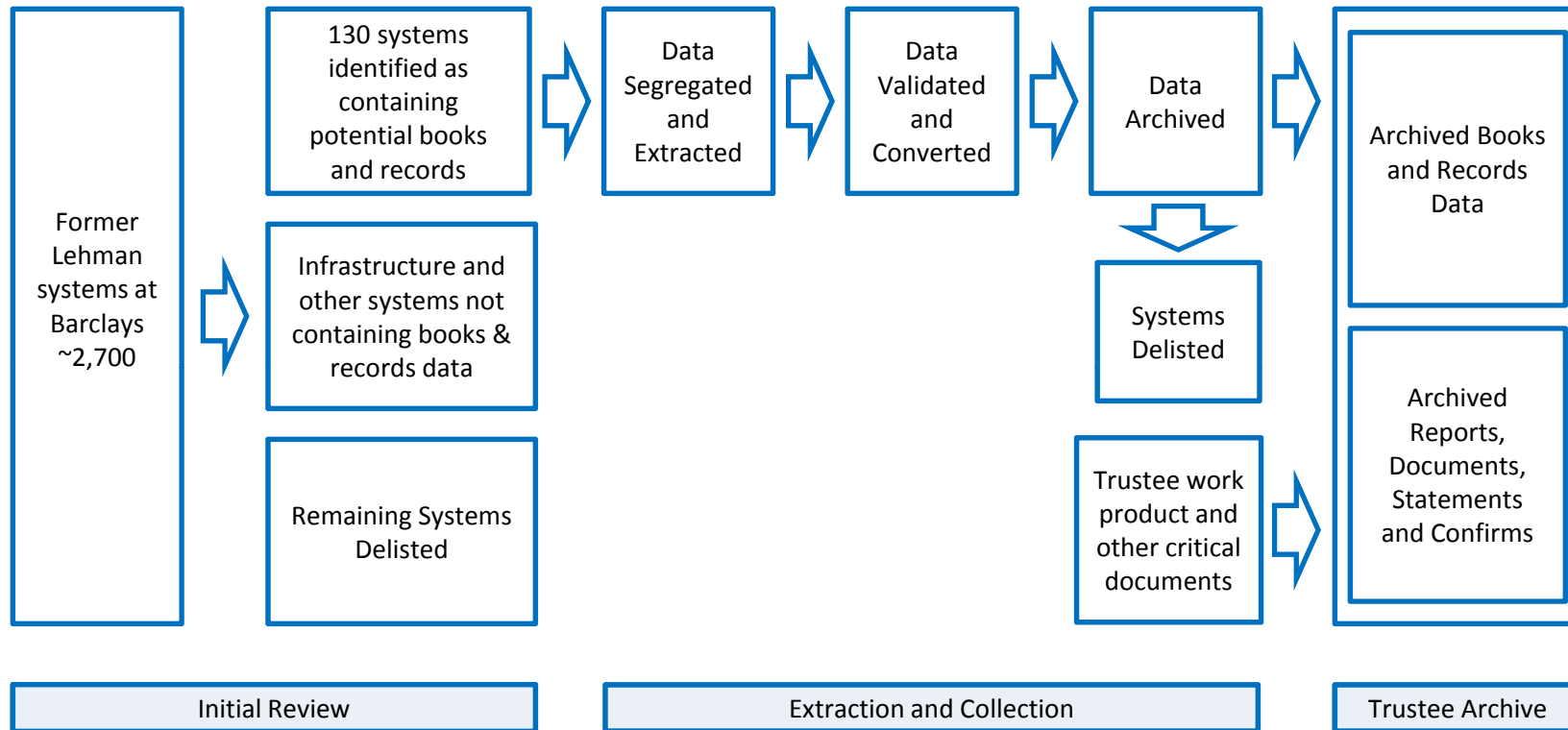
- Continuing to execute the plan to decommission legacy Lehman systems and move to the future Trustee application environment, independent of Barclays
- Continuing to collect and secure books and records of LBI
- Extracting, retrieving, and analyzing data as needed

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.

Summary of Data Collection and Archiving Process as of September 30, 2010



Summary of Usage of Data

