
Lehman Brothers Lease & Finance No. 1 Limited – In Administration

Joint Administrators' progress
report for the period 24 October
2014 to 23 April 2015

21 May 2015

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the thirteenth progress report by the Joint Administrators (the "**Administrators**") of Lehman Brothers Lease & Finance No.1 Limited (the "**Company**" or "**LB L&F**").

This report provides an update on the work the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 23 April 2015 (the "**reporting period**").

Objectives of the Administration

The Administrators are pursuing the objective of achieving a better result for the creditors of the Company as a whole, than would be likely if the Company were wound up (without first being in Administration).

The specific aims of the Administration were to:

- protect and control the Company's assets;
- maximise trading income from utilisation of the assets; and
- maximise value for the Company at the time of sale or transfer of the assets.

Outcome for creditors

On 24 June 2013, the Court gave the Administrators of LB L&F permission to agree and pay a dividend in respect of the claims of its unsecured creditors.

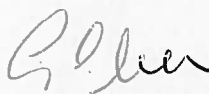
The Administrators have declared and paid two interim dividends of 8.00 pence in the £ and 15.48 pence in the £ to the Company's unsecured non-preferential creditors.

It is anticipated that a further, final distribution will be made to the unsecured non-preferential creditors. However, the timing of the final distribution will be dependent upon the closure strategy.

Future reports

The Administrators will next report to creditors in approximately six months or the end of the Administration, whichever is sooner.

Signed:



GE Bruce
Joint Administrator
Lehman Brothers Lease & Finance No.1 Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr have been appointed as Joint Administrators of Lehman Brothers Lease & Finance No.1 Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Section 2 Joint Administrators' actions to date

Overview

LB L&F was established to purchase and subsequently lease infrastructure assets to LBL, via a series of formal lease and hire purchase agreements.

LB L&F sold all of its infrastructure assets to LBL on 31 March 2010.

Administrators' actions to date

As previously reported, on 11 October 2011 the Administrators of LB L&F in conjunction with other UK affiliates, entered into a settlement agreement with Lehman Brothers Holdings Inc ("LBHI") and certain other affiliates previously subject to Chapter 11 proceedings in the USA. The Plans of Reorganisation became effective on 6 March 2012 following approval from the US court. Pursuant to this agreement the Administrators adjudicated and admitted the claim from LBHI of £121.5m (\$192.4m).

The Administrators have adjudicated upon all claims received and on 22 October 2013 declared a first interim dividend of 8.00 pence in the £ to creditors whose claims had been admitted. A second interim dividend of 15.48 pence in the £ was paid on 4 September 2014.

Outstanding matters

Asset realisations are ongoing, the principal remaining asset being an inter-company receivable due from LBL, which is also in Administration. The Company has an admitted claim of £22.8m against LBL. In December 2014, a first interim distribution of £379,387 was received, representing a dividend of 1.66 pence in the £. The timing and quantum of any future dividends is uncertain and subject to the outcome of the 'Waterfall' proceedings.

Following a ruling that in principle, compound interest is payable on overpaid VAT, LB L&F has a potential claim against HMRC. The value of the claim is estimated to be in the region of £40k to £80k. As previously reported, this ruling is in the process of being appealed by a different company which is leading the dispute. LB L&F's ability to claim is subject to the outcome of the appeal. It is anticipated that the time frame for a decision to be finalised may be in the region of 3-4 years.

Closure strategy

The Administrators are considering their strategy for efficient closure of the Administration and will write to creditors in due course with their proposals in this regard.

Timing of the Joint Administrators' Discharge

Creditors will recall that JG Parr and GE Bruce were appointed Administrators of LB L&F by the Court in March 2013, replacing two previously appointed Administrators. As they were appointed by the Court, the Insolvency Rules 1986 require the timing of their discharge to be determined by the Court. However this conflicts with the method agreed by creditors in respect of the original appointees. Accordingly, the Administrators will shortly be applying to the Court to have the method and timing of their discharge made consistent with that of the originally appointed Administrators, which will then be in accordance with the method set out in the Administrators' Proposals as agreed by creditors. The relevant section of the Proposals is restated below:

"The Administrators shall be discharged from liability pursuant to Paragraph 98(1) Sch.B1 IA86 in respect of any action of theirs as Administrators at a time determined by the creditors committee or, if no creditors committee appointed, after 14 days from the date of ceasing to act as Administrators of LBL&F."

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9434 of 2008
<i>Full name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Trading name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Registered number:</i>	04387086
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	IM Jameson (resigned 17/07/09), SJ Williams (resigned 20/07/09)
<i>Company secretary:</i>	M Smith (resigned 25/01/10), P Dave (resigned 25/01/10), ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	24 October 2008
<i>Administrators' names and addresses:</i>	GE Bruce, SA Pearson, AV Lomas and JG Parr of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	In relation to paragraph 100(2) Sch.B1 IA86, during the period for which the Administration is in force, any act required or authorised under any enactment to be done by either or all of the Joint Administrators, may be done by any or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2011; 30 November 2013; 30 November 2014 and more recently to 30 November 2017.
<i>Proposed end of the Administration:</i>	The Administrators are looking into ways of distributing the remaining assets in specie then exit the Administration via dissolution.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim cash dividend of 8.00p in the £ to unsecured non-preferential creditors on 22 October 2013. A second interim cash dividend of 15.48 pence in the £ was paid on 4 September 2014. A further dividend is anticipated, however the timing of any further dividends remain uncertain at present.
<i>Estimated values of the prescribed part and LB L&F's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

In June 2009, the Administrators requested and received consent from LB L&F's creditors for the Administrators' remuneration to be fixed by reference to the time properly given by them and the various grades of their staff. The Administrators were also authorised to draw their remuneration from time to time.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 October 2014 to 31 March 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £67,370 plus VAT, which represents 174 hours at an average hourly rate of £387. Details of time costs previously incurred have been provided in earlier reports.

To date, remuneration of c.£1.34m plus VAT has been drawn in respect of time costs incurred to August 2014.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 23 April 2015 is set out overleaf.

Cash held as at 23 April 2015 totals approximately £3.9m.

Section 5 Receipts and Payments Account

	Note	As at 23-Apr-15 GBP (£)	Movements GBP (£)	As at 23-Oct-14 GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease		19,710,218	-	19,710,218
Debtors		379,387	379,387	-
Realisations from sale of tax losses		1,289,338	-	1,289,338
Corporation Tax refund		5,916,233	-	5,916,233
Pre-appointment VAT settlement		9,429,838	-	9,429,838
Interest received gross		824,740	4,846	819,894
Total		37,549,754	384,233	37,165,521
Payments				
Insurance		463,336	-	463,336
Legal Fees		74,147	10,260	63,887
Pension related legal costs recharged from LB SF No.1		102,695	102,695	-
Pension related legal costs		25,570	-	25,570
Purchase of Tax Losses		1,180,578	-	1,180,578
Joint Administrators' remuneration		1,339,827	64,665	1,275,162
Joint Administrators' Category 1 disbursements		3,566	-	3,566
Statutory costs		20,485	-	20,485
Corporation Tax		1,480,000	-	1,480,000
Employee costs		2,346	164	2,182
Tax function costs		209,197	(20,962)	230,159
IT costs		5,741	-	5,741
Capital Goods Scheme payment		32,275	-	32,275
VAT recoverable	1	31,394	1,119	30,275
VAT irrecoverable	1	92,899	5,501	87,398
Total		5,064,056	163,442	4,900,614
Total receipts less total payments		32,485,698	220,791	32,264,907
Distributions to unsecured creditors				
1st dividend of 8.00p in the £, declared in October 2013		9,738,980	-	9,738,980
2nd dividend of 15.48p in the £, declared in September 2014		18,844,926	-	18,844,926
Total		28,583,906	-	28,583,906
Cash in hand/ (movement in year)		3,901,792	220,791	3,681,001
Cash in hand is represented by				
HSBC (non-interest bearing)		3,901,792	3,415,847	485,945
Money Market		-	(3,195,056)	3,195,056
Total Cash		3,901,792	220,791	3,681,001

Notes:

1. LBL&F is VAT registered and entitled to reclaim 63.09% of input VAT. 36.91% of input VAT is irrecoverable.

Section 6 Joint Administrators' time costs for the period 1 October 2014 to 31 March 2015

Classification of work	Partner/Director Hours	Partner/Director £	Senior Manager/Manager Hours	Senior Manager/Manager £	Senior Associate Hours	Senior Associate £	Associate/Support Staff Hours	Associate/Support Staff £	Hours	Total £
Accounting and treasury	0.28	186	2.55	1,099	15.70	4,279	18.10	4,145	36.63	9,709
Strategy and planning	6.90	4,714	2.85	1,228	13.80	4,895	9.40	2,153	32.95	12,990
Realisation of assets	-	-	-	-	1.75	460	-	-	1.75	460
Statutory and other compliance	0.30	200	8.95	3,987	11.00	3,960	19.40	4,443	39.65	12,590
Tax and VAT	11.40	11,473	10.75	8,659	23.40	7,653	12.75	2,387	58.30	30,172
LBIE Recharges	0.64	454	1.43	426	0.60	160	1.92	409	4.58	1,449
Total	19.52	17,027	26.53	15,399	66.25	21,407	61.57	13,537	173.86	67,370
Average hourly rate		872.41		580.49		323.14		219.86		387.49

Current charge out rates	Business Recovery Services		Specialist	
	Max £/hr		Max £/hr	
	To 31 Dec 2014	From 1 Jan 2015	To 31 Dec 2014	From 1 Jan 2015
Grade	873	873	1,167	1,225
Partner	665	765	1,076	1,076
Director	512	512	905	905
Senior manager	431	431	660	660
Manager	360	360	490	490
Senior Associate	229	229	229	229
Associate/Support Staff				

The Administrators' remuneration has been fixed by reference to the time properly given by the Joint Administrators and their staff in attending to matters arising in the Administration. The maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.

* Specialist departments within PricewaterhouseCoopers LLP, such as Tax, VAT and Pensions, do sometimes charge a small number of hours, should we require their expert advice. Their rates do vary, however, the figures shown given an indication of the maximum rate per hour. In common with all professional firms, the scale rates used by the Joint Administrators from PricewaterhouseCoopers LLP may periodically rise (for example to cover annual inflation cost increases) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.

Tax function costs

Certain group tax matters are managed through Lehman Brothers Limited ("LBL") as Group Paying Agent. When recoveries of Corporation Tax paid pre-appointment are paid to relevant estates, the associated PwC costs incurred by the relevant estates are re-apportioned by reference to quantum of refunds to each estate.

The final refund of pre-appointment Corporation Tax has now been received by LBL and redistributed to certain group companies, and the final re-apportionment of costs is now known. LB Lease and Finance has not benefited from any tax refund so will not contribute to the costs. Time costs in relation to tax function costs of £63,474 previously reported in the Administration have now been recovered from other estates, as LB Lease and Finance received no benefit attributable to such costs. These costs had not actually been paid by LB Lease and Finance so a refund is not due to it. Accordingly, an adjustment of previously reported time costs is detailed below.

Classification of Work	Partner/Director Hours	Partner/Director £	Senior Manager/Manager Hours	Senior Manager/Manager £	Senior Associate Hours	Senior Associate £	Associate/Support Staff Hours	Associate/Support Staff £	Hours	Total £
Tax function costs previously reported in Administration	24.23	21,638	54.33	22,635	76.51	18,446	4.57	755	159.64	63,474
Tax function costs recovered	(24.23)	(21,638)	(54.33)	(22,635)	(76.51)	(18,446)	(4.57)	(755)	(159.64)	(63,474)
Total tax function costs attributable										

Narrative of the Joint Administrators' time costs for the period 30 March 2015

Accounting and treasury - £9,709

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts;
- Managing funds in various institutions in order to mitigate risk; and
- Implementing investment strategy.

Strategy and planning - £12,990

- Discussions regarding strategy for the Administration including quantum and timing of future dividend distributions;
- Strategy discussions on case progression and resource management;
- Reviewing financial information; and
- Evaluating exit routes and strategy for the closure and/or extension of the Administration.

Realisation of assets - £460

- Review of debtor positions.

Statutory and other compliance - £12,590

- Preparation of Administrators' 12th progress report;
- Preparation of Administrators' receipts and payments account;
- Circulation of progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Managing the LB L&F Administration database;
- Preparation of detailed remuneration summary; and
- Undertaking six monthly review of Administration.

Tax and VAT - £30,172

- Preparation, review and submission of the 11/14 and 2/15 VAT returns;
- Internal team meetings and meetings with appointment takers with regard to compound interest claim;
- Preparation and review of the potential value of the compound interest claim;
- Internal meetings to discuss VAT compliance;
- Drafting VAT updates for the 12th progress report;
- Preparation of narrative of time costs for the 12th progress report;
- Preparation and monitoring of VAT budget and raising bills;
- Dealing with HMRC queries;
- Internal meetings to discuss ongoing Lehman's Tax/VAT strategy;
- Attending quarterly tax and VAT update meetings;
- Ongoing review of the corporate tax position and quarterly payments; and
- Review of the corporation tax provision requirements.

Intra-group recharges - £1,449

- This is an apportionment of the costs incurred by Lehman Brothers International (Europe) associated with the administration companies.