

# Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress report for the period  
23 September 2008 to 22 March 2009

21 April 2009

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# Section 1: Purpose of the Joint Administrators' progress report

## Introduction

This is the first progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Europe Limited ("LBEL" or the "Company").

Creditors were sent the Administrators' proposals (the "Proposals") on 14 November 2008 which were approved at a meeting of creditors held on 1 December 2008.

This report provides details of the work we have undertaken and the progress we have made during the first six months of our appointment.

## Objectives of the Administration

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

The specific aims of the Administration are to:

- Protect and control the Company's assets;
- Realise these assets; and
- Agree creditor claims and, if applicable, make a distribution to creditors.

## Creditors' Committee

A Creditors' Committee has been formed and consists of the following members:

- Jupiter Finance SpA
- Lehman Brothers Holdings Inc. ("LBHI")
- Lehman Brothers Holdings plc ("LBH")
- Lehman Brothers International (Europe) ("LBIE")
- Thomas Marsoner

The Administrators will liaise with the Creditors' Committee to discuss significant issues and outline key decisions.

## Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are significant uncertainties regarding future net realisations. The timing and level of any dividend therefore remains uncertain.

## What steps should be taken now?


The Administrators will continue to manage the Administration in accordance with the proposals approved by creditors and in consultation with the Creditors' Committee.

Until there is more certainty regarding dividend prospects, claims agreement work will be restricted to gathering information. If you have not already submitted your claim to the Administrators please do so by completing and returning the attached statement of claim form.

## Future reports

The Administrators will next report to creditors in approximately six months.

Signed:



D Y Schwarzmman  
Joint Administrator  
Lehman Brothers Europe Limited

# Section 2: Background information

## **Background information**

LBEL was authorised by the Financial Services Authority and acted as the authorised investment bank for European subsidiaries of LBHI, the US registered parent.

Its activities included the provision of investment banking services such as advising on Mergers and Acquisitions (“M&A”) transactions. It also arranged and advised on securities and derivatives in both primary and secondary markets and dealt as an agent in this respect.

LBEL utilised employees seconded from Lehman Brothers Limited (“LBL”) and principally operated from the Company’s premises at 25 Bank Street, London E14 5LE.

LBEL was required to hold several hundred million dollars of regulatory capital. It would typically lend this elsewhere in the Lehman Group on a collateralised basis.

## **Events immediately preceding the Administrators’ appointment**

On 15 September 2008, LBHI announced that it was preparing to file for Chapter 11 insolvency protection in the US, precipitating the appointment of Administrators to protect the business and assets of a number of other Lehman Group companies, including LBEL. On 22 September 2008 the directors of LBEL resolved to place the Company into Administration and the Administrators were appointed on 23 September 2008.

# Section 3: Joint Administrators' actions to date

## Overview

As reported in the Proposals approved by creditors on 1 December 2008, the Administrators completed the sale of certain parts of the LBEL business to Nomura Holdings Inc.

The principal outstanding assets as at 1 December 2008 were:

- An intercompany loan of US\$575m due from LBIE;
- Debts due from advisory services clients; and
- Intercompany debtors.

## Progress since 1 December 2008

### Intercompany loan to LBIE

LBEL provided a loan of US\$575m to LBIE. As a regulated entity, LBEL required LBIE to provide securities as collateral for the loan. LBIE placed securities to the value of c.US\$800m at the date of the transaction with a third party custodian (the "Custodian").

In conjunction with LBIE the Administrators have obtained detailed information from the Custodian regarding these securities. LBIE is now in the process of reconciling its records to the positions that have not been liquidated by the Custodian and this should hopefully determine the appropriate methods for realising these assets for the benefit of LBEL's creditors.

### Debts due from advisory services clients

A total of c.US\$2m was due to LBEL as at the date of appointment in respect of M&A advisory services provided to third parties. As at 22 March 2009 the Administrators have recovered c.US\$1.5m.

Further amounts are potentially due in connection with M&A remuneration, including up to US\$35m in respect of deals transacted by LBEL and significant further amounts where LBEL was not the transacting party.

There are complex issues to consider here and the Administrators are working closely with current and ex-Lehman employees and legal advisers, to maximise future recoveries.

## Intercompany debtors

The Administrators have submitted three intercompany claims against Lehman Brothers Asia, Lehman Brothers Japan and Lehman Brothers Bankhaus totalling US\$4m. Other claims will be submitted at the appropriate time.

Actual recoveries are dependant on both the dividend prospects from those debtors subject to a formal insolvency procedure and on the ability of other debtors, within the Lehman Brothers Group of Companies (the "Lehman Group"), to pay.

## Outstanding matters

The Administrators will continue to:

- Liaise with LBIE to realise the securities held by the Custodian;
- Collect the remaining debts due from advisory services clients; and
- Submit claims / invoices against other members of the Lehman Group for balances outstanding and pursue payment where relevant.

# Section 4: Statutory and other information

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - case 8243 of 2008.
<b>Full name:</b>	Lehman Brothers Europe Limited
<b>Trading name:</b>	Lehman Brothers Europe Limited
<b>Registered number:</b>	03950078
<b>Registered address:</b>	25 Bank Street, London E14 5LE, England.
<b>Company directors:</b>	D Gibb, JM Isaacs, IM Jameson, WT John, R Magnoni, JP Phizacherley, AJ Rush, PR Sherratt and A Wright.
<b>Company secretary:</b>	Ms P Dave, Ms M Smith and Ms ESE Upton.
<b>Shareholdings held by the directors and secretary:</b>	None of the directors own shares in the Company.
<b>Date of the Administration appointment:</b>	23 September 2008.
<b>Administrators' names and addresses:</b>	MJA Jervis, AV Lomas, SA Pearson and DY Schwarzmman of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, England.
<b>Appointer's name and address:</b>	Peter Sherratt, Director, 25 Bank Street, London E14 5LE, England.
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for LBEL's creditors as a whole than would be likely if LBEL were wound up (without first being in Administration).
<b>Division of the Administrators' responsibilities:</b>	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 one or more of the persons for the time being holding that office.
<b>Proposed end of the Administration:</b>	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
<b>Estimated dividend for unsecured creditors:</b>	It is too early to estimate the likely dividend for unsecured creditors.
<b>Estimated values of the prescribed part and LBEL's net property:</b>	There is no prescribed part in this matter.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	Not applicable.
<b>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</b>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

# Section 5: Financial information

## Statement of Affairs

The Directors have provided their Statement of Affairs (the “Statement”). This Statement is not attached to the progress report as disclosure of the information therein may impact adversely upon future realisations.

## Administrators’ remuneration

By way of context, the manner in which Administrators’ remuneration is determined and approved is set out in the Insolvency Rules 1986 2.106 to 2.109 (the “Rules”).

At a meeting by correspondence held on 20 February 2009, creditors resolved to form a Creditors’ Committee (the “Committee”), whose duties will include approving the basis and quantum of the Administrators’ remuneration.

There are two bases of determining the remuneration under the Rules, either:

- A percentage of the value of the property with which the Administrator has to deal; or
- By reference to the time properly given by the insolvency practitioner and his staff in attending to matters arising in the Administration.

The Rules also provide that in arriving at its decision on remuneration the Committee is required to consider the following matters:

- The complexity (or otherwise) of the case;
- Any responsibility of an exceptional kind or degree which falls on the Administrators;
- The effectiveness with which the Administrators appear to be carrying out, or have carried out, their duties; and
- The value and nature of the property which the Administrators have to deal with.

## Statement of Insolvency Practice No.9 (“SIP 9”)

In addition to the Rules, SIP 9, issued by the Joint Insolvency Committee provides guidance to insolvency practitioners and creditors’ committees in relation to the remuneration of, *inter alia*, Administrators.

The purpose of SIP 9 is to:

- Ensure that Administrators are familiar with the statutory provisions relating to office holders’ remuneration;
- Set out best practice with regard to the observance of the statutory provisions;
- Set out best practice with regard to the provision of information to those responsible for the approval of remuneration to enable them to exercise their rights under the insolvency legislation; and
- Set out best practice with regard to the disclosure and drawing of disbursements.

When seeking agreement for remuneration, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their remuneration (“the approving body”) to form a judgement as to whether the proposed remuneration is reasonable, having regard to all the circumstances of the case. The nature and extent of the supporting information which should be provided will depend upon:

- The nature of the approval being sought;
- The stage during the Administration of the case at which it is being sought; and
- The size and complexity of the case.

## Remuneration review and approval process

In accordance with SIP 9 the Committee will be provided with details of the charge-out rates for all grades of staff who will be or have been involved on the case.

As the Administrators’ remuneration request will be based on time costs the Committee will be provided with an account of the time spent and the charge-out value, together with additional information setting out the approach to the project, the milestones and progress against such milestones.



The time analysis provided to the Committee will give details of the work performed and grade of staff, by activity and function for monthly periods.

#### **Resolution of the Creditors' Committee**

The Administrators' remuneration request will be made to the Committee when they meet in due course.

#### **Receipts and payments account**

An account of the receipts and payments in the Administration for the six months to 22 March 2009 is set out in section 6 to this report.

The account shows recoveries of c.US\$1.5m in respect of debts arising from advisory services.

# Section 6: Receipts and payments

	As at 22 Mar 2009			Total (US\$ Equivalent)
	GBP	US\$	EUR	
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<b><u>Receipts</u></b>				
Book debts	-	250.0	900.6	1,471.8
Currency transfer	10.5	-	-	15.2
<b>Total receipts for period</b>	<b>10.5</b>	<b>250.0</b>	<b>900.6</b>	<b>1,487.0</b>
<b><u>Payments</u></b>				
Employee costs	-	15.9	64.6	103.6
Legal fees	9.9	-	-	14.3
Currency transfer	-	-	12.0	16.3
<b>Total payments for period</b>	<b>9.9</b>	<b>15.9</b>	<b>76.6</b>	<b>134.2</b>
<b>Net position</b>	<b>0.6</b>	<b>234.1</b>	<b>824.0</b>	<b>1,352.8</b>
<b><u>Held as</u></b>				
Bank of England	0.6	234.1	824.0	1,352.8
<b>Total cash</b>	<b>0.6</b>	<b>234.1</b>	<b>824.0</b>	<b>1,352.8</b>

**Note:**

US\$ equivalent is for information purposes only.

Rates used for conversion are Financial Times

rates on 22 Mar 2009:

1 GBP = 1.4433 US\$,

1 € = 1.3566 US\$