## FAQ on the State of the Estate

On August 9, 2011, the Trustee for Lehman Brothers Inc. ("LBI") and his representatives presented a State of the Estate update before Judge James M. Peck of the United States Bankruptcy Court for the Southern District of New York.

On August 10, 2011, in New York City, and on August 12, 2011, in London, the Trustee and/or his representatives presented the State of the Estate to creditors and other interested parties. The New York presentation was sponsored by the Managed Funds Association, and the London presentation was sponsored by the Alternative Investment Management Association.

The State of the Estate summarizes the efforts of the Trustee to resolve claims in a fair, transparent and orderly process and vigorously marshal assets to maximize the amount available for distribution as customer property. Below are answers to some representative questions asked by attendees of the presentations.

### How much property is in the LBI Estate?

There is approximately $25 billion in cash and securities presently under the Trustee's control, which is reduced to $20.6 billion when factoring in certain reserves ($3 billion related to Barclays litigation and $1.3 related to post-petition dividends and interest).

This is the total amount of property in the LBI estate. This amount will be allocated between the fund of customer property and the general estate. Claims against the LBI estate exceed the current total value of the estate: $12.2 billion in allowed customer claims, and approximately $100 billion of unresolved customer claims and asserted general creditor claims. The estate may be augmented by further recoveries and settlements by at best a few billion dollars.

### What is allocation and why does the Trustee need to do it?

In a liquidation under the Securities Investor Protection Act ("SIPA"), the Trustee allocates estate property between a fund of customer property and a general estate. The fund of customer property is used to satisfy customer claims. A separate general estate is used to satisfy general creditor claims and other expenses in accordance with the priorities of the Bankruptcy Code. If there is any shortfall in the satisfaction of customer claims (i.e. if customers receive less than 100 cents on the dollar), then that shortfall becomes a general unsecured claim against the general estate as well.

U.S. customer protection rules require a broker-dealer to segregate, or set aside, customer property from other property and maintain reserves for the exclusive benefit of customers. The SIPA liquidation process mirrors the customer protection intent of these rules: where a broker-dealer has failed to set aside customer property, property may be transferred from other sources to the fund of customer property to compensate for such compliance shortfalls. In 2010, the Court sustained the Trustee's authority to compensate customers for compliance shortfalls in this case. See Order.

The Trustee intends to file a proposed allocation to the Court on motion with notice to and the opportunity to be heard by all interested parties in the next few months. The allocation, relying on the principles set forth in the Court's 2010 Order, will specify the property the Trustee proposes to allocate to the fund of customer property and the general estate. The Court will determine the appropriate allocation based on the Trustee's motion and responsive submissions.

**When will distributions begin on allowed customer claims?**

The Trustee will make distributions on allowed customer claims when major claims determination issues are resolved, the fund of customer property is established, and there is sufficient clarity on, or resolution of, at least several of the major contingencies. Distributions may occur in stages depending on the value of all allowed claims, available assets, and resolution of contingencies. The Trustee continues to study the feasibility of an interim distribution, which is complicated by the significant cost and complexity of implementing a distribution.

**What assets are expected to be in the general estate?**

The size of the general estate will be determined by an allocation proposal that must be presented to and approved by the Court. While the precise size of the general estate has not yet been established, it is clear that LBI's apparent capital base had disappeared by September 19, 2008, that significant property was held in segregation for customers, and that total claims to the general estate exceed all amounts under the Trustee's control, let alone those that will be available for general creditors. As a result, even assuming some additional recoveries and significant reductions in allowable claim amounts, a major shortfall in the general estate is inevitable.

**When will post-petition dividends and interest be distributed and in what form will the distributions be in?**

As of June 30, 2011, the Trustee has received approximately $1.3 billion of dividends and interest received after September 19, 2008 on both customer and proprietary assets. These post-petition amounts are accounted for separately from other estate property. SIPA does not specify how a trustee is to treat post-petition interest and dividends attributable to customer property. The Trustee believes that these amounts should be returned to customers, and intends to present a motion requesting that the Court approve a method of determining and distributing dividends and interest once the universe of allowed claims is known and the fund of customer property has been established. The motion will be on notice to all parties in the case.

The distribution of post-petition dividends and interest will most likely occur after or in conjunction with distributions from the fund of customer property, but prior to distributions to general unsecured creditors.

**How does the Trustee treat corporate actions?**

The Trustee's professionals monitor redemptions, tender offers, and other corporate events affecting securities under the Trustee's control as part of the ongoing administration of the LBI estate. All decisions with regard to participation in corporate actions are determined pursuant to the Trustee's business judgment regarding the interests of the LBI estate.

**What is the process for resolving duplicate LBIE/LBI claims?**

The Trustee is presently working with Lehman Brothers International (Europe) ("LBIE") Administrators to identify and reconcile duplicate claims submitted by LBIE customers in the LBIE and LBI proceedings. In addition, the Trustee has begun the process of comparing the allowed LBIE omnibus claim to the SIPA claims of LBIE customers. This is a time consuming and exhaustive process that involves a cusip-by-cusip comparison per customer. In some cases, LBIE customers held non-U.S. securities, which were not held in the omnibus account at LBI. Securities that LBIE rehypothecated would similarly not be held in the omnibus account at LBI. Nevertheless, the Trustee expects to resolve many LBIE customers' objections through the allowed LBIE omnibus customer claim. Some objections, however, may have to be litigated.

**What are the major remaining contingencies?**

LBIE submitted a $13.9 billion proprietary ("house") claim. In September 2010, the Trustee determined that this was not a customer claim. LBIE objected to the Trustee's determination as it relates to approximately $8.9 billion of its house claim. The parties have entered a Joint Scheduling Order for judicial determination of the dispute.

LBIE also filed a $16.4 billion omnibus customer claim on behalf of its underlying customers. The Trustee allowed this claim in the amount of approximately $8.3 billion. LBIE's deadline to object to the portions that were denied or reclassified is October 31, 2011. Almost three hundred of LBIE's underlying customers filed customer claims to the same property, which the Trustee denied as improper claims against LBI since the property was not held in LBI accounts but in LBIE accounts. The claims of LBIE customers that are duplicative in part of LBIE's omnibus customer claim total approximately $13 billion. While the Trustee expects the amounts that are unresolved with respect to these customers to be reduced significantly as duplicative claims are resolved, he recognizes that there are likely to be some significant disputed amounts with respect to some claims that will likely have to be resolved through further discussions and litigation.

Lehman Brothers Holdings Inc. ("LBHI") and the other Chapter 11 Debtors asserted claims totaling $19.9 billion. The Trustee has allowed over $523 million and the Chapter 11 Debtors agree that $11.4 billion is subject to subordination. The remaining $8 billion potentially in dispute has been denied or reclassified by the Trustee. The Chapter 11 Debtors' deadline to object is September 30, 2011.

Other major contingencies include resolution of the Barclays appeal and the allocation motion described in the above.

**Does the Trustee intend to make distributions on the LBIE omnibus claim to LBIE or to the underlying LBIE customers?**

The Trustee prefers a cross-border approach that resolves the LBIE omnibus customer claim and also provides for distributions to underlying LBIE customers. The Trustee will require appropriate releases from customers and LBIE before property is released.