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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 EIGHTH INTERIM REPORT FOR THE PERIOD
APRIL 21, 2012 THROUGH OCTOBER 24, 2012**

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

Under this Court's supervision during the Report Period the Trustee has materially advanced all remaining customer claims to the brink of a 100 percent distribution and has unlocked the possibility of a meaningful return to general unsecured creditors. Thus, if agreements reached in the past six months are consummated and approved, the historic collapse of Lehman Brothers Inc. ("LBI") may be considered as not only the largest and most challenging stock broker liquidation in history, but also will be confirmed as the most successful. Retail customers received 100 percent recoveries through account transfers within days of the commencement of the liquidation. If the agreements are consummated and approved, affiliate, hedge fund, and institutional customer claimants will join them in receiving 100 percent distributions of customer property. In total, every one of LBI's 110,000 customers will have been made whole through transfers of accounts or distributions totaling over \$105 billion of property, an extraordinary reminder of the continued reliability of both the SIPA framework of customer protection and the positive role of the Bankruptcy Court in this and other districts.

This Report summarizes these and other of the Trustee's substantial activities and accomplishments during the Report Period for the benefit of customers and other creditors of LBI. Specifically, the Trustee:

- Reached an agreement in principle with Lehman Brothers International (Europe) ("LBIE") to resolve all claims between LBI and LBIE totaling approximately \$38 billion. The October 4, 2012 agreement in principle is subject to drafting and execution of a final and binding agreement, and court approval. However,

- effective immediately, and regardless of the outcome of further drafting, the agreement in principle caps the maximum recovery each of LBI and LBIE can make from the other's estate from the claims asserted;
- Negotiated and achieved settlements in principle with Lehman Brothers Bankhaus AG ("Bankhaus"), Lehman Brothers Luxembourg S.A. ("LBLux") and Lehman Brothers Finance AG ("LBF") to resolve claims totaling more than \$7 billion, and continued to advance settlement negotiations with other international affiliates. The settlements in principle are subject to negotiation, execution of final and binding agreements, and court approval;
 - Continued to work toward consummating the settlement in principle with Lehman Brothers Holdings Inc. and certain of its affiliates ("LBHI") to resolve all claims between the estates;
 - Continued to litigate the approximately \$7 billion dispute with Barclays Capital Inc. ("Barclays") that is currently on appeal in the United States Court of Appeals for the Second Circuit and will materially impact the assets available in the estate for distribution to claimants;
 - Negotiated with non-affiliated claimants the withdrawal of more than \$120 million in customer claims;
 - Won a favorable ruling from the Court confirming that claims for soft dollar commission credits are not customer claims under SIPA; and
 - Initiated a comprehensive review and reconciliation of all general creditor claims to determine the validity and actual allowed amounts of such claims, and filed two omnibus objections to general creditor claims as well as a motion for approval of

general creditor objection procedures and settlement procedures.

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 Commodity Futures Trading Commission (“CFTC”), and the Financial Industry Regulatory Authority (“FINRA”).

The Trustee continues to respond regularly to formal and informal information requests from regulators and others as well as a steady flow of third-party subpoenas and information requests. Equally important, the Trustee and his professionals interact with scores of LBI’s customers and general creditors each week, and regularly communicate with other direct and indirect parties in interest.

1. James W. Giddens (the “Trustee”), as trustee for the liquidation of LBI under the Securities Investor Protection Act (“SIPA”), 15 U.S.C. §§ 78aaa *et seq.*,¹ respectfully submits this Eighth Interim Report (this “Report”) in accordance with the terms of the Order of the Court entered on November 7, 2008 (ECF No. 241), and pursuant to SIPA § 78fff-1(c).

2. This Report covers the period from April 21, 2012 through October 24, 2012 (the “Report Period”).²

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

I. FINANCIAL CONDITION OF ESTATE

4. For information relating to the LBI estate’s financing, see Exhibit 1.

5. This financial information reflects cash, cash equivalents, and other short-term liquid assets in the amount of \$13.5 billion and securities in the amount of \$12.5 billion. All of the assets are currently under the Trustee’s control. This information is based on a reasonable approximation of the current 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.

6. The Trustee has used available market data to calculate the market value of securities. Where market data is not available within 30 days of the report, the security is valued at zero.

7. The Trustee has engaged BlackRock Financial Management, Inc. (“BlackRock”) to provide valuation services with respect to unpriced securities, and efforts in this regard are ongoing.

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

2. Prior reports covered the periods from: September 19, 2008 through May 29, 2009 (the “First Interim Report,” ECF No. 1151); May 30, 2009 through November 11, 2009 (the “Second Interim Report,” ECF No. 2055); November 12, 2009 through May 10, 2010 (the “Third Interim Report,” ECF No. 3244); May 11, 2010 through October 26, 2010 (the “Fourth Interim Report,” ECF No. 3842, *corrected by* ECF No. 3864); October 27, 2010 through April 22, 2011 (the “Fifth Interim Report,” ECF No. 4245); April 23, 2011 through October 21, 2011 (the “Sixth Interim Report,” ECF No. 4657); and October 22, 2011 through April 20, 2012 (the “Seventh Interim Report,” ECF No. 5035).

II. CLAIMS ADMINISTRATION

Customer Claims Progress in Report Period

8. The Trustee resolved in principle over \$32 billions of customer claims in this Report Period. As detailed in this Report, the Trustee reached significant agreements in principle with LBIE (*see* Section III), Bankhaus (*see* ¶¶ 33-34), LBLux (*see* ¶ 36) and LBF (*see* ¶ 38). The Trustee has also continued settlement negotiations regarding an agreement in principle with LBHI (*see* Section IV) and other foreign affiliates (*see* Section V) and hopes to resolve all claims in the near future. During the Report Period, the Trustee resolved over 142 non-affiliate claims either through voluntary claim withdrawals or by motion, aggregating in excess of \$121.4 million, including successfully litigating and resolving 24 soft dollar customer claim objections (*see* ¶¶ 47-49).

9. The majority of customer claims have now been resolved or resolved in principle. Those that remain unresolved are the duplicative claims of LBIE clients (*see* ¶ 41), 41 repurchase agreement counterparty customer claim objections (*see* ¶¶ 43-45), and 481 remaining TBA claims (*see* ¶ 42), which are largely resolved or scheduled for resolution by the Court. In addition, there are several miscellaneous claims totaling \$253.8 million which the Trustee continues to work to resolve (*see* ¶ 49).

10. For information about the Trustee's use of SIPC advances to satisfy customer claims in amounts up to \$500,000, *see* the Sixth Interim Report paragraph 16. The Trustee has not requisitioned to date, and does not presently anticipate having to requisition, any funds from SIPC in the course of the liquidation to pay administrative expenses.

General Creditor Claims Overview

11. Having reached agreements in principle with LBIE and LBHI to resolve the claims among their respective entities, and having substantially completed the processing of customer claims filed against the LBI estate, the Trustee has good reason to believe that there will be a meaningful distribution of the LBI general estate.

12. Accordingly, in keeping with SIPA and section 704(a)(5) of the Bankruptcy Code, the Trustee has initiated a comprehensive review and reconciliation of all general creditor claims filed in this proceeding to determine the validity and actual allowed amounts of such claims. During the Report Period, the Trustee began the process of objecting to claims by filing his first and second omnibus objections to general creditor claims pursuant to section 502(b) of the Bankruptcy Code as made applicable to this proceeding pursuant to SIPA sections 78fff(b) and 78fff-1(a) and Rule 3007(d)(1) of the Federal Rules of Bankruptcy Procedure. (ECF Nos. 5380, 5389.)

13. Further omnibus and other objections will be filed on a regular basis. To that end, and in the interest of reducing the administrative and financial burden imposed on the Court and the LBI estate and expediting the process, the Trustee filed his motion

for approval of general creditor claim objection procedures and settlement procedures (ECF No. 5392), which will be heard by the Court on November 14, 2012.

14. The Trustee's preliminary analysis of general creditor claims reflects that close to 9,000 claims have been filed as general creditor claims against the LBI estate in an asserted amount of approximately \$113 billion (without ascribing value to unliquidated amounts).

15. In addition, of the more than 13,000 claims filed as customer claims against the LBI estate, approximately 4,500 have been reclassified as general creditor claims. The Trustee estimates that the claimed amount for these reclassified claims exceeds \$12 billion.

16. Based on a preliminary review of the close to 9,000 claims filed as general creditor claims and the approximately 4,500 customer claims that have been reclassified, the Trustee estimates the total projected allowable amount will be in the range of \$25-35 billion.

17. Within these preliminary estimated figures, approximately 1,200 claims seeking priority status under the Bankruptcy Code have been filed, with an asserted value of approximately \$3 billion. The Trustee estimates the allowed amount of these alleged priority claims will be in the range of \$273-283 million.

18. EPIQ Bankruptcy Solutions, LLC maintains Customer and General Creditor Claims Registers (the "Registers"). Parties-in-interest may obtain online access to review both Registers and filed claim forms by contacting EPIQ Systems at (646) 282-2400. Representatives of the Trustee, including counsel, are not authorized to answer questions about specific claims or claim amounts other than from owners of the claim. Parties should take notice of the disclaimers accompanying both Registers and the notes associated with the Customer Claims Register.

III. LEHMAN BROTHERS INTERNATIONAL (EUROPE)

LBIE's Claims Against LBI

19. On January 30, 2009, LBIE filed an omnibus customer claim on behalf of numerous LBIE client accounts (the "Omnibus Customer Claim") and a proprietary claim on its own behalf (the "House Claim"), both of which were subsequently amended by LBIE on May 29, 2009. LBIE is claiming approximately \$24 billion with respect to both claims. On September 10, 2010, LBIE sent to the Trustee purported second amendments to the LBIE Omnibus Customer Claim and the LBIE House Claim, which increased the total amount of LBIE's claims to over \$30 billion—\$16.4 billion with respect to the Omnibus Customer Claim and \$13.9 billion with respect to the House Claim. The Trustee rejected the new claims raised by the purported amendments as untimely. On July 31, 2012, the Trustee submitted an unsecured claim to LBIE for approximately \$13.8 billion (the "Unsecured Claim").

20. On October 4, 2012, the Trustee and the Joint Administrators of LBIE entered into a non-binding agreement in principle to resolve all claims between their respective estates. The key terms of the agreement in principle are as follows:

- LBIE's Omnibus Customer Claim against LBI of \$15.1 billion will be allowed in an amount of approximately \$7.5 billion (valued as of September 19, 2008) in securities and cash. This claim will be augmented by post-filing income, estimated to be approximately \$600 million.
- LBIE's House Claim against LBI of \$8.9 billion will be replaced by an allowed cash net equity customer claim of \$500 million.
- LBI will stipulate to an LBIE general property claim in the amount of \$4 billion, and LBI's Unsecured Claim against LBIE of \$13.8 billion will be withdrawn.
- LBI's client money claim against LBIE (the "Client Money" claim) will be assigned to LBIE's nominee.
- The agreement in principle incorporates a binding and immediately effective agreement to cap the maximum recoveries that each of LBI and LBIE can make into the other's estate for the claims asserted, so that planning for distributions in their respective estates can continue. LBIE's maximum recovery on the Omnibus and House Claims is capped at \$11.5 billion. LBI's maximum recovery on its pre-administration Client Money claim is capped at \$1 billion.

21. The agreement in principle is subject to drafting and execution of a definitive binding agreement, approval by the Court, and an order of the English High Court. If approved, the agreement will allow the Trustee and the Joint Administrators to proceed with plans to allocate and distribute assets to customers and creditors.

22. Prior to entering the agreement in principle, the parties had substantially completed document discovery in the litigation with respect to LBIE's objections to the Trustee's determinations of LBIE's Omnibus Customer and House Claims, and had started depositions. While LBIE's claims into LBI were scheduled to be trial-ready by April 2013, the parties have agreed to, and the Court has so-ordered, a stay of scheduled litigation activity until mid-December 2012 to allow work to proceed in reaching a final agreement.

LBI's Claims Against LBIE

23. On July 31, 2012, the Trustee submitted a claim to LBIE in the amount of \$13.8 billion. This claim is addressed in the agreement in principle entered into by the Trustee and LBIE's Joint Administrators, and discussed *supra* at paragraphs 20-22. See also Trustee's Seventh Interim Report ¶ 61.

U.K. Court Proceedings

24. As described above, the Trustee and LBIE's Joint Administrators have entered into an agreement in principle to resolve billions of dollars worth of claims between LBI and LBIE. However, the agreement is subject to negotiation, execution of a final binding agreement, and court approval. *See supra* ¶¶ 20-22. In light of the billions of dollars involved, settlement of the claims between LBI and LBIE and the outcome of the other U.K. proceedings described below are of material concern to the Trustee because they may facilitate the recoveries of customers and other creditors of LBI.

25. The SIPA liquidation of LBI has been recognized by the U.K. High Court as a foreign main proceeding.

26. The Trustee's Client Money claim is addressed in the agreement in principle entered into by the Trustee and LBIE's Joint Administrators, and discussed *supra* at paragraphs 20-22. For additional information regarding Client Money, see the Seventh Interim Report paragraphs 63-65.

27. For information regarding the internal Lehman process known as "RASCALS" (Regulation and Administration of Safe Custody and global Settlement), see the Seventh Interim Report paragraphs 66-67.

Extended Liens

28. On June 6, 2011, the Administrators of LBIE made an application to the U.K. High Court seeking directions in respect of the validity and effectiveness of provisions contained in LBIE's standard agreements with affiliates which purport to confer upon LBIE liens and other security interests for the benefit of LBIE and its affiliates in respect of assets held by LBIE, as security for obligations owed by the asset-owning entities. The Trustee is a respondent to the application, together with Lehman Brothers Finance S.A. and 314 Commonwealth Ave. Inc., and has appeared at a number of procedural directions hearings in the application, most recently on June 26, 2012. The Trustee was represented at the substantive hearing which was listed for 5 days commencing on September 27, 2012. The Trustee is now awaiting judgment.

IV. LEHMAN BROTHERS HOLDINGS INC. AND ITS AFFILIATES

29. After completing the joint reconciliation process and exchanging additional information, LBHI and the Trustee announced during the prior report period that an agreement in principle had been reached that would resolve all claims among their respective entities. *See* Seventh Interim Report ¶¶ 36-40, 70. The complex agreement in principle is subject to documentation and various approvals, including by the Bankruptcy Court. No details about the agreement in principle are available at this time, and there is no assurance that an agreement among the parties will be consummated. The parties continue to work toward consummating a settlement. Should the parties fail to do so, the Trustee would move for prompt determination of the remaining claims.

V. OTHER INTERNATIONAL AFFILIATES

30. In addition to the claims filed against LBI by LBIE and LBHI on behalf of several of its affiliates, a total of 49 customer claims were filed by foreign Lehman affiliates against LBI. Of these, the Trustee allowed two claims, denied 18 claims, and determined that 29 claims do not qualify for customer status under SIPA and should be reclassified as general unsecured claims.

31. As described below, during the Report Period, the Trustee achieved settlements in principle with Bankhaus, LBLux, and LBF, and continued to work with other Lehman affiliates to resolve their claims.³

Netherlands Antilles (Curaçao)

32. The Trustee's professionals entered into dialogue with representatives of the bankrupt Lehman foreign affiliate Lehman Brothers Securities N.V. ("LBS"). LBS filed a customer claim against LBI. The Trustee reclassified the claim to general creditor status and no objection was filed by LBS. Despite the expiration of the objection deadline, LBS recently indicated that it does not agree with the reclassification.

Germany

33. The Trustee continues to monitor the proceedings of two German Lehman entities: Bankhaus and Lehman Brothers Capital GmbH ("LBCG"). Both Bankhaus and LBCG have general creditor claims. On June 5, 2012, the Trustee's professionals met with the administrators of Bankhaus to discuss the status and reconciliation of Bankhaus' claims. A follow-up meeting was held on June 27, 2012.

34. The Trustee successfully negotiated an agreement in principle with Bankhaus to settle and resolve all claims between LBI and Bankhaus. The agreement is subject to various approvals, including by the Bankruptcy Court. No details about the agreement in principle are available at this time, and there is no assurance that an agreement among the parties will be consummated.

35. The extent to which LBCG's claims will be allowed as general creditor claims will be determined in the next several months.

Luxembourg

36. The Trustee successfully negotiated and documented an agreement in principle with the joint liquidators of LBLux to settle and resolve all claims between LBI and LBLux. The agreement is subject to various approvals, including by the

3. See the Seventh Interim Report for information regarding the Cayman Islands (¶ 72), China (¶ 73), Hong Kong (¶ 75), Japan (¶¶ 76-77), Netherlands (¶ 79), and Singapore (¶¶ 80-81).

Bankruptcy Court. No details about the agreement in principle are available at this time, and there is no assurance that an agreement among the parties will be consummated.

37. Pursuant to the February 29, 2012, meeting disclosed in the previous interim report, the Trustee's professionals continue to meet regularly with the joint liquidators and professionals of Lehman Brothers (Luxembourg) Equity Finance S.A. ("LBLuxEF") to progress reconciliation of LBLuxEF's remaining customer claim.⁴ The Trustee believes that significant progress has been achieved and is hopeful that a settlement can be reached in the next several months.

Switzerland

38. The Trustee successfully negotiated and documented a settlement with the liquidators of LBF in Switzerland to settle all claims between LBI and LBF, including LBF's asserted customer claims. The proposed settlement resolves all of LBF's customer and general creditor claims, which LBF asserted have a total value of approximately \$5.95 billion. The settlement allows LBF a customer claim of \$189.9 million and an unsecured non-priority general creditor claim of \$360 million. The Trustee filed a motion seeking approval of the settlement (ECF No. 5362) on October 3, 2012. A hearing with respect to the Trustee's motion is currently scheduled for November 14, 2012 at 10:00 a.m.

VI. RESOLVING THE REMAINING NON-AFFILIATE DISPUTED CUSTOMER CLAIMS

39. The Trustee continues to resolve the objections of non-affiliate objectors. In total, 318 non-affiliate objections have been voluntarily withdrawn. (*See, e.g.*, ECF Nos. 3001, 3345, 3403, 3509, 3579, 4259, 4346, 4473, 4973, 5083, 5089, 5191, 5233, 5333.) Another 230 objections have also been expunged by Court order. (*See e.g.*, ECF Nos. 3111, 3418, 3588, 4205, 4374, 4814, 4992, 5163.) The total value of objections voluntarily withdrawn or expunged by Court order is more than \$1.4 billion.

40. For information on the Trustee's claims adjudication procedures, see the Fourth Interim Report paragraphs 43-46.

Duplicative Claims Received From LBIE Account Holders (379 remaining claims; approximately \$13 billion claimed)

41. As previously reported, objections to the Trustee's denial of customer claims were filed by approximately 300 individual LBIE clients who traded securities through LBIE accounts rather than directly through LBI and on whose behalf LBIE filed its Omnibus Customer Claims (the "Duplicative Claims") (*see* Sixth Interim Report at ¶¶ 33-34). The Trustee expects to apply to the Court to expunge the Duplicative Claims when a definitive settlement agreement with LBIE is executed. This will ensure that no

4. As noted in the previous interim report, LBLuxEF filed two customer claims, one of which is now closed and final because LBLuxEF did not file an objection. *See* Seventh Interim Report ¶ 78.

unnecessary reserves are required and that the Duplicative Claimants do not make a double recovery. LBIE has agreed in principle to support the Trustee in this effort.

TBA and Forward Transactions

(481 remaining claims; approximately \$194.2 million claimed)

42. On August 15, 2012, the Court entered an order approving a settlement between the Trustee, BlackRock and participating counterparties (ECF No. 5236).⁵ This settlement provides for, among other things, the resolution of approximately 333 claim objections based on unperformed forward contracts for the future purchase or sale of “to-be-announced” U.S. agency debt obligations (“TBA Contracts”). The Trustee is currently working to finalize the withdrawal and resolution of these claims pursuant to the settlement. Aside from the BlackRock claim objections, approximately 243 of the 277 remaining claim objections based on TBA Contracts are fully resolved, 13 are resolved pending documentation, and 21 are partially resolved, with non-TBA issues pending. The TBA Order also provides guidance for resolution of 114 claim objections based on (i) damages arising from unperformed forward contracts for the future purchase or sale of U.S. Treasury instruments (“Treasury Forwards”), or (ii) collateral posted with LBI in connection with TBA Contracts and/or Treasury Forwards.

Repurchase Transactions

(41 remaining claims; approximately \$350.9 million claimed)

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

44. Currently, there are 38 objections pending (representing approximately \$342 million in total value) that were filed by repo counterparties objecting to the Trustee’s determinations. Of these, 26 claims totaling approximately \$324 million (five of them, totaling approximately \$197 million by the Test Case Claimants referred to below) arose from repo and reverse repo transactions that were “open” as of the SIPA liquidation filing date (the “Filing Date”). As previously reported, the Trustee and certain repo claimants with the largest claims by dollar amount (the “Test Case Claimants”) have agreed on a schedule for presenting to the Court the question of whether repo claims are entitled to customer status, as approved by the Court. The Trustee filed his motion to uphold his determination of the claims filed by the Test Case Claimants on April 6, 2012 (ECF No. 5007), the Test Case Claimants filed their oppositions on July 20, 2012 (ECF Nos. 5173 and 5175), and the Trustee filed his reply on September 28, 2012 (ECF No. 5344). A hearing on the motion is expected to occur by early 2013.

5. For information regarding prior motions see the Court’s Order Confirming the Trustee’s Determination of Claims Related to TBA Contracts (“TBA Order,” ECF No. 4814) and the Seventh Interim Report ¶¶ 45-47.

45. In addition, as previously reported, the Trustee has filed a separate stipulation with certain other repo claimants who have filed objections but are not participating in the litigation with the Test Case Claimants (the “Non-Participating Claimants”). This stipulation binds the Trustee and the Non-Participating Claimants to any legal rulings made by the Court with respect to the Test Case Claimants, except where the Court expressly provides that its rulings shall not apply to the Non-Participating Claimants, and requires the Trustee to offer any settlement to the Non-Participating Claimants on no less favorable terms than the terms, if any, offered to the Test Case Claimants, unless different settlement terms are justified by legal or factual distinctions.

Foreign Currency Transactions (FX)

(2 remaining claims; approximately \$12.2 million claimed)

46. The Trustee has resolved all foreign currency transactions claims except for two claims held by one remaining claimant, which the Trustee hopes to resolve shortly.

Soft Dollars

(All claims resolved)

47. On March 20, 2012, the Trustee filed a motion to confirm his determinations denying customer status to 22 claims based on soft dollar commission credits. (ECF No. 4963.) A supplement was filed on March 29, 2012 to address two additional claims in this category. (ECF No. 4998.) As set forth in the motion, soft dollars are commission credits, which could be used to purchase research and other brokerage services, and lack essential attributes of customer property under SIPA.

48. Following briefing and a hearing on May 17, 2012, the Court issued a memorandum decision on July 16, 2012 granting the Trustee’s motion. *In re Lehman Bros., Inc.*, 474 B.R. 139 (Bankr. S.D.N.Y. 2012). The hearing’s resulting order expunged 23 of the 24 objections and agreed with the Trustee’s determination that the claims were not entitled to customer status under SIPA, instead reclassifying them as general creditor claims. In its decision, this Court noted that it was “the first time that any court has been asked to decide the question of whether so-called ‘soft dollar’ claims qualify for treatment as customer claims under” SIPA. (See Order Confirming The Trustee’s Determination of Claims Related to Soft Dollar Commission Credits, ECF No. 5163.) The remaining claimant withdrew its objection the day before the hearing took place. (See ECF No. 5083.)

Miscellaneous

(31 claims remaining; approximately \$253.8 million claimed)

49. During the Report Period, the Trustee secured withdrawal of 66 objections covering 112 customer claims with an approximate value of \$121.4 million. (See ECF Nos. 4973, 5083, 5333.) The Trustee’s professionals continue to contact claimants to resolve objections without litigation. Should the parties fail to resolve these objections

informally, the Trustee will commence proceedings to expunge them as customer claims.

VII. BARCLAYS CAPITAL INC.

50. This Report Period has been one of great progress in resolving, at least in principle, some of the most significant issues in the liquidation and achieving a path toward substantial, if not total, distribution on customer claims. This progress has also led to greater clarity about the general estate. One significant obstacle remains: the dispute with Barclays involving a significant portion of assets (the “Disputed Assets”)⁶ that would otherwise be available to customers and creditors and is now being briefed in the United States Court of Appeals for the Second Circuit for argument next year.

51. Based on Barclays’ interpretation of the District Court’s judgment, the Trustee has reserved over 20% of available assets for the outcome of this appeal, which will have a profound effect on the ability to satisfy customer and creditor claims. The Trustee cannot control the schedule in the courts or the actions of his adversaries, but is committed to doing everything possible to advance his position as promptly and in as favorable a manner as possible.

52. The trial of the competing claims has been discussed in previous interim reports (*see* Trustee’s Seventh Interim Report § VIII).

53. On June 5, 2012, after extensive briefing and oral argument, the District Court issued its opinion on Barclays’ appeal and the Trustee’s cross-appeal from the Bankruptcy Court’s judgment (the “District Court Opinion”).

54. The District Court (i) affirmed the Bankruptcy Court’s judgment that Barclays’ right to the Rule 15c3-3 Assets is contingent on the Trustee first being able to satisfy all allowed customer claims in full; (ii) reversed the Bankruptcy Court’s judgment on the Margin Assets and held that Barclays is entitled to those assets (except for approximately \$500 million that SEC regulations permit to be transferred only if the Trustee is able to satisfy all allowed customer claims in full); and (iii) affirmed the Bankruptcy Court’s judgment awarding the Clearance Box Assets to Barclays. (11-CV-6052, ECF Nos. 37, 41.) The District Court also stayed enforcement of the judgment pending resolution of all appeals from the judgment, and directed the Trustee to reserve \$4.6 billion during the period of the stay. (*Id.*)

55. On July 17, 2012, the Trustee appealed from the District Court’s judgment with respect to the Margin Assets and the Clearance Box Assets to the Second Circuit Court of Appeals. (11-CV-6052, ECF No. 43.) On July 19, 2012, Barclays cross-appealed the District Court’s judgment conditioning its right to the Rule 15c3-3 Assets

6. The Disputed Assets consist of: assets in LBI’s Rule 15c3-3 customer reserve accounts (the “Rule 15c3-3 Assets”), margin and other assets related to LBI’s derivatives trading (the “Margin Assets”), and certain assets in LBI’s clearance boxes at the Depository Trust & Clearing Corporation (“DTCC,” and the “Clearance Box Assets”).

and \$500 million of the Margin Assets on the Trustee's ability to satisfy customer claims. (11-CV-6052, ECF No. 44.) The Trustee filed a brief in support of his appeal on September 20, 2012. (12-2328, ECF No. 95.) SIPC filed a brief in support of the Trustee's position the same day. (12-2328, ECF No. 96.) Barclays' brief in support of its cross-appeal is due on December 20, 2012. The SEC has also entered the appeal proceeding as an intervenor. The Trustee expects all briefing to be completed by early to mid-2013.

VIII. RECOVERY EFFORTS

56. 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.

Close-Outs and Unwinds

57. During the Report Period the Trustee collected approximately \$36 million from close-outs and unwinds. The Trustee has now collected in total approximately \$4.37 billion from close-outs and unwinds. In addition to potential unwind recoveries from the counterparties specifically referenced below, the Trustee estimates that there is approximately \$140 million remaining for potential collection from close-outs and unwinds. For details regarding the Trustee's close-out and unwind efforts, as well as procedures for reconciling and collecting amounts due to the LBI estate, see the Fourth Interim Report paragraphs 135-39.

UBS AG

58. For information on the Trustee's motion to enforce the automatic stay and compel payment of approximately \$23 million in excess collateral that LBI posted with UBS AG ("UBS"), see the Sixth Interim Report paragraph 113. The parties continue to reconcile the amounts owed to the Trustee, both under the Court's October 4, 2011 memorandum decision granting the Trustee's motion and in regards to the \$1.7 million for which the Court reserved judgment.

Citibank

59. Matters attendant to Citibank are being handled by Menaker & Herrmann LLP ("Menaker & Herrmann"), special counsel to the Trustee. Menaker & Herrmann reports as follows:

60. The Trustee's special counsel continues to pursue the claims against Citibank, N.A., Citigroup, Inc. and various of their affiliates ("Citibank") seeking the return of a \$1 billion deposit LBI made with Citibank during LBI's last week in operation, which Citibank claims it setoff shortly before commencement of LBI's liquidation and seeking the turnover of approximately \$300 million in deposits and payables. (Adv. Pro. No. 11-01681.)

61. Citibank's motion to dismiss most of the Trustee's claims based on "safe harbors" set forth in various sections of the Bankruptcy Code and Citibank's motion to lift the automatic stay, both filed on May 26, 2011, have been fully briefed and are awaiting scheduling of oral argument. Meanwhile, the parties have been engaged in discovery in accordance with the Scheduling Order and Discovery Plan, approved by the Court on April 14, 2011, as amended most recently on September 5, 2012. (Adv. Pro. No. 11-01681, ECF No. 41.)

Customer Receivables

62. The Trustee continues to pursue open and unsettled customer receivables. The Trustee's attorneys have contacted or are currently in active negotiations with each of these customers. For each of the customers, the Trustee's counsel engaged in discussions explaining the basis for the amount demanded and providing documentation of the open transactions. As a result of the process, the Trustee has collected approximately \$54 million. The Trustee estimates that future recoveries or collections will not exceed \$10 million. The Trustee continues to engage in negotiations with the few remaining customers, and anticipates that most, if not all, of his claims against these remaining customers will be resolved without court action.

Avoidance Actions / Preferences

63. The Trustee continues to pursue the avoidance and recovery of preferential transfers made by LBI and its assignors in accordance with sections 544, 547, 548, and 550 of the Bankruptcy Code, including filing adversary proceedings when necessary. To date, the Trustee has resolved 78% of these preference claims and has consummated settlements aggregating approximately \$2.9 million. In addition, during the Report Period, the Trustee resolved all previously pending adversary proceedings concerning return of potentially voidable transfers made by LBI and its assignors. The Trustee commenced one adversary proceeding during the Report Period.

64. In his continuing effort to facilitate the resolution of the remaining preference claims and avoid the time and expense of litigation, the Trustee amended the original Tolling and Forbearance Agreements with each of the remaining 24 entities subject to suit. The Trustee aims to resolve the single adversary proceeding pending before the Bankruptcy Court pursuant to the Amended Order Establishing Procedures Governing Claims Asserted and Adversary Proceedings Commenced by Trustee Pursuant to 11 U.S.C. §§ 544, 547, 548 and 550 (ECF No. 3964), and all other tolled preference claims on a consensual basis, if possible.

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

Banking Matters

66. During the Report Period, the Trustee 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. With the exception of certain accounts that remain linked to securities positions (which are in the process of being closed as the securities linked to such accounts are transferred to the Trustee's custody account at The Bank of New York Mellon), and certain accounts that remain open for administrative or regulatory reasons or that are subject to an ongoing dispute with the depositary bank, all legacy LBI bank accounts have been closed and the balances therein transferred to the Trustee.

IX. ADVERSARY PROCEEDINGS

67. The Trustee continues 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. For more information on this topic, see the Seventh Interim Report paragraphs 109-13.

X. ALLOCATION MOTION

68. At the beginning of the Report Period, the Trustee filed a Statement in Further Support of the Second Motion for Order Approving the Trustee's Allocation of Property (ECF No. 5058). As discussed in Sections III and IV, the Trustee subsequently reached agreements in principle to settle all claims with LBIE and LBHI (including all chapter 11 debtors), which together account for approximately three-quarters of the allowed customer claims. In conjunction with those settlements, the Trustee intends to file a further update to the Second Motion for Order Approving the Trustee's Allocation of Property (ECF No. 4760). The settlements are conditioned on a successful resolution of the Trustee's motion, leading to an allocation of customer property sufficient to satisfy allowed customer claims in full.

XI. POTENTIAL CUSTOMER CLAIM DISTRIBUTIONS

69. If the proposed settlement with LBIE and related matters such as allocation and the LBHI settlement are consummated and approved by the Court, as is the Trustee's objective, the Trustee anticipates making a 100% distribution on all allowed net equity claims. If the events do not occur, a partial interim distribution could be accomplished, but the size and timing of such a distribution, and the ability to make further distributions, would remain dependent on resolution of LBIE's claims, the resolution of asserted customer claims filed by LBIE's clients (*see supra* ¶ 41), the allocation of property to the fund of customer property (*see supra* Section X), resolution of the Barclays appeal (*see supra* Section VII), and final terms and Court approval of the agreed settlement in principle with LBHI and other affiliates (*see supra* Section IV).

Post-Petition Dividends and Interest

70. As detailed in previous reports, 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 the customers. In conjunction with the proposed LBIE settlement, and as a condition to that proposed settlement, the Trustee will by motion request that the Court approve a method of determining and distributing dividends and interest on customer property received after the Filing Date.

71. During the Report Period, proceeds related to securities held previously in LBI's accounts at DTCC and now maintained by Bank of New York Mellon accrued in the amount of \$146 million. These amounts continue to be specifically accounted for, separate from other estate assets, by the Trustee.

XII. RETURN OF MISDIRECTED FUNDS

72. The Trustee continues to receive and investigate requests for the return of funds misdirected into LBI bank accounts. The Trustee has returned more than \$580 million in misdirected funds since the commencement of the liquidation. (See Exhibit 2.)

XIII. TRUSTEE'S INVESTIGATION

73. The Trustee issued his Preliminary Investigation Report and Recommendations ("Preliminary Report," ECF No. 3604) on August 25, 2010. The Preliminary Report addressed the broad topics of (i) the causes of LBI's demise and the events and transactions that preceded it, (ii) challenges that have arisen in the largest broker-dealer liquidation in history, and (iii) lessons learned from the LBI liquidation and legislative, regulatory, and other policy recommendations for the future. For additional details about the Trustee's investigation, see the Seventh Interim Report Section XIII.

XIV. GOVERNMENT AND THIRD PARTY INVESTIGATIONS

Government and Third Party Investigations

74. The flow of requests to the Trustee for historical LBI information from dozens of federal, state, and local government agencies continues. Cooperation with investigations by these agencies is of paramount importance to the Trustee and SIPC. In addition, the Trustee has received and is responding in due course to a 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 750 document productions in response to these governmental and non-party requests. These productions represent a volume of documents approaching 1.5 million pages, in addition to hundreds of gigabytes of data in electronic form. Notwithstanding an appreciation for regulators' and litigants' need for LBI historical information, the productions continue to be a significant expense for the LBI estate. In some cases investigators and third parties are referred to the Trustee by Barclays or LBHI, who also may be in an equal or better position to supply the information.

Regulatory Matters

75. The Trustee continues to meet and coordinate regularly with the SEC, the FRBNY, CFTC, FINRA, and the British Financial Services Authority.

XV. DATA MANAGEMENT

76. Consistent with the LBI Liquidation Order, which authorized the Trustee to take possession of LBI's books and records (LBI Liquidation Order ¶ XIV, ECF No. 1), the Trustee has collected a vast amount of historical LBI data and migrated it to his own information infrastructure. For more information regarding the Trustee's use and collection of data, see the Sixth Interim Report Section XV.

XVI. TAX MATTERS

77. The Trustee's professionals continue to monitor federal, state, and local tax audits, assessments and claims, respond to tax-related information requests from international, federal, state, and local authorities, and coordinate all tax reporting requirements with respect to LBI and the Trustee.

The Lehman Consolidated and Combined Groups

78. Prior to the Filing Date, and during the course of this SIPA proceeding, LBI has been included in the consolidated federal income tax returns filed by the affiliated group of which LBHI is the common parent (the "Lehman Consolidated Group"). Under applicable U.S. Treasury regulations, LBHI, as common parent, is the sole agent for the Lehman Consolidated Group and has authority to act with respect to all matters relating to the federal income tax liability of itself and the members of the Lehman Consolidated Group, including LBI. All members of the group, including LBI, are severally liable for all of the Lehman Consolidated Group's federal income tax liability. Once an affiliated group commences filing on a consolidated basis, it must continue to do so for all succeeding tax years unless the group no longer remains in existence or the Internal Revenue Service (the "IRS") grants permission to cease such filing.

79. Prior to the Filing Date, and during the course of this SIPA proceeding, LBI has been included in a similar group for New York State corporation franchise tax and New York City general corporation tax purposes (referred to under state law as a "combined group"), together with LBHI and other LBHI subsidiaries. The combined group files a combined return. As is the case under U.S. federal income tax law, New York State and City tax laws designate the parent of a combined group as the agent for the group and impose several liability on the members of the group. Beginning with tax year 2011, LBI has elected to be included in a similar group for Florida income tax purposes, referred to under Florida law as a "consolidated group," of which LBHI is the common parent.

80. The Trustee, with the help of his tax professionals, is analyzing the potential benefits to the LBI estate that would result from LBI's disaffiliation from the

Lehman Consolidated Group. For example, for periods after disaffiliation LBI would not be severally liable for the Lehman Consolidated Group's federal income tax liability, nor would LBHI have authority to act as agent for LBI with respect to federal income tax matters. The continuing mandate to file consolidated income tax returns also requires that the Trustee's representatives expend time and resources in preparing and providing certain financial data to LBHI as an ongoing matter; disaffiliation would significantly reduce this effort.

81. The Trustee's professionals are currently engaged in discussions with representatives of LBHI regarding taking appropriate steps that would result in disaffiliation from the Lehman Consolidated Group. Such disaffiliation for federal income tax purposes would have the additional effect of "decombining" the New York State, New York City, and Florida reporting groups.

Tax Audits and Refund Claims

82. *Federal: general.* The Trustee's professionals maintain ongoing discussions with LBHI's counsel, who has been handling substantial federal refund claims for the years 1997 through 2000 (the "Refund Claims") and audits for 2001 through 2007 (the "Audits") where the IRS is asserting deficiencies.

83. On December 28, 2010, the IRS filed claims in both the LBI and the LBHI proceedings totaling approximately \$2 billion.⁷ The agreement in principle referred to in Section IV would resolve LBI's allocable share of the Lehman Group's consolidated federal income tax liability or refunds.

84. Apart from assessments of consolidated federal income tax liability, the IRS claim included assessments against LBI for certain tax shelter promotion penalties. The Trustee's professionals are working with the IRS toward final resolution of these issues.

85. In addition to and separate from the refund claims that relate to consolidated taxes, LBI filed a \$9.5 million refund claim with the IRS relating to the overpayment of payroll taxes for the third quarter of 2008. IRS representatives advised the Trustee that the IRS would hold any refunds to which LBI would otherwise be entitled pending a disposition of all outstanding LBI-IRS audits and assessments.

86. *State and local: general.* LBI continues to file as part of LBHI's combined state income tax filings in New York State and City. Beginning with tax year 2011, LBI is a member of a similar group for Florida income tax purposes, referred to under Florida law as a "consolidated group." State tax refunds have also been claimed on consolidated and combined returns filed by LBHI. The Trustee's professionals are monitoring the status of these claims. As of the date of this Report, approximately \$700 million in state and local tax claims have been filed in the LBI proceeding.

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

87. *State and local audits: New Jersey.* At the time of the liquidation, the State of New Jersey had been conducting an audit of LBI with respect to corporate business tax and sales and use tax. (LBI filed corporate business tax returns on a separate company basis in New Jersey.) New Jersey timely filed claims against LBI totaling approximately \$25 million for these taxes for prepetition periods. A small firm that historically handled all state tax audits for LBHI and LBI is responding to requests by the State with respect to this audit.

88. The Trustee has filed a return for New Jersey corporation business tax for tax year 2007. The return serves as a claim for a refund of \$6.6 million dollars due to an overpayment of estimated taxes by LBI with respect to that tax year. The discussions between the Trustee's representatives and the State of New Jersey with respect to the audit have included discussions of this refund claim.

89. *State and local audits: New York City.* New York City timely filed claims against both LBI and LBHI for general corporation tax totaling approximately \$615 million with respect to combined returns of the LBHI group, and for commercial rent tax for approximately \$12 million. There are ongoing audits as to both types of tax. LBHI has entered settlement negotiations with New York City regarding these audits, and is maintaining ongoing discussions with the Trustee's tax professionals on these matters. The agreement in principle with LBHI would resolve LBI's share of this potential liability.

Ongoing Compliance

90. The Trustee's professionals continue to work with LBHI's representatives to perform all required consolidated and combined tax filing requirements. Deloitte Tax continues to assist the Trustee in complying with all income tax filing requirements in jurisdictions where LBI files separate returns, and with all other tax filing requirements, including but not limited to sales and rent tax, in all jurisdictions.

XVII. EMPLOYEE BENEFITS

91. For information regarding bonus advances and tuition payment programs, see the Fourth Interim Report paragraphs 197-98.

XVIII. EXECUTORY CONTRACTS

92. Since the Barclays transaction, the Trustee undertook extensive analysis to ascertain whether the contracts that remained would be beneficial to the LBI estate and further the purposes of the liquidation, or result in consideration to the estate through assignment to third parties. In order to conduct this review, the Trustee sought and this Court approved extensions of the time within which the Trustee may assume, assign or reject LBI executory contracts and unexpired leases, as provided in section 365(d)(1) of the Bankruptcy Code, to, and including, June 4, 2012 (*see* ECF No. 4913). The Trustee has completed this process and to the extent that any LBI executory contracts and unexpired leases were not resolved through action taken by the Trustee (as detailed in the Trustee's prior interim reports and extension motions to the Court), such remaining

executory contracts and unexpired leases were deemed rejected by operation of law, pursuant to section 365(d)(1) of the Bankruptcy Code, on June 5, 2012.

XIX. INTERNAL CONTROLS AND BOOKKEEPING

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

94. The Trustee's professionals have established daily, monthly and ad hoc processes to support the ongoing processing of LBI's former brokerage business.⁸ These include:

- reconciling cash balances at legacy and Trustee established accounts;
- resolving current and historical cash and securities reconciliation items during Report Period;
- reconciling all securities positions to depositories on a daily basis;
- generating financial information for tax reporting and providing the Trustee with point in time information of the assets under his control;
- coordinating relationship with Bank of New York Mellon and Broadridge, both of whom are key service providers for the Estate;
- implementing controls around the vault at the Trustee's offices and conducting quarterly securities counts of the assets in the vault;
- assisting the Trustee and his counsel in analyzing historical data in support of litigation and inquiries from claimants, regulators, and other parties;
- processing journal entries to record transactions related to securities and cash movements authorized by the Trustee; and
- processing over 63,000 corporate actions related to securities held at various depositories around the world.

95. The Trustee and his professionals evaluate material voluntary corporate actions related to positions held by the Trustee. When it is deemed appropriate in the Trustee's business judgment, and in the best interests of the estate, the Trustee may participate in the corporate action or otherwise act to achieve those interests.

8. For information regarding the Trustee's securities holdings, see Exhibit 1.

96. 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.

97. The Trustee continues to receive inquiries relating to asset movement and related issues arising from customer claims and other historic and ongoing activities that affect the LBI estate from time to time. The research for these items is distributed among the appropriate workstream within operations and claims research to provide the information and documentation requested.

XX. PROFESSIONAL RETENTION

98. 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. Hughes Hubbard & Reed LLP continues to perform numerous tasks for the LBI estate, its customers, and creditors, as the Trustee's primary counsel. Menaker & Herrmann, Levine Lee LLP, Norton Rose, and City-Yuwa Partners continue to advise the Trustee as special counsel on specific matters. For additional information regarding the Trustee's counsel and special counsel, *see* the Seventh Interim Report Section XX.

99. Administrative expenses disbursed as of September 30, 2012 total \$812,542,000. Professional and consulting fees over the four years of this proceeding total \$704,201,000 including \$408,310,000 for Deloitte and \$236,250,000 for HHR. Transitional services total \$83,7320,000 paid to Barclays and LBHI. The LBHI transition services agreement terminated under its terms on June 2, 2012. Rent, data storage, and other operational costs total \$24,609,000.

XXI. INSURANCE

100. The Trustee has analyzed available insurance policies under which the LBI estate and/or customers could benefit to determine their applicability, including an excess surety bond issued to LBI by the Customer Asset Protection Company ("CAPCO"), and conferred during and before the Report Period with representatives of CAPCO and provided information, as requested and appropriate, regarding the progress of the customer claims process in connection with the excess surety bond.

XXII. CONCLUSION

The foregoing report represents a summary of the status of this proceeding and the material events that have occurred from April 21, 2012 through October 24, 2012. It will be supplemented and updated with further interim reports.

Dated: New York, New York
October 24, 2012

Respectfully submitted,

HUGHES HUBBARD & REED LLP

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

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

EXHIBIT 1

Financial Condition of the Estate – Assets on Hand

Summary of Assets and Customer Property on Hand^(a)

As of September 30, 2012

Unaudited (in millions)

Cash and Cash Equivalents	\$395
Securities ^{(b), (c)}	
BNYM	19,984
International Depositories ^(d)	8
Goldman Sachs	8
Union Bank	5,420
Other	<u>140</u>
Total Securities	<u>\$25,560</u>
Total Assets Under Trustee Control^(e)	<u><u>\$25,955</u></u>

a) The Trustee maintains appropriate reserves or would withhold from distribution appropriate funds and property for unresolved matters, including the Barclays litigation and the disposition of post-Filing Date dividends and interest.

b) Market value of securities calculated by the Trustee's professionals using available market data.

c) See Summary of Securities on Hand on following page.

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

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

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

Financial Condition of the Estate – Summary of Securities on Hand as of September 30, 2012

	Number of CUSIPS ⁽²⁾	Number of Shares / Par Value	Market Value (USD)
BNYM			
Certificates of Deposit	1	153,940,000	154,403,025
Corporate Equities	6,696	961,493,809	10,036,116,368
Corporate Bonds	888	6,848,442,353	1,569,392,311
Mortgage and Asset-Backed Securities ⁽¹⁾	577	3,726,591,438	218,954,214
Government and Agency Bonds ⁽¹⁾	127	318,278,707	330,416,417
Other	779	2,268,678,212	-
Treasury Notes	16	7,652,359,000	7,674,780,464
International Depositories			
Corporate Equities	54	22,347,700	8,371,572
Other	3	310,633	-
Goldman Sachs			
Corporate Equities	56	935,157	5,651,613
Corporate Bonds	3	1,523,122	-
Government and Agency Bonds ⁽¹⁾	2	9,950,997	2,752,378
Treasury Note	1	22,000	24,838
Union Bank			
Certificates of Deposit	28	4,075,200,000	4,084,864,867
Corporate Equities	1	32	624
Mortgage and Asset-Backed Securities ⁽¹⁾	7	2,065	2,363
Government and Agency Bonds ⁽¹⁾	1	1,792	1,811
Treasury Notes	4	1,331,786,000	1,334,843,137
Other (DTC, Vault, and Money Markets)			
Corporate Equities	116	23,025,802	140,316,244
Corporate Bonds ⁽³⁾	3	13,413,000	-
Mortgage, Asset-Backed Securities ⁽¹⁾	94	539,395,184	285
Other	145	762,810,931	-
TOTAL	9,604	28,710,507,934	25,560,892,531

(1) For the Eighth Interim Report, par values include 192 unique CUSIPs which have matured for which there are no current market values.

(2) Total CUSIPs will not agree to detail of securities on hand schedules as this schedule shows CUSIPs by location. Note that there may be the same CUSIPs at multiple locations.

(3) Includes foreign securities for which market values are not available.

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 – Detail of Securities on Hand – Corporate Equities

	Number of CUSIPS	Number of Shares	Market Value(USD)
By Industry			
Basic Materials	386	19,607,399	513,328,281
Communications	680	119,304,037	1,331,744,475
Consumer, Cyclical	655	74,567,883	1,872,339,214
Consumer, Non-cyclical	1,168	198,971,588	1,797,181,235
Energy	401	50,292,796	714,047,685
Financial	1,127	192,670,742	1,446,312,012
Funds	199	85,054,161	488,517,561
Industrial	753	49,825,969	797,627,547
Technology	478	54,733,653	950,849,176
Utilities	131	11,397,054	251,930,619
Other	922	151,377,218	26,578,617
Total	6,900	1,007,802,500	10,190,456,421
By Region			
United States	5,522	674,643,075	9,036,182,925
Asia	290	130,985,498	287,320,487
Canada	322	14,995,553	143,661,139
Europe	329	128,219,177	482,670,402
Latin America	128	24,836,438	50,326,768
Other	309	34,122,759	190,294,700
Total	6,900	1,007,802,500	10,190,456,421
By Ranking			
Common	6,711	919,928,428	9,866,766,991
Preferred	180	34,006,290	323,683,539
Other	9	53,867,782	5,891
Total	6,900	1,007,802,500	10,190,456,421
Concentration (by Market Value)			
Top 5 CUSIPS		30,463,181	1,872,056,580
Top 20 CUSIPS		136,043,721	3,276,497,738
# of CUSIPs representing 20% of Equity Portfolio	6		

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 – Detail of Securities on Hand – Corporate Bonds

	AA or Better	A to A+	BBB- to BBB+	B- to BB+	C+ to CCC-	DDD+ to D	Not Rated/Not Available	Total
CUSIP	35	77	93	180	60	5	443	893
Par Value	36,051,469	293,174,893	340,278,342	304,164,225	295,026,295	3,058,023	5,591,625,228	6,863,378,475
Market Value	36,629,402	269,830,567	394,878,333	309,820,853	270,006,098	758,909	287,468,149	1,569,392,311

By Industry	Investment Grade			Non-Investment Grade			Not Rated/Not Available		
	Number of CUSIPs	Par Value	Market Value (USD)	Number of CUSIPs	Par Value	Market Value (USD)	Number of CUSIPs	Par Value	Market Value (USD)
Basic Materials	15	30,437,000	35,105,126	10	15,289,113	13,325,480	17	67,589,292	4,111,558
Communications	22	142,063,178	186,258,437	29	156,913,892	155,618,525	30	944,390,217	14,211,754
Consumer, Cyclical	5	22,928,000	26,680,233	38	96,048,217	90,834,717	41	336,359,465	126,855,039
Consumer, Non-cyclical	15	37,985,000	46,088,757	23	97,368,561	100,826,062	33	68,401,559	37,815,284
Energy	16	20,704,280	25,571,870	15	19,421,600	15,321,382	16	2,541,239,476	28,554,015
Financial	70	297,935,400	253,040,548	99	104,412,886	96,757,462	52	197,463,147	5,999,504
Other	62	117,451,846	128,593,330	31	112,794,274	107,902,232	254	1,436,182,072	69,920,996
Total	205	669,504,704	701,338,301	245	602,248,543	580,585,860	443	5,591,625,228	\$287,468,150
By Region									
United States	558	5,066,678,362	1,185,107,336						
Canada	29	83,633,546	39,435,249						
Europe	39	107,896,120	86,405,843						
Latin America	30	71,034,603	56,246,047						
Other (Incl. Asia)	237	1,534,135,844	202,197,836						
Total	893	6,863,378,475	1,569,392,311						

Concentration (by Market Value)	Number of CUSIPs	Par Value	Market Value (USD)
Top 5 CUSIPs		248,842,877	282,310,648
Top 20 CUSIPs		562,192,177	614,830,314
# of CUSIPs representing 20% of Corporate Bonds Portfolio	6		

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 – Detail of Securities on Hand – Mortgage and Asset-Backed Securities

	AA or Better	A to A+	BBB- to BBB+	B- to BB+	C+ to CCC-	DDD+ to D	Not Rated/Not Available	Total
CUSIP	14	8	5	21	41	67	522	678
Par Value	17,438,516	15,973,636	9,521,690	46,978,533	99,273,521	253,531,628	3,823,271,163	4,265,988,687
Market Value	16,977,213	14,649,568	8,312,478	37,482,946	46,650,159	20,684,076	74,200,422	218,956,862

	Investment Grade			Non-Investment Grade/Default			Not Rated/Not Available		
	Number of CUSIPs	Par Value	Market Value (USD)	Number of CUSIPs	Par Value	Market Value (USD)	Number of CUSIPs	Par Value	Market Value (USD)
ABS	10	23,785,180	23,017,485	38	186,540,839	55,253,021	84	759,535,350	12,649,022
MBS	8	2,500,787	2,273,534	36	61,038,783	21,292,600	64	143,414,572	38,203,044
CMO	4	2,654,824	1,535,346	43	88,309,340	11,586,966	355	2,789,672,618	12,477,523
Other	5	13,993,052	13,112,894	12	63,894,720	16,684,594	19	130,648,622	10,870,833
Total	27	42,933,843	39,939,259	129	399,783,682	104,817,181	522	3,823,271,162	74,200,422

Concentration (by Market Value)	Number of CUSIPs	Par Value	Market Value (USD)
Top 5 CUSIPs		73,196,844	65,503,219
Top 20 CUSIPs		171,719,204	136,510,315
# of CUSIPs representing 20% of Mortgage and Asset-Backed Securities Portfolio	2		

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 – Detail of Securities on Hand – Government and Agencies

	No Maturity	Less Than 1 year	1 – 5 years	5 – 10 years	> 10 years	Matured	Total
US Government							
Number of CUSIPs	-	6	11	10	45	-	72
Par value	-	12,260,000	11,833,000	39,616,147	109,373,797	-	173,082,944
Market Value	-	12,601,785	13,449,102	47,140,200	117,838,341	-	191,029,428
Latin America							
Number of CUSIPs	-	2	9	6	23	3	43
Par value	-	1,911,000	12,672,500	360,490	131,492,439	571,000	147,007,429
Market Value	-	1,936,032	14,508,901	496,781	116,256,685	174,947	133,373,346
Other							
Number of CUSIPs	1	-	5	-	7	2	15
Par value	1,700	-	2,121,122	-	6,014,001	4,300	8,141,123
Market Value	-	-	2,417,454	-	6,350,378	-	8,767,832
Total							
Number of CUSIPs	1	8	25	16	75	5	130
Par Value	1,700	14,171,000	26,626,622	39,976,637	246,880,237	575,300	328,231,496
Market Value	-	14,537,817	30,375,457	47,636,981	240,445,404	174,947	333,170,606

Concentration (by Market Value)	Number of CUSIPs	Par Value	Market Value (USD)
Top 5 CUSIPs		6,219,862,000	6,230,519,151
Top 20 CUSIPs		9,132,987,409	9,190,286,397
# of CUSIPs representing 20% of Government and Agencies Portfolio	1		

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EXHIBIT 2

Return of Misdirected Funds

- The Trustee continues to receive and investigate requests for the return of misdirected funds alleged to have been sent in error to LBI bank accounts.
- The Trustee implemented court-authorized procedures for the return of misdirected wires:
 - o The Protocol Regarding Misdirected Funds, together with Request Forms for the Return of Misdirected Funds, are available on the Trustee's website (www.lehmantrustee.com).
 - o The Trustee may return misdirected funds of \$250,000 or less without further court approval.
- A summary of Misdirected Funds returned to date is set forth below.

POST-PETITION MISDIRECTED WIRE STATISTICS (THROUGH SEPTEMBER 30, 2012)		
	Number of Wires	Approximate Amount (USD in millions)
Returned		
• Court authorized	405	\$574
• Without further court authorization	540	\$9
TOTAL	945	\$583
Pending	91	\$34

MISDIRECTED WIRES RETURNED IN THE REPORT PERIOD (BETWEEN APRIL 21, 2012 AND SEPTEMBER 30, 2012)	
Number of Wires	Approximate Amount (USD)
3	\$60,000

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