

In re Lehman Brothers Inc.,
Case No. 08-01420 (JMP) SIPA

State of the Estate
October 28, 2010

This State of the Estate Presentation is intended to be read in conjunction with the Trustee's Fourth Interim Report, filed on October 26, 2010, which is available at www.lehmantrustee.com.

The information herein is based on the information available to the Trustee at this time, but this information may be incomplete and should not be relied upon. This presentation was prepared for purposes of presenting the Court with a status of the LBI liquidation proceeding as of the date of the presentation and is not meant to be relied upon by investors or others as a complete description of the LBI Estate, condition (financial or otherwise), prospects, assets or liabilities. The information in this presentation will be updated, including any corrections, in connection with future Interim Reports and presentations to the Court. The information in this presentation is not prepared in accordance with U.S. generally accepted accounting principles. The realized value of certain assets may be zero or different from the estimates on which this presentation is based. Selected balances and information presented herein have not and will not be subject to audit or review by external accountants. The Trustee reserves all rights to revise this presentation.

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Progress To Date

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- **Realization Summary**
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Progress To Date *(continued)*

- Trustee has addressed 125,000 customer claims seeking return of over \$180 billion
- **Customer Account Transfers**
 - More than 110,000 accounts aggregating in excess of \$92 billion; completed by Court's Order of December 14, 2009
 - Most customers able to trade within a few days of the filing date
- **Customer Claims Process**
 - 14,000 customer claims filed, including affiliates
 - Every customer claimant has received a letter of determination within 15 months of claims bar date
 - Over 900 customer claims have been allowed approximately \$10 billion
 - Over 9,600 have been disallowed (over \$37 billion) and are final because no objection filed (i.e. claimant agreed with Trustee, objection withdrawn, or objection expunged by motion)
 - 3,500 claims determined but subject to potential dispute (2,000 objections filed; remainder mostly from LBIE, LBHI and other affiliate claims); scheduled throughout the next 9 to 15 months if no other disposition

Progress To Date *(continued)*

<u>Customer Claims Process</u>	<u>Claims</u>	<u>Total Amount (in millions)</u>
Total Customer Claims ¹	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 Claims ⁴	3,561	\$40,471.8

(Additional details related to unresolved claims in subsequent page)

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

1. Excludes three Barclays Omnibus claims (House, Admin and duplicate).
2. No objection 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.

Progress To Date *(continued)*

Customer Claims Process *(continued)*

➤ Claims Determined Through the Claims Process

Customer Claims Categories <i>(in millions)</i>	Allowed Claims¹	Denied and Closed (includes Reclassified)	Unresolved Claims²	Grand Total
Other Customers	\$ 2,971.5	\$ 21,749.4	\$ 15,895.7	\$ 40,616.6
LBIE	6,226.0	-	16,028.6	22,254.6
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.

Progress To Date *(continued)*

➤ Marshalling Assets and Liquidating the Business

- Estimated \$20.6 billion in cash and securities, to be augmented incrementally with recoveries
 - LBI estate opened from a position of virtually no cash for operations
- Bulk is customer property but precise amount must be allocated following principles in Allocation Motion and Order of March 2, 2010
- Creation of administrative office and staff including industry and former LBI employees from position of no staff, reliance on partial access to Barclays, and other staff at substantial cost
- TSAs or other agreements negotiated to permit claims processing, identification of assets and recoveries; significant reduction in expense and migration of services away from Barclays and others
 - Barclays' fees as high as \$5 million per month now less than \$1 million

Progress To Date (continued)

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

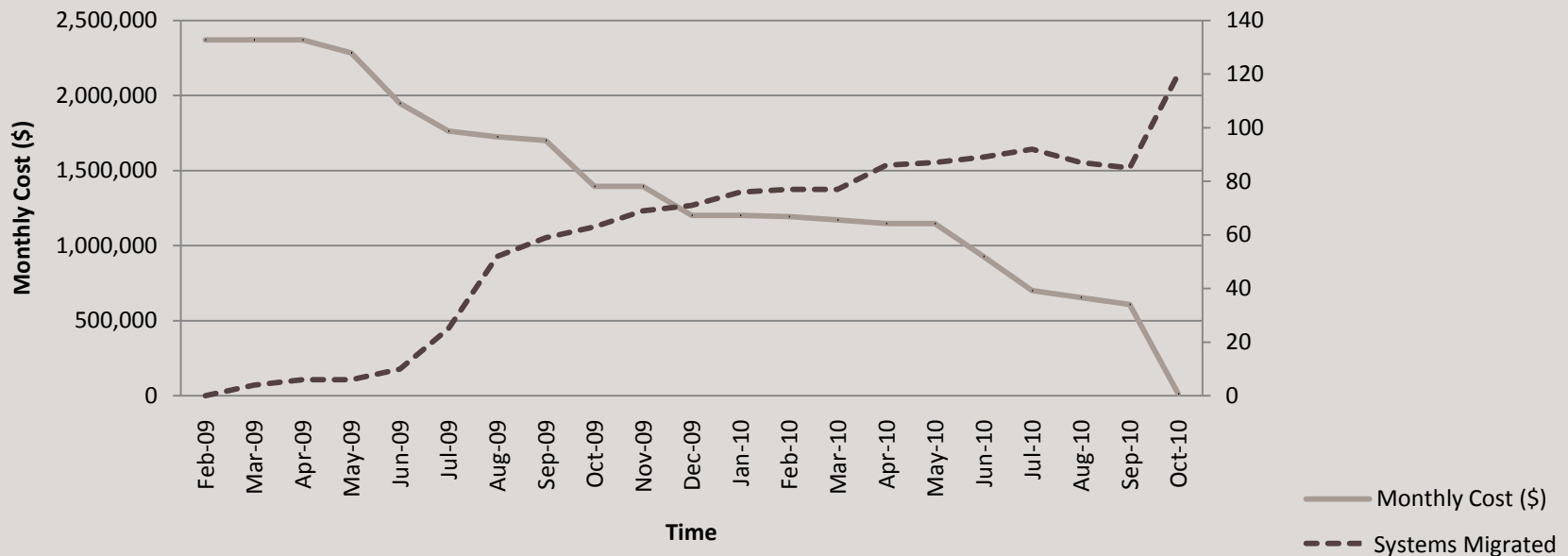
Data Collected (GB): 112,640

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.

Progress To Date *(continued)*

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.

Progress To Date *(continued)*

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
Other Domestic Depositories	<u>6,631</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.

Progress To Date *(Continued)*

➤ Realization Summary

LBI's loss of apparent book value amounted to approximately \$15-\$20 billion over the period August 31, 2008 to August 31, 2010; significant items contributing to this loss of apparent book value include the following known or potential losses, some of which are subject to further investigation and possible action by the Trustee, and include:

- \$4.1 billion haircut on unwind of September 18, 2008 repurchase agreement
- \$1.5 billion related to Court approved Account Transfers
- \$3.5 billion loss on potentially over-valued collateral liquidated and collateral seized by JP Morgan Chase
- \$3.7 billion operating loss for the period August 31, 2008 to September 19, 2008
- Other losses in the range of \$3 billion to \$7 billion that cannot be estimated more precisely as to amount include:
 - Loss on potentially overvalued securities and reverse repurchase transactions
 - Loss of partial value of investment in subsidiaries listed on LBI books
 - Costs and expenses associated with unwinds of transactions terminated because of liquidation
 - Diminution of value of some securities

Progress To Date *(continued)*

➤ General Creditor Claims

- Over 12,500 general creditor claims subject to review and reconciliation which appear to exceed \$47.5 billion. Bulk are securities, financing, and intercompany transactions
- Customer claims not fully satisfied from “fund of customer property” become claims against the general estate
- Trustee has commenced preliminary review of over 3,000 general creditor claims identified as either secured, administrative or priority claims
- Significant work on most general unsecured claims will await determination that there will be a meaningful General Estate

Progress To Date *(continued)*

➤ Investigation and Reporting

- Four Interim Reports and Trustee's Preliminary Investigation Report completed and filed
 - Chronicles LBI's demise; explains some of the decline in assets and value
 - Recommendations for reform
 - Broker-dealer pre-liquidation plans
 - Pre-liquidation negotiations and provisions on mechanics of asset transfers
 - Balancing clearing banks' and others' safe-harbor rights against the need for transparency
 - Improvement of clearing agencies' emergency rules and operations
 - Suggestions for reconsidering unitary nature of fund of customer property
 - Increasing SIPC's financial resources and borrowing authority
 - Recommendations for short-term reinstatement of automatic stay
 - Rational rules for unwinding outstanding non-customer financial transactions
- www.lehmantrustee.com
- Affiliate meetings to resolve mutual claims under protocol and frequent meetings with other creditor groups and regulators
- Responding to hundreds of subpoenas and information requests in third party litigations and regulatory investigations and questions about regulatory reform

What Is Next?

- **Customer Claims Process**
- **Customer Claim Objections**
- **Reports, Recommendations, and Communications**
- **Financial Projections**
- **Major Due Diligence and Other Investigations, Possible Sources of Recovery, and Potential Adversary Proceedings**
- **Contingencies, Ongoing Areas of Anticipated Litigation**

What Is Next? *(continued)*

➤ Customer Claims Process

- Resolve or litigate remaining customer claims objections
- LBIE customer omnibus claim and proprietary claims
 - \$22.2 billion asserted, \$6.2 billion allowed, \$16 billion disallowed, time to object extended
- LBHI affiliate customer claims: substantial number and amount of claims subject to subordination by agreement or understanding, SIPA §78lll(2)(c)(ii)
 - \$19.9 billion asserted
 - \$523 million allowed
 - At least \$11 billion subject to subordination
 - Approximately \$8 billion disallowed, time to object extended
- Parties working to resolve as many issues as possible with dedicated teams of attorneys and professionals working with LBIE and LBHI, but may be motions and appeals

What Is Next? *(continued)*

➤ Customer Claims Process *(continued)*

Approximately 2,000 customer claim objections in asserted amounts over \$15 billion

1. Over 110 withdrawn or denied
2. Over 170 represent minor factual discrepancies, empty or transferred accounts, or non-customer transactions to be determined within the next 9 to 12 months
3. Many involve issues of interpretation of customer definition
 - TBAs (728 objections)
 - Repos (40 claim objections)
 - Miscellaneous: underwriting fees (3 claims); “soft dollars” (24 claims); short position valuation (5 claims)
4. Approximately 200-300 involve claimants in LBIE proceeding, some of whom contended they have claims against LBI as well as LBIE
5. Many objections to categories 3 and 4 may have to be resolved by motions and appeals

What Is Next? *(continued)*

➤ Reports, Recommendations, and Communications

- Interim Reports every six months
- Final Report
 - Final accountings and disposition of property
 - Further reports on matters affecting debtor's business, property and decline in value of property
 - Report on potential causes of actions
 - May recommend further changes, if relevant
- Update website (www.lehmantrustee.com); respond to inquiries; continue meeting with relevant parties

What Is Next? *(continued)*

➤ Financial Projections

- Likely total property potentially available for distribution: \$20+ billion
 - Subject to Barclays claim and Allocation between Customer and General Estate property and post-Filing Date dividends and interest
- Allowed customer claims: approximately \$10 billion to date
 - Over \$38 billion disallowed and final; much of it is reclassified to General Estate
- About \$40 billion in customer claims still in dispute or unresolved
 - LBIE and LBHI claims account for much of the amount although some other significant categories (TBAs, repos, some LBIE claimants)
- General Estate claims: asserted for over \$47 billion; does not yet include all reclassified customer claims, any deficiency in customer claims, or SIPC advances

What Is Next? *(continued)*

➤ Major Due Diligence and Other Investigations, Possible Sources of Recovery, and Potential Adversary Proceedings

- Unwinds and preference actions; continued recoveries; over 200 tolling agreements
- JPMorgan Chase
- DTCC
- Citibank
- Chicago Mercantile Exchange
- LBHI and Certain Other Affiliates
- LBIE
 - Client money - U.K. Supreme Court possible for summer 2011
 - "RASCALS" - trial concludes October 2010
 - Other claims to securities

What Is Next? (continued)

➤ Contingencies; Ongoing Areas of Anticipated Litigation

- LBHI and LBIE claims
- Barclays litigation
- Other customer claims issues
- Final Allocation of property between Customer and General Estate property
- Possible major litigation or resolution of issues in connection with recovery efforts
- Determination of amount and manner of distribution on *pro rata* share of net equity claims to customers
- Determination of amount and manner of distribution on post-Filing Date dividends and interest
- Resolution of general creditor claims

Internal Work Plan

- LBIE/LBHI claims issues
 - Present to Bankruptcy Court within 6 months, as necessary
- Non-affiliate customer claims issues
 - Complete presentation to Bankruptcy Court in 2011
- Recovery actions
 - Resolve/commence all actions and adversarial proceedings to recover property within next 6 months (Barclays in progress)
- Allocation and distribution motions: as soon as practicable after major contingencies are resolved

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