

BANKRUPTCY REPORT

Bankruptcy report number 7 of the trustee of

Lehman Brothers Securities N.V.

22 April 2011¹

Company name	: Lehman Brothers Securities N.V. (" LBS ")
Bankruptcy reference	: E.J.F. 2/2009
Bankruptcy date	: 30 January 2009
Trustee	: Mr. M.R.B. Gorsira (the " Trustee ")
Supervisory judge	: Mr. A.J. Beukenhorst (the " Supervisory Judge ")
Activities Company	: The objective of LBS is the structuring and issuing of derivative products linked to equity securities with the purpose to obtain a return on investment.
Turnover data	: Operating income according to the audited annual accounts 2007 (as of 30 November 2007): USD 21,895
Reporting period	: 1 December 2010 up to and including 22 April 2011
Hours spent in period under review	: 1.217,7
Total hours spent to date	: 6.085,9

Summary of key issues

- On 15 December 2010 an ad hoc group of Lehman creditors represented by White & Case (the "**Ad Hoc Group**") filed a proposed chapter 11 plan (the "**Ad Hoc Plan**") for Lehman Brothers Holdings Inc. ("**LBHI**") and certain of its U.S. debtor affiliates (collectively the "**U.S. Debtors**") along with a proposed disclosure statement (the "**Ad Hoc Disclosure Statement**") in the United States Bankruptcy Court for the Southern District of New York (the "**U.S. Bankruptcy Court**") having jurisdiction over the U.S. Debtors' chapter 11 cases (the "**U.S. Chapter 11 Cases**");²

¹ This report does not address any events or filings (including any new or amended chapter 11 plans of reorganization) after April 22, 2011.

² At the time the Ad Hoc Plan was filed, the Ad Hoc Group was comprised of pension funds, municipalities, institutional holders and secondary holders, who claimed to hold more than \$12 billion of claims across the Lehman capital structure, \$9.4 billion of which are senior unsecured claims against LBHI. At that time, the Ad Hoc Group was made up of (i) the California Public Employees' Retirement System, (ii) County of San Mateo, (iii) Fiduciary Counselors Inc., (iv) Fir Tree, Inc., (v) Gruss Asset Management, L.P., (vi) Owl Creek Asset Management, L.P., (vii) Paulson & Co. Inc., (viii) Perry Capital LLC, (ix) Taconic Capital Advisors L.P. and (x) Western Asset Management Company. On April 22, 2011, the Ad Hoc Group filed a statement with the U.S. Bankruptcy Court (the "**Ad Hoc Group 2019 Statement**") indicating that additional members have joined the Ad Hoc Group bringing the total amount of Lehman claims held by the Ad Hoc Group www.ekvandoorne.com/bankruptcy-lehman-brothers-securities/38-general-information

- On 25 January 2011, the U.S. Debtors filed their first amended chapter 11 plan (the "**U.S. Debtors' Amended Plan**") along with a proposed disclosure statement (the "**U.S. Debtors' Amended Disclosure Statement**");
- On 14 April 2011, the U.S. Bankruptcy Court entered an Order Establishing Schedule and Procedures in Connection with Discovery Related to Plan Confirmation and Other Issues (the "**Plan Discovery Procedures**") and a related Protective Order (the "**Protective Order**"). On April 27, 2011, the Trustee served a notice of intent to participate in Plan Discovery in accordance with the Plan Discovery Procedures;
- The Trustee is a party to the *Cross-Border Insolvency Protocol* (the "**Protocol**") and has participated in meetings with the official representatives that are also parties to the Protocol (the "**Official Representatives**" or the "**Protocol Parties**") on 26 – 27 January 2011 in New York and on 23 March 2011 in New York. The primary topics for the discussions at these meetings were i) the Ad Hoc Plan and the related Ad Hoc Disclosure Statement; ii) the U.S. Debtors' Amended Plan and the related U.S. Debtors' Amended Disclosure Statement; and iii) the Plan Discovery Procedures. The Ad Hoc Group and U.S. Debtors presented their respective plans at the Protocol Meeting of 26 – 27 January in New York; and
- Neither a claims filing date nor a date for the claim admission meeting have been set in Curacao. The Trustee does not expect to set a bar date before the end of this year.

1. General

- 1.1 This is the seventh bankruptcy report of the Trustee. The information provided in this report – especially the financial information – is still subject to further investigation. Please be advised that information may have to be substantially amended following such further investigation.
- 1.2 With regard to the progress of the bankruptcy, the Trustee will communicate with the creditors and other interested parties via electronic mailings (through the electronic communication systems of the clearing systems) and via the website: www.ekvandoorne.com/bankruptcy-lehman-brothers-securities/38-general-information. Please note that the information and documents published on the dedicated website may (at any time) be subject to changes.

- 1.3 In this seventh bankruptcy report the Trustee provides an update regarding the progress of the settlement of the bankruptcy of LBS over the last 4 months. Subjects discussed in the prior bankruptcy reports, but not discussed in this bankruptcy report, may however still be subject to further investigation and/or analysis, but no or little progress has been made regarding those subjects in this reporting period.

2. **Lehman Brothers Securities N.V.**

2.1 *General*

LBS was incorporated on 31 October 2003 and is a wholly-owned subsidiary of Lehman Brothers Asia Holdings Limited, seated in Hong Kong, which in turn is a wholly-owned subsidiary of LBHI. LBHI is incorporated in Delaware in the United States and is the holding company of the worldwide operating Lehman Brothers group of companies (the "**Lehman Brothers Group**").

LBS had its corporate seat at E-Commerce Park, Vredenberg in Curacao. Mr. Jonathan Josef Knapp is listed in the Commercial Register as the Managing Director of LBS (the "**Managing Director**").

2.2 *Cause of bankruptcy*

On 15 September 2008 LBHI filed a petition in the U.S. Bankruptcy Court seeking relief under Chapter 11 of the United States Bankruptcy Code. The Lehman Brothers Group has subsequently closed all its subsidiaries globally. As LBS was then unable to pay its debts, LBS requested the Court of First Instance of the Netherlands Antilles, venue Curacao, that it be declared bankrupt in January 2009.

3. **Cross-border insolvency protocol and the Plans of Reorganization**

3.1 *Protocol Meetings*

The Protocol Parties met on 26 – 27 January 2011 in New York and on 23 March also in New York. The U.S. Debtors' Amended Plan, the Ad Hoc Plan and the Plan Discovery were the main topics of discussion between the Protocol Parties. In January the Trustee and LBHI had also a bilateral meeting in which meeting parties discussed the amended LBS settlement proposal (the "**Amended Settlement Proposal**").

3.2 *The Ad Hoc Plan and the Ad Hoc Disclosure Statement*

On 15 December 2010 the Ad Hoc Group filed the Ad Hoc Plan along with the Ad Hoc Disclosure Statement. The Ad Hoc Plan proposes the potential substantive consolidation of LBS if the Trustee and LBS's creditors (the "**Security Holders**") on account of their guarantee

claims against LBHI (the "**Third Party Guarantee Claims**") both reject the Ad Hoc Plan. The proposed treatment of LBS related claims under the Ad Hoc Plan can be summarized as follows:³

- If the Trustee and the Security Holders both vote to accept the Ad Hoc Plan, the primary intercompany claims against (i) LBHI, (ii) other U.S. Debtors (e.g., LBSF, LBCC) and (iii) other foreign affiliates that are substantively consolidated (e.g., LBIE, LBF) will be allowed as non-senior general unsecured and entitled to a pro rata share of plan consideration (as defined in the Ad Hoc Plan), but only if consolidated debtors that have claims against LBS receive distributions from LBS without subordination, reduction or offset of any kind. If either the Trustee or the Security Holders vote to reject the Ad Hoc Plan, LBS's primary intercompany claims will be disallowed as a result of substantive consolidation.
- LBS will receive nothing on account of the guarantee claims against LBHI held by LBS as a result of substantive consolidation.
- With respect to the Third Party Guarantee Claims against LBHI held by the Security Holders, the Trustee notes the following: If the Trustee and the Security Holders vote to accept the Ad Hoc Plan, the Third Party Guarantee Claims will be allowed as non-senior general unsecured claims and entitled to their pro rata share of plan consideration, provided that the pro rata share will be calculated using 70% of the allowed amount of the claims.
- If either the Trustee or the Security Holders vote to reject the Ad Hoc Plan, the Security Holders will be able to assert their direct claims against the consolidated debtors as non-senior general unsecured claims and will be entitled to their pro rata share of the plan consideration.

3.3 *The U.S. Debtors' Amended Plan, the U.S. Debtors' Amended Disclosure Statement and the Amended Settlement Proposal⁴*

On 25 January 2011 the U.S. Debtors filed the U.S. Debtors' Amended Plan along with the U.S. Debtors' Amended Disclosure Statement. LBHI presented the U.S. Debtors' Amended

³ The description of the Ad Hoc Plan and Ad Hoc Disclosure Statement is for summary purposes only and is qualified entirely by the actual terms contained therein. Creditors and other interested parties should refer directly to the Ad Hoc Plan and Ad Hoc Disclosure Statement for their actual terms.

⁴ The description of the U.S. Debtors' Amended Plan and U.S. Debtors' Amended Disclosure Statement is for summary purposes only and is qualified entirely by the actual terms contained therein. Creditors and other interested parties should refer directly to the U.S. Debtors' Amended Plan and U.S. Debtors' Amended Disclosure Statement for their actual terms.

Plan and the U.S. Debtors' Amended Disclosure Statement at the Protocol Meeting of 26 – 27 January in New York.

3.3.1 The U.S. Debtors' Amended Plan contains a settlement proposal for the treatment of LBS-related claims (the "**Settlement Proposal**"). The Settlement Proposal is conditioned upon an agreement with the Trustee that i) the methodology for valuing the Securities (defined in the Amended Plan as "**LBS Notes**") in Curacao is consistent with the methodology proposed to be implemented in the United States for purposes of valuing the Third Party Guarantee Claims or is otherwise acceptable to the U.S. Debtors and ii) the U.S. Debtors may withhold all or any portion of distributions to the Trustee if the U.S. Debtors have not reached an agreement with LBF. Assuming such an agreement is reached, the treatment of LBS related claims under the Amended Plan can be summarized as follows:

- LBS's intercompany claim (which was filed in the approximate amount of USD 6 billion against LBHI (the "**Intercompany Claim**") would be treated as a non-senior intercompany claim in an amount agreed to among the Trustee and LBHI. LBS would receive its pro rata share of available cash from LBHI.
- The U.S. Debtors' Amended Plan does not specifically address LBS's intercompany claims against LBSF. To the extent the U.S. Debtors and the Trustee can reach an agreement as to the proper amount of such claims, LBS should receive its pro rata share of available cash from LBSF on account of those claims, provided that if holders of LBHI's senior, third-party derivative and general unsecured claims accept the plan, LBS will be required to turn over 5% of its distributions from LBSF to such creditors.
- The U.S. Debtors' Amended Plan does not specifically address LBS's intercompany claims against LBCC. To the extent the Debtors and the Trustee can reach an agreement as to the proper amount of such claims, LBS should receive its pro rata share of available cash from LBCC on account of those claims, provided that if holders of LBHI's senior, third-party derivative and general unsecured claims accept the plan, LBS will be required to turn over 10% of its distributions from LBCC to such creditors.
- The guarantee claims filed by LBS against LBHI are to be disallowed.
- The Third Party Guarantee Claims held by LBS's Security Holders will be calculated by the U.S. Debtors in accordance with a valuation methodology that values all outstanding Securities at approximately \$964,238,804. Holders of these Third Party Guarantee Claims

will be entitled to their pro rata share of cash from LBHI as well as a pro rata share of the distributions that would otherwise have gone to the holders of Class 10B and Class 10C holders of subordinated debt. However, in the event the holders of LBHI's senior, third-party derivative and general unsecured creditors vote to accept the Amended Plan, holders of Third Party Guarantee Claims are required to turn over 30% of their distributions to such creditors.

3.3.2 The Trustee does not accept the conditions (as mentioned under 3.3.1 (i) and (ii)) upon which a settlement between the Trustee and the U.S. debtors may be entered into. The discussions between LBHI and the Protocol Parties still continue, both within the Protocol Meetings as well as on a bilateral basis. Also the Settlement Proposal is still subject to further discussions and negotiations with LBHI, which remain confidential.

3.3.3 The Trustee notes that any settlement with LBHI regarding the treatment of the Intercompany Claim or otherwise is subject to the approval of the Supervisory Judge. If and when the Trustee intends to enter into a settlement with the U.S. Debtors and thus request the Supervisory Judge for approval, such intent will be communicated to the Security Holders via i) electronic mailings (through the electronic communication systems of the clearing systems); ii) a notification on the website; and iii) by means of an email notification to those included on the mailing list.

3.3.4 In this reporting period the Trustee has met with various Security Holders. The Trustee highly values these informal meetings and wishes to continue receiving their views on (i) the U.S. Debtors' Amended Plan and the related U.S. Debtors' Amended Disclosure Statement, (ii) the Ad Hoc Plan and the related Ad Hoc Disclosure Statement, and (iii) the valuation methodology regarding the Securities applied by LBHI.

4. Plan Discovery Procedures

On 14 April 2011, the U.S. Bankruptcy Court entered an order approving the Plan Discovery Procedures and a related Protective Order. After having consulted the Supervisory Judge, the Trustee served a notice of intent to participate in Plan Discovery.

5. Valuation of LBS Warrants & Certificates

Along with the U.S. Debtors' Amended Disclosure Statement the U.S. Debtors proposed a valuation methodology for the Securities (see the "**Structured Securities Valuation Methodologies**" attached to the U.S. Debtors' Amended Disclosure Statement as Exhibit 11). Since the Trustee has no further detailed information about the valuation methodology applied

by LBHI as per the individual Securities and the respective amounts, the Trustee has engaged an independent derivative traders company. A team of derivative traders are valuing a sample of 50 Securities issued by LBS. In connection with the Structures Securities Valuation Methodologies proposed by LBHI regarding the Securities, the Trustee intends to discuss these results with LBHI and to consider the possibility of utilizing the same or similar methodologies for valuing the Securities in the Curacao proceedings.

6. Other Debtors

LBF, LBFNA and LBIE

The Global Close Balance Sheet indicates that LBS has two intercompany derivatives receivables in the amount of i) USD 78,423,278.27 against Lehman Brothers Finance ("**LBF**"); and ii) USD 20,222,342.40 against Lehman Brothers Finance NA ("**LBFNA**"). In this reporting period, the Trustee has filed these two claims with the bankruptcy trustee of LBF/LBFNA.

The Trustee mentioned in his bankruptcy, dated 30 November 2010, that he filed two claims against respectively i) Lehman Brothers International (Europe) ("**LBIE**"); and ii) LBF and LBFNA, in relation to certain unfunded Securities (the "**Unfunded Securities**"), and to a related back-to-back hedging agreement, both in the amount of USD 12 billion.

In the last couple of months several meetings and discussions between the Trustee, LBIE and LBF/LBNA have taken place. Further discussions and investigation is still necessary. The Trustee expects to provide more detailed information regarding the Unfunded Securities and the back-to-back hedge claim in the next bankruptcy report.

IMPORTANT

Depending on the outcome of the joint investigations and (legal) analyses, the Trustee might cancel and/or amend (part of) the claim filing regarding the Unfunded Securities, respectively the related back-to-back hedge claim.

7. Global Close Balance Sheet and Reconciliation

Further to the joint reconciliation and the investigation efforts by LBS, LBF/LBFNA and LBIE regarding the Unfunded Securities, the Trustee notes that it continues to investigate the bookings of certain Securities issued by LBS.

8. Creditors

The Trustee has not set a bar date yet, but he expects to set a bar date in second half of 2011 or the first quarter of 2012.

9. Improper management

The Trustee will further investigate the manner in which the Managing Director and the supervisory board have fulfilled their duties.

10. Fraudulent acts in respect of creditors

The Trustee will further investigate whether fraudulent acts (*paulianus handelen*) have been committed.

11. Miscellaneous

11.1 As to the timing, the Trustee notes that the winding-up of the bankruptcy of LBS largely depends on the completion of the Chapter 11 proceedings of LBHI as well as the Trustee's investigation into the bookings of LBS's assets and liabilities.

11.2 This seventh bankruptcy report (as well as every subsequent bankruptcy report) will be available on <http://www.ekvandoorne.com/bankruptcy-lehman-brothers-securities/38-general-information>. The bankruptcy reports are also available for inspection at the Court of First Instance Curacao.

11.3 All creditors, including but not limited to the Security Holders, who believe that they have a claim against LBS, are requested to submit those claims in writing, with documents supporting such claim, to:

VanEps Kunneman VanDoorne | Dutch Caribbean Desk
Attn. Robert F. van Beemen
Jachthavenweg 121
P.O. Box 75265
1070 AG Amsterdam
The Netherlands

or by e-mail to:

beemen@ekvandoorne.com

12. Plan of action

- i) Continuing the (bilateral) discussions with LBHI with regard to the U.S. Debtors' Amended Plan, the U.S. Debtors' Amended Disclosure Statement and the Settlement Proposal;
- ii) Continuing the analysis of the Program, legal, financial and trade documentation;

- iii) Continuing the analysis of the ISDA-agreements and outstanding hedge positions, including, but not limited to, the (valuation of the) hedge positions with LBF;
- iv) Continuing the investigations and discussions with LBF and LBIE regarding the Unfunded Securities, the related back-to-back hedge and the bookings; and
- v) Continuing the valuation of the Securities.
