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

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

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

| | |
|---|---|
| In re<br><br>LEHMAN BROTHERS INC.,<br><br>Debtor. | Case No. 08-01420 (SCC) SIPA |

# TRUSTEE'S PRELIMINARY REALIZATION REPORT
# AS OF DECEMBER 31, 2014

Date: February 23, 2015

**All information in this Preliminary Realization Report is based on information available to the Trustee at this time, but this information may be incomplete and should not be relied upon. This Preliminary Realization Report is not meant to be relied upon by investors or others as a complete description of the Lehman Brothers Inc. ("LBI") estate, its condition (financial or otherwise), prospects, assets or liabilities or for any other purpose.**

**The information in this Preliminary Realization Report may be corrected, if necessary, in future reports to the Court. The information in this Preliminary Realization Report is neither prepared nor presented 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 the Preliminary Realization Report is based. Selected balances and information contained herein have not and will not be subject to audit or review by external accountants.**

**The Preliminary Realization Report does not include presentation of contingent or unliquidated assets that the Trustee may still recover. The Preliminary Realization Report is not intended to be and should not be deemed to be a waiver of any additional recoveries by the Trustee, and is expressly without prejudice to any rights, claims, and defenses the Trustee may have.**

**The Trustee reserves all rights to revise this Preliminary Realization Report.**

## Executive Summary

The SIPA statute requires a failed broker-dealer to be liquidated – there is no prospect of reorganization. As with any other liquidation, an important aspect of concluding a SIPA proceeding is assessing what assets were available for customers and creditors on the Filing Date versus the assets administered, or realized, by the Trustee during the course of the case. Normally, such a Realization Report is published at the conclusion of the liquidation, when all assets have been distributed against determined, allowed claims.

In this, the largest and most complicated SIPA proceeding to date (indeed, one of the largest and most complicated liquidations of any kind), the Trustee believes that it will be informative to the Court, creditors, regulators, and policy makers to issue this Preliminary Realization Report now, as distributions to customers are being concluded and distributions to general unsecured creditors are underway. While customer claims have been satisfied in full and unsecured distributions already total several billion dollars and will increase over time, there is no prospect of a 100% return on allowed unsecured claims. This Preliminary Realization Report begins to tell the story of why unsecured losses have arisen.

As detailed in the Trustee's Investigation Report, LBI was largely well-run from an operational standpoint and in terms of compliance with the regulatory regime for the protection of retail customers and customer assets. Despite the risks assumed and problems encountered by certain other parts of the Lehman enterprise, the regulatory regime applicable to LBI worked well. It allowed transfer of over 110,000 accounts simultaneously with the SIPA filing and has resulted in 100% distributions on all remaining customer claims. The crisis circumstances within which the liquidation commenced, however, and the unanticipated consequences of the worldwide Lehman enterprise atomizing in to multiple, different legal proceedings around the world have resulted in billions of dollars of losses for LBI's general creditors.

This Report nets LBI's matched book of long and short positions and presents opening balances and liabilities as of the Filing Date. It compares these balances to assets collected, distributions made, and reserves established as of December 31, 2014, along with currently pending claim amounts. Altogether, the Trustee has administered more than $121.7 billion dollars. Nearly all of this has already been distributed ($114.5 billion), is part of ongoing distributions ($2.6 billion), or is reserved for allowed and disputed claims ($4.5 billion). With the estate having made this progress, it is apparent that realized general estate assets are at least $15.2 billion less than net book assets as of the Filing Date, and that the loss in apparent value may be more based on the outcome of pending litigation. Three principal reasons account for most of these losses.

The first cause of losses to the LBI estate are some of the terms of the emergency transaction negotiated between Lehman Brothers Holdings Inc. and Barclays Capital Inc. in the days and hours before the liquidation. The Barclays transaction was undertaken in some of the most dire circumstances in our nation's financial history and under chaotic conditions that the Bankruptcy Court termed "the fog of Lehman," akin to the fog of war. It enabled a significant portion of LBI's customers to transition to a new, solvent broker-dealer, offered the prospect of continued employment to several thousand former Lehman personnel, and relieved the general

estate of approximately $2.4 billion of potential claims. While there were important benefits at a time of great uncertainty, with the benefit of hindsight, there is no question that the terms of the agreement had a negative impact on the LBI general estate. The terms of the sale have already resulted in the transfer to Barclays of nearly $8 billion that otherwise would be available for the general estate and, depending on the outcome of the Trustee's ongoing litigation with Barclays, the total loss to the general estate resulting from the sale may ultimately exceed $13 billion. The effect of these losses extends beyond LBI to the entire Lehman enterprise (and therefore creditors of other Lehman affiliates), because LBI's affiliates were customers, creditors, debt-holders and, in the case of Lehman Brothers Holdings Inc., equity holders of LBI.

Second, LBI's marks for assets (including securities pledged as collateral and securities due from Lehman affiliates) were booked at values in excess of their realizable, market position. These losses from book values were exacerbated by forced liquidation of firm positions during the historically turbulent market of late 2008 when counterparties availed themselves of the Safe Harbor provisions of the Bankruptcy Code.

Finally, prior to bankruptcy, LBI was a hub among the 2,600 affiliates of the worldwide Lehman enterprise. With nearly all of these affiliates in bankruptcy or similar proceedings around the world, the realized value of investments in affiliates and affiliate receivables is substantially less than book value. At the same time, claims from affiliates, both for customer and general unsecured status, have proved to be far in excess of the anticipated, book value as of the Filing Date.

Two additional factors contributed to these losses. First, some significant differences exist in the legal regimes between countries such as the United Kingdom and the United States. The sudden separation of entities that had previously participated in integrated worldwide financing transactions led to the creation of often anomalous claims and obligations by administrators and estate representatives with fiduciary duties to separate constituencies governed by different and sometimes conflicting rules. Second, the holding company's implementation of the sale of virtually all LBI subsidiaries in exchange for a PIK note of nominal value on the eve of the Filing Date of the SIPA liquidation stripped the LBI estate of significant apparent balance sheet value (although offset to some extent by elimination of corresponding liabilities).

It is true that the LBI estate may not have been in a position to maximize the value of many of these subsidiaries or their assets because a SIPA proceeding is necessarily a liquidation and not a reorganization. It is also true that some compensation for risk and protection against the uncertainty of calamitous losses and obligations may need to be provided to a purchaser of some or all customer accounts such as Barclays. It nevertheless appears, six years after the Filing Date and given the magnitude of claims filed against the LBI customer and general estates by affiliates and others, that viable account transfers and the other steps necessary for a viable SIPA liquidation could have been achieved with less transfer of value.

Overall, the net loss of $15.2 billion, explained in the footnotes to this report, can be attributed to the following categories:

| Assets (In Millions) | Net Realized Versus Filing Date |
|---|---|
| Securities on Hand | 981 |
| Proprietary Cash Book Entries | (150) |
| Receivables | 95 |
| Trade Unwind and Close Outs | (958) |
| Barclays Repurchase Agreement | (4,500) |
| Barclays Disputed Assets | (4,686) |
| Clearing Bank Collateral Liquidations | (1,895) |
| Due From Affiliates (including RACERS) | (5,961) |
| Equity Value of Subsidiaries / PIK Note | (1,700) |
| Goodwill, Fixed Assets, and Other | (780) |
| Post-Petition Income | 2,150 |
| Excess Customer Property | 2,201 |
| **TOTAL** | (15,204) |

The Trustee has mitigated these losses through realization of nearly all other significant categories of assets including major settlements with clearing banks, clearing organizations, exchanges, and other parties, and a careful process of securities sales, all of which have brought the estate to this point of substantial completion. The losses are further mitigated by the success of the claims process through which the Trustee has determined nearly 140,000 claims in the asserted amount of over $307 billion (plus unliquidated amounts) to a current exposure of $131.4 billion across both the customer and general estates.

These results could not have been achieved without the oversight of the Court, Judges Peck and Chapman, and the Securities Investor Protection Corporation, as well as the advice and support of the United States Securities and Exchange Commission, the Federal Reserve Bank of New York, the Commodity Futures Trading Commission, and the Financial Industry Regulatory Authority.

With litigation and other activities remaining, however, this Report is necessarily preliminary. The Trustee remains committed to pursuing all available assets for distribution to unsecured creditors.

**Preliminary Realization Report[1]**
**(Unaudited - *Must Be Read With Accompanying Notes*)**

**Fund of Customer Property[2]**

| In Millions | Net Filing Date Value | Realized Value 12/31/14 |
|---|---|---|
| **Customer Property** | | |
| PIM | 43,249 | 43,249 |
| PAM | 45,566 | 45,566 |
| PB | 4,351 | 4,351 |
| Affiliates & Other[2][3] | 13,855 | 13,855 |
| TOTAL ASSETS | 107,021 | 107,021 |
| **Customer Liabilities** | | |
| PIM | 43,249 | 43,249 |
| PAM | 45,566 | 45,566 |
| PB | 4,351 | 4,351 |
| Affiliates & Other[2] [3] | 12,865 | 12,865 |
| TOTAL LIABILITIES | 106,031 | 106,031 |
| **Pending Customer Claims** | | |
| Distributions in Progress | N/A | 35 |
| Disputed Claims: | | |
| Repurchase Agreements | N/A | 144 |
| Forward Contracts | N/A | 227 |
| Miscellaneous | N/A | 84 |
| Allowed Portion of Disputed Claims | N/A | 37 |
| TOTAL CLAIMS | | 527 |
| TOTAL LIABILITIES & CLAIMS[4] | | 106,558 |

***The information and data included herein are derived from sources available to the Trustee and his professionals at this time. All amounts are unaudited, subject to revision, and should not be relied upon.***

**Preliminary Realization Report[1]**
**(Unaudited - *Must Be Read With Accompanying Notes*)**

**General Estate**

| In Millions | Net Filing Date Value | Realized Value 12/31/14 |
|---|---|---|
| **Assets** | | |
| Securities on Hand[5] | 9,544 | 10,525 |
| Proprietary Cash Book Entries[6] | 1,302 | 1,152 |
| Clearing Deposits | 2,666 | 2,666 |
| Receivables[7] | 311 | 406 |
| Trade Unwind and Close Outs[8] | 5,056 | 4,098 |
| Barclays Repurchase Agreement[9] | 4,500 | - |
| Barclays 15c3-3 Assets[9] | 769 | 769 |
| Barclays Disputed Assets[9] | 8,057 | 3,371 |
| Clearing Bank Collateral Liquidations[10][11] | 2,600 | 705 |
| Due From Affiliates (including RACERS)[3][10] | 6,225 | 264 |
| Equity Value of Subsidiaries / PIK Note[12] | 1,700 | - |
| Goodwill, Fixed Assets, and Other | 780 | - |
| Post-Petition Income | - | 2,150 |
| Excess Customer Property[2] | - | 2,201 |
| TOTAL ASSETS | 43,510 | 28,306 |
| **Liabilities** | | |
| Payables | 21,573 | - |
| Long-Term Financing | 7,012 | - |
| Due To Affiliates | 14,615 | - |
| Barclays 15c3-3 Assets[9] | - | 769 |
| Reserve for Barclays Disputed Assets[9] | - | 1,868 |
| Disputed Assets Paid to Barclays[9] | - | 2,635 |
| Post-Petition Income Reserve | - | 50 |
| General Creditor Claims Paid - SAP | - | 251 |
| General Creditor Claims Paid - GUC | - | 3,457 |
| Administrative Expense Paid[13] | - | 1,308 |
| Fund of Customer Property[2] | - | 13,660 |
| TOTAL LIABILITIES | 43,200 | 23,998 |
| NET | 310[14] | 4,307 |
| **Claims** | | |
| Secured[15] | N/A | 266 |
| Administrative[15] | N/A | 7 |
| Priority[15] | N/A | 41 |
| Unsecured–Third Party & Affiliates[15] | | |
| Affiliates[3] | N/A | 16,744 |
| Third Party | N/A | 4,162 |
| Subordinated | N/A | 14,428 |
| Administrative Expense Reserve | N/A | 850 |
| TOTAL CLAIMS (less subordinated claims) | | 22,070 |
| TOTAL LIABILITIES & CLAIMS[4] | | 46,068 |

***The information and data included herein are derived from sources available to the Trustee and his professionals at this time. All amounts are unaudited, subject to revision, and should not be relied upon.***

***Footnotes***

***Note 1 – Basis of Presentation***

The Trustee and his professionals have prepared the LBI Preliminary Realization Report based on the information available to the Trustee at this time. That information, however, may be incomplete and may be materially deficient. This Preliminary Realization Report is not meant to be relied upon as a complete description of LBI, its business, condition (financial or otherwise), results of operations, prospects, assets or liabilities or for any other purpose. The Trustee reserves all rights to revise this Preliminary Realization Report.

Realized assets are those actually received and under the Trustee's control. The Preliminary Realization Report does not include presentation of contingent or unliquidated assets that the Trustee may still recover or that may be due to the estate following court approved settlements or other matters. The Preliminary Realization Report is not intended to be and should not be deemed to be a waiver of any additional recoveries by the Trustee not specifically referenced herein, and is expressly without prejudice to any rights, claims, and defenses the Trustee may have.

This Preliminary Realization Report should be read in conjunction with the Trustee's Interim Reports and Quarterly Reports, as well as the LBI Liquidation Balance Sheet and Quarterly Report on the General Creditor Claims Process as of December 31, 2014 (the "Liquidation Balance Sheet," ECF No. 11148), filed with the Bankruptcy Court and available on the Trustee's website, www.lehmantrustee.com. The Preliminary Realization Report is not prepared or presented in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") and the numbers are unaudited. The Preliminary Realization Report does not reflect normal period-end adjustments, including accruals that were generally recorded by LBI prior to the commencement of the Securities Investor Protection Act ("SIPA") proceeding. The Preliminary Realization Report does not include explanatory footnotes or other disclosures required under GAAP and is not presented in a GAAP-based Securities and Exchange Commission ("SEC") reporting format. Certain items presented in the Preliminary Realization Report remain under continuing review by the Trustee and may be accounted for differently in a future report. Accordingly, the financial information herein is subject to change and any such change may be material.

The Preliminary Realization Report is not audited and will not be subject to audit or review by external auditors at any time in the future. The Preliminary Realization Report is prepared on a cash basis and therefore does not reflect accruals or other amounts that would be found under an accrual basis format.

***Note 2 – 100% Satisfaction of Customer Claims***

LBI's customer accounts were primarily part of the Private Investment Management ("PIM"), Private Asset Management ("PAM"), and Prime Brokerage ("PB") ranges of accounts. As of September 19, 2008 (the "Filing Date"), PIM comprised 72,527 customers holding $43.2 billion of assets, PAM comprised 38,106 customers holding $45.6 billion of assets, and PB served 287 hedge funds holding $4.4 billion of assets. The unprecedented task of transferring these three

ranges of accounts began within hours of commencement of the liquidation and was largely concluded in the first several weeks of the liquidation. The background and composition of these businesses and the account transfers are detailed in the Preliminary Investigation Report. (*See* Trustee's Preliminary Investigation Report and Recommendations, dated Aug. 25, 2010 (the "Preliminary Investigation Report," ECF No. 3604) at 6, 17-18, 44-47, 94-97.)

The Preliminary Investigation Report also notes that beyond the PIM, PAM, PB, and certain other limited ranges of customer accounts, the magnitude of other customer lines of business, including affiliates with customer claims or for whom LBI would have custodied client collateral, were unknown or not understood by Lehman personnel at the time of filing. (*See id.* at 96-99.) The resolution of these customer accounts and the marshaling of assets sufficient to restore these accounts to 100% were among the biggest challenges of the liquidation.

As detailed in the Trustee's Motion for Order Approving Trustee's Allocation of Property of the Estate (ECF No. 1866) and supplements thereto (ECF Nos. 4760, 5058, 5685, 5790), throughout the liquidation proceeding, the Trustee has faced the complicated question of what portion of cash and securities under his control should be allocated to the fund of customer property under SIPA. Ultimately, following the account transfers, approximately $15.185 billion of marshaled property was allocated to the fund of customer property pursuant to this Court's orders (ECF Nos. 2743 and 6023).

The allocation process necessarily occurred in parallel with the determination and litigation of over $180 billion of asserted customer claims. Pursuant to section 78fff-(2)(c)(1) of SIPA, customer property remaining after all customers are paid in full, if any, shall become part of the general estate. To date, in consultation with the Securities Investor Protection Corporation ("SIPC") and regulators, the Trustee has allocated $2.2 billion of excess customer property to the general estate. The Trustee will continue to assess customer claim reserves to determine the extent to which it is possible to allocate any further potential excess customer property to the general estate prior to a final customer distribution.

***Note 3 – Affiliate Claims***

As detailed in the Preliminary Investigation Report, LBI was a hub of the worldwide Lehman group of some 2,600 affiliates, with daily affiliate transactions of well in excess of $100 billion. (*See generally* Preliminary Investigation Report at 17-18, 39-41, 47-51.) The atomization of this global enterprise into more than 76 insolvency proceedings, each with their own fiduciaries, creditors, and governing law, resulted in enormous affiliate customer and general estate claims liability, some of which were largely unforeseen prior to bankruptcy. These claims and transactions are detailed in the following filings: Preliminary Investigation Report at 97-99; Motion Pursuant to Federal Rule of Bankruptcy Procedure 9019 for Entry of Order Approving Settlement Agreement Between the Trustee and the LBHI Entities, dated Feb. 26, 2013 (the "LBHI Settlement Motion," ECF No. 5784); Motion Pursuant to Federal Rule of Bankruptcy Procedure 9019 for Entry of Orders Approving Settlement Agreement Among the Trustee, LBIE (in Administration) and the LBIE Joint Administrators and Expunging Duplicative Claims, dated Feb. 26, 2013 (ECF No. 5787).

***Note 4 – Claims Processing***

The Trustee received an unprecedented number of claims against the LBI customer and general estates from both affiliate and non-affiliate claimants that far exceeded LBI's expected Filing Date liabilities. Through the SIPA account transfers and claims process the Trustee has dealt with approximately 125,000 claims against the customer estate seeking the return of more than $180 billion, plus unliquidated amounts. (*See* Trustee's Fifth Interim Report for the Period October 27, 2010 through April 22, 2011 (ECF No. 4245) ¶ 6.) The Trustee also received over 14,000 claims against the general estate in the asserted amount of nearly $129 billion, plus unliquidated amounts (*See* Liquidation Balance Sheet at 11.) Through a thorough reconciliation of these thousands of claims, the Trustee has successfully reduced the total exposure to the LBI estate from over $309 billion to $131.4 billion as of December 31, 2014, with total claims and liabilities of $106.5 billion against the customer estate and total claims and liabilities of $24.9 billion against the general estate. As additional claims are resolved, the total exposure to each estate is expected to decrease.

***Note 5 – Securities on Hand***

The estimated opening book balance is an approximation based on the Filing Date publicly available market data. Where market data was not available, the security was valued at zero. Securities sales have yielded substantial value beyond this estimate. BlackRock Financial Management Inc. ("BlackRock") assisted in the sale of liquid securities. BlackRock executed sales to minimize market disruption and maximize value, with aggregate sales above the volume-weighted average price. Liquid securities sales totaled approximately $7 billion. Miller Buckfire & Co., LLC assisted in the sale of approximately 3,000 illiquid securities through "at market" sales and weekly auctions. Through December 31, 2014, settled cash proceeds from securities in this portfolio totaled approximately $432 million. (*See* Liquidation Balance Sheet at note 11.) The remaining securities value realized was largely derived from the redemption and maturity of fixed income positions.

***Note 6 – Proprietary Cash Book Entries***

Reflects book value of certain cash items as reflected on the books and records on the Filing Date. Because not all accounting entries had been completed prior to the Trustee's appointment, this number does not reflect netting of overdraft positions and, in some instances, payments made prior to the liquidation. This proprietary balance also does not include segregated cash of nearly $2.2 billion, realized on a dollar for dollar basis, and reflected as part of the Fund of Customer Property. In the early phases of the liquidation the Trustee's professionals, with assistance from former Lehman personnel, undertook a comprehensive review of more than 30 institutions and 460 accounts around the world. (*See* Trustee's Second Interim Report for the Period May 30, 2009 through November 11, 2009 (ECF No. 2055) at ¶ 4; Trustee's Fourth Interim Report for the Period May 11, 2010 through October 26, 2010 (ECF No. 3842) at ¶ 147.) All of those accounts have been accounted for, with the Trustee realizing all available proprietary cash.

***Note 7 – Receivables***

Insurance-related receipts and disbursements, tax refunds, refunds on termination of executory contracts, payroll, distributions from regulatory and class action settlements, and other miscellaneous receipts.

***Note 8 – Trade Unwind and Close Outs***

The Trustee's professionals undertook to unwind and settle open transactions with counterparties, including foreign exchange, options, and repurchase transactions. As part of the unwind process, the Trustee's professionals calculated the opening estimate of the unwind receivables based on a Filing Date close out date. In general, however, the underlying contracts (and associated Safe Harbor provisions of the Bankruptcy Code as incorporated by SIPA) allowed greater flexibility for close out calculations, including the determination of the close out date, which resulted in slightly lower final valuations. Among other things, the estate immediately wrote down $360 million of book value on account of forced close out of positions at the time of the bankruptcy filing, which prevented substantial interest from accruing against the estate. Accordingly, even though the Trustee's professionals realized nearly 100% of the value of the outstanding transactions, the amount realized was, ultimately, less than the opening estimate calculated at the commencement of LBI's SIPA proceeding. In some instances the Trustee recovered securities on account of unwind recoveries and that value is reflected in the realized value of "Securities on Hand," note 5.

***Note 9 – Barclays Matters***

In the days and hours prior to the Trustee's appointment on September 19, 2008, Lehman Brothers Holdings Inc. ("LBHI"), as LBI's sole shareholder, and Barclays Capital Inc. ("Barclays") negotiated and entered into an agreement to purchase substantially all of LBI's assets (and an amendment thereto). The parties (including the Trustee, after his appointment) subsequently executed the so-called "clarification letter" on the morning of the closing of the acquisition on September 22, 2008. Although the Trustee monitored the negotiations of the clarification letter over the weekend of September 20-21, 2008, due to the practical exigencies existing at the time, including the Trustee's recent appointment, the clarification letter was negotiated by LBHI and Barclays.

It was the almost universal view at the time, including of federal regulators, that it was critical to avoid a piecemeal liquidation of the LBI estate and to ensure the orderly transfer of LBI's customer accounts and workforce. An immediate transaction with Barclays was viewed as the only means available to achieve these goals – which were largely achieved. There subsequently has been much dispute – and extensive litigation – over exactly what was disclosed to, and understood by, the Lehman board and the Court at the time with respect to the fundamental economics of the sale agreement (both in its original form and as modified and "clarified" by the clarification letter), and the degree of risk to Barclays in consummating the Lehman acquisition during a time of extreme distress and turbulence in the financial markets, in particular in relation to securities, financial positions and arrangements that were transferred to, and assumed by, Barclays. In the midst of the collapse of Lehman and the other shocks to the financial systems

that took place in September 2008, it was not clear how beneficial the transaction would be to Barclays. However, with the benefit of hindsight, it now seems apparent that the sale agreement was favorable to Barclays and that LBI's creditors will face losses of more than $7.5 billion, and potentially as high as $13 billion, as a direct result of the transaction.

***Assets Barclays Acquired from LBI:***

Barclays' acquisition of substantially all of LBI's assets included (in broad brush) 72,527 PIM customer accounts (*see* note 2, *supra*), most of the assets used in LBI's U.S. and Canadian investment banking and capital markets businesses, all or substantially all of LBI's intellectual property and tangible personal property, and broad swaths of LBI's securities/financial positions and arrangements (including both long and short positions). Barclays also acquired certain real property assets of LBHI.

As part of the acquisition, Barclays stepped into the shoes of the Federal Reserve Bank of New York ("FRBNY") on September 18, 2008 with respect to a repurchase facility that the FRBNY had extended to LBI in the days prior to the Filing Date. Pursuant to the repurchase agreement, LBI posted securities to serve as collateral for a $45 billion cash loan. The value of LBI's repurchase agreement collateral has been the subject of dispute and litigation among LBHI, LBHI's Creditors Committee, the Trustee, and Barclays. LBI's books and records reflect that, as of the Filing Date, the collateral had a net value (*i.e.*, a value in excess of the cash loaned to LBI) of approximately $4.5 billion. This valuation is consistent with both (1) the Trustee's understanding that LBI was required to provide the FRBNY with collateral worth 110 percent of the cash loaned, and (2) the Bankruptcy Court's finding in the aforementioned litigation that "Barclays received at least $49.7 billion in collateral and cash to secure LBI's obligations for $45 billion advanced to it under the September 18 Repurchase Agreement." (*See* Opinion on Motions Seeking Modification of the Sale Order Pursuant to Rule 60(b), the Trustee's Motion for Relief Under the SIPA Sale Order, Barclays Cross-Motion to Enforce the Sale Orders and Adjudication of Related Adversary Proceedings (ECF No. 4105) at 43-44.) The LBI estate did not realize any of the $4.5 billion net value because the sale agreement with Barclays terminated the repurchase agreement, extinguishing both LBI's obligation to repay the cash and Barclays' obligation to return the collateral to LBI.

In addition to the collateral and other valuable assets acquired (some of which raised questions of value), Barclays also used its position over the weekend to change the deal to obtain billions of dollars of margin related to exchange-traded derivative positions it was acquiring, to obtain substantial proprietary assets in LBI's accounts at clearing houses (including, as interpreted by the courts, at The Depository Trust & Clearing Corporation ("DTCC")), and to receive $769 million, representing the Filing Date value of the securities in LBI's SEC Rule 15c3-3 customer reserve accounts on the Filing Date, to the extent permitted by applicable law. (The Trustee realized the full value of these Rule 15c3-3 securities and was required to transfer $769 million to Barclays once it was clear that all allowed customer claims would be satisfied in full.)

***Consideration Paid by Barclays:***

The consideration paid by Barclays under the sale agreement consisted of (i) cash in the amount of $250 million (which sum ended up being deposited with DTCC to secure against any losses that DTCC's operating subsidiaries might incur in closing out LBI's positions there), (ii) cash in the amount of $1.3 billion in respect of the LBHI real properties included in the transaction (which sum accordingly was paid to LBHI), (iii) certain "Assumed Liabilities," including an obligation to pay bonuses to Lehman transferred employees and an obligation to pay severance in accordance with Lehman's severance plans or agreements to such transferred employees whose employment subsequently was terminated by Barclays prior to December 31, 2008 by reason of a "reduction in force" or a "job elimination," and (iv) the obligation to pay the cure amount in respect of any contract designated by Barclays as a "Purchased Contract" (an obligation that was originally estimated to the Court to amount in the aggregate to approximately $1.5 billion, but which ultimately aggregated to only approximately $238 million). The original sale agreement also provided for a possible post-closing cash payment by Barclays of up to $750 million, in respect to Barclays' net profit (if any) from sales, prior to the first anniversary of the closing, of the long or short positions acquired from LBI, but this provision was eliminated in the clarification letter.

Overall, as summarized in the below chart, Barclays acquired more than $11.8 billion from LBI in exchange for $2.4 billion of consideration paid to third parties. Barclays has noted that it also paid the appraised value of the real estate it was acquiring, and that it assumed post-closing liabilities associated with the operation of the business. The real estate payment was made to LBHI (not LBI) and was offset by the value of the real estate; the post-closing liabilities represent the cost of running the business that Barclays acquired.

| **ASSETS BARCLAYS ACQUIRED FROM LBI** | **CONSIDERATION PAID BY BARCLAYS** |
|---|---|
| $4.5 billion net value of repurchase agreement collateral | $250 million in cash paid to DTCC |
| $769 million in Rule 15c3-3 Assets | |
| $2.6 billion in Clearance Box Assets | $1.95 billion in employee bonus, severance, and tax obligations, paid to third parties |
| $4 - $5.4 billion in Margin Assets* | |
| 72,527 high worth customer accounts, with customer assets of $43 billion | |
| 10,000 Lehman employees | $238 million in contract cure liabilities, paid to third parties |
| Intellectual property rights | |
| **Total = $11.869+ billion, high worth customer accounts, employees, IP rights, position in North American market** | **Total = $2.438 billion paid to third parties, on account of LBI obligations ($0 paid directly to LBI)** |

* Barclays' entitlement to Margin Assets is disputed and the subject of pending litigation.

Barclays' financial reporting confirms that it received value significantly in excess of the consideration it paid. Barclays immediately recognized a gain on acquisition of $4.1 billion. Since then, Barclays has increased its recognized gain on the assets it acquired by more than $700 million.

***Litigation with Barclays:***

As discussed in the Trustee's interim reports, the Trustee continues to be involved in litigation with Barclays concerning the disposition of certain "Disputed Assets." (*See* Trustee's Eleventh Interim Report (ECF No. 9839) § IV.) The litigation concerns approximately $5.4 billion in Margin Assets. The Trustee has collected more than $2.2 billion in Margin Assets and, prior to the commencement of the litigation, Barclays obtained possession of approximately $2 billion in Margin Assets. The Trustee maintains a reserve for the Disputed Assets that are not in Barclays' possession – including both those assets that the Trustee has realized and those assets that the Trustee has not realized.

On August 5, 2014, the Second Circuit issued a decision affirming the District Court's award to Barclays of approximately $4 billion in Margin Assets. On December 15, 2014, the Trustee filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the Second Circuit decision.

On October 1, 2014, the Trustee filed a motion to confirm that the District Court and Second Circuit judgments cover only the approximately $4 billion in Margin Assets that were disputed on appeal, and do not cover more than $1.3 billion in additional assets that Barclays did not claim on appeal. In a memorandum filed in support of the motion, the Trustee stated that arrangements were being made to pay Barclays the amounts held in the Trustee's possession that are covered by the judgment. Accordingly, on October 8, 2014, the Trustee paid Barclays $1.107 billion in full satisfaction of the Clearance Box Assets portion of the judgment (including post-judgment interest). On December 10, 2014, the Trustee paid Barclays $1.528 billion (including post-judgment interest) in partial satisfaction of the Margin Assets portion of the judgment. With each payment, the Trustee reduced the Barclays litigation reserve by a corresponding amount. Thus, the current amount of the reserve is $1.868 billion.

The Trustee has not yet paid Barclays approximately $40 million that he believes is covered by the Margin Assets judgment but that remains subject to reconciliation, and Barclays has not collected any of the assets held by Lehman Brothers International (Europe) that are covered by the judgment. In addition, Barclays argued in its opposition to the Trustee's October 1 motion that it is entitled to more than $1.1 billion in assets that the Trustee believes are outside the scope of the judgment. The parties' dispute over Barclays' claim to these additional assets is now pending before the District Court. The reserve is sufficient to pay Barclays the full amount that the Court determines is covered by the judgment regardless of the outcome of the Trustee's motion.

***Note 10 – Valuation Losses***

The Trustee's Preliminary Investigation Report as well as the Report of the Examiner in the LBHI proceeding make clear that Lehman as an enterprise had internal asset values in excess of the assets' actual, realizable valuable in liquidation. (*See generally* Preliminary Investigation Report at 50-51; Report of Anton R. Valukas, Examiner, *In re Lehman Bros. Holdings Inc.*, No. 08-13555 (SCC), Mar. 11, 2010 (ECF No. 7531), at 23 & Section III.A.2.) The market and credit environment in the month of September 2008 resulted in significant mark-to-market losses on LBI's inventory and a contraction in available financing that had previously been based on inflated and incorrect asset values.

In addition, the Trustee recognized a loss of $6.2 billion related to a receivable balance due from Lehman Commercial Paper Inc. ("LCPI") arising from reverse repurchase transactions in which the securities LBI was to receive, called "RACERS", were, ultimately, valueless. This is primarily due to the illiquid nature of the securities, the lack of market transactions, and uncertainty of the collectability of all the cash flows of the underlying assets, as well as the timing of the receipt of those cash flows. (*See* Preliminary Investigation Report at 50-51.)

***Note 11 – Clearing Bank Collateral Liquidations***

On the Filing Date JPMorgan Chase ("JPMC"), LBI's primary clearing bank, held a valid, perfected lien against LBI securities and cash held at JPMC to secure an overdraft balance of $33 billion. JPMC subsequently liquidated the majority of the securities covered by this lien and applied the funds received along with the cash it already held to reduce the overdraft in the LBI estate's JPMC accounts. The LBI estate realized a loss of $2.6 billion as a result of the difference between the $22.1 billion internal value at the Filing Date of the collateral liquidated by JPMC and the $19.5 billion amount of proceeds from the liquidation that JPMC actually received from the liquidation and subsequently applied against the overdraft (*see* note 10, *supra*). As detailed in the Trustee's Preliminary Investigation Report, this loss was attributable to Lehman's internal, book asset values being in excess of their realizable market value, along with the prevailing market conditions during September and October 2008 when the collateral was liquidated. (*See* Preliminary Investigation Report at 34-36.) Ultimately, this loss was partially reduced by the $757.4 million payment received by the Trustee as part of the settlement agreement between the Trustee and JPMC dated April 20, 2011 ($52.4 million of which represented post-petition dividends and interest and $705 million of which was later used to fund distributions to customers). Details on the Trustee's settlement agreement are available in the Motion Pursuant to Fed. R. Bankr. P. 9019(a) for Entry of An Order Approving Settlement Agreement, dated Apr. 21, 2011 (ECF No. 4242) and the Trustee's Sixth Interim Report for the Period April 23, 2011 Through October 21, 2011, dated October 21, 2011 (ECF No. 4657).

***Note 12 – Transfer of Subsidiaries***

Prior to liquidation, LBI carried a book equity value of $1.7 billion for its twenty-five direct subsidiaries, including LCPI, Lehman Brothers Special Financing ("LBSF"), and LBSF's subsidiary, Lehman Brothers Commodity Services Inc. In the hours before the commencement of the SIPA proceeding, LBI, while still under the control of LBHI, transferred the stock of its

subsidiaries to LBHI affiliate Lehman ALI Inc. in exchange for payment-in-kind notes ("PIK Notes"). Under the terms of the PIK Notes, their value was to be the "fair market value of the Acquired Stock as of" the Filing Date. Ultimately, as part of the Trustee's $70 billion settlement of intercompany claims with LBHI, the LBI estate realized no monetary value for the PIK Notes. (*See* LBHI Settlement Motion at ¶ 42.)

***Note 13 – Administrative Expenses***

Administrative expenses disbursed as of December 31, 2014 total $1.3 billion, approximately one percent of assets administered to date. This percentage is far lower than most other of the worldwide Lehman insolvencies, a success primarily attributable to the account transfer provisions of SIPA, which eliminated the need to extensively process approximately 110,000 claims. Furthermore, all fees and expenses are closely reviewed by SIPC, and at SIPC's request nearly all costs are subject to a public interest discount of ten percent or more along with numerous other fee and expense write-offs that together have saved creditors well over $100 million.

***Note 14 – Net Filing Date Value***

This Report does not purport to be an insolvency analysis, and should not be relied upon for that or any other purpose. The opening trial balance of $310 million includes assets such as the $6.2 billion RACERs trusts due from affiliates, discussed at note 10, for which no value has been realized, and other categories of assets such as clearing bank collateral where book values appear to have exceeded market value, discussed at note 11. These assets suggest LBI was insolvent in periods preceding the Filing Date and, as detailed in the Preliminary Investigation Report, it was largely the faith and credit of counterparties that kept LBI in operation in its final days and months. (*See* Preliminary Investigation Report at 25-30.)

***Note 15 – General Creditor Claims***

General creditor claims are presented net of amounts distributed on allowed claims as of December 31, 2014. For example, the $20.906 billion of unsecured liabilities is net of the $3.457 billion distributed to general unsecured claimants as of December 31, 2014 (*see* Liquidation Balance Sheet note 15). The vast majority of unsecured liabilities – nearly 82% – are related to allowed claims filed by LBI's affiliates. Only 18% of unsecured liabilities are attributable to third party claims because LBI was largely current on accounts payable through the Filing Date and Barclays assumed hundreds of contracts in the sales transaction, which relieved the general estate of approximately $2.4 billion of potential claims (*see* note 9).