

# Lehman Brothers Europe Limited – In Administration

Joint Administrators' progress report for the period  
23 September 2009 to 22 March 2010

20 April 2010

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

## Introduction

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

Creditors should have received the Administrators' proposals (the "Proposals") dated 14 November 2008 which were approved at a meeting of creditors held on 1 December 2008. Creditors should also have received the Administrators' first progress report dated 21 April 2009 and second progress report dated 22 October 2009.

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the six months to 22 March 2010.

## 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 manage 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:

- Lehman Brothers International (Europe) ("LBIE") – in Administration
- Lehman Brothers Holdings Inc. ("LBHI") – subject to Chapter 11 Bankruptcy proceedings in the US
- Lehman Brothers Holdings plc ("LBH") – in Administration
- Thomas Marsoner

The Administrators have met with the Creditors' Committee twice and consulted with them on an ad-hoc basis on certain issues.

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

## 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.

Until there is more certainty regarding the 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.

## Extension of the Administration

On the application for the Administrators the High Court made an Order extending the period of the Administration to 30 November 2010.

As noted in this report, there are a number of material issues that remain outstanding, the resolution of which will materially affect the quantum and timing of any dividend to unsecured creditors. It is therefore likely that a further extension to the period of Administration will be required.

## Additional Administrator

DA Howell was appointed as an additional Administrator on 30 November 2009.

## Change of address

The Company has relocated from 25 Bank Street and all future correspondence should be addressed to the Administrators of LBEL at Level 23, 25 Canada Square, London, E14 5LQ, United Kingdom.

### **Future reports**

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

Signed:

A handwritten signature in black ink, appearing to be 'D Y Schwarzmenn', with a long horizontal flourish extending to the right.

D Y Schwarzmenn  
Joint Administrator  
Lehman Brothers Europe Limited

# Section 2: Joint Administrators' actions to date

## Business activities

LBEL's principal activity was the provision of investment banking services such as advising on Mergers and Acquisitions ("M&A") transactions.

LBEL utilised employees seconded from Lehman Brothers Limited and principally operated from the Lehman Group's former premises at 25 Bank Street, London.

## Progress to date

### Debts due from advisory services clients

During the period covered by this report the Administrators have:

- Made further recoveries of £21.2m from outstanding M&A invoices bringing total recoveries from this source to £23.7m;
- Continued negotiations with a party for the recovery of another M&A debt,
- Agreed a settlement of £0.3m with another party and funds are expected to be received shortly.

### Inter-company debtors

To date, the Administrators have evidenced and submitted claims totalling US\$1,505m against inter-company debtors.

In the period covered by this report the Administrators have:

- Submitted direct and guarantee claims into the estate of Lehman Brothers Holdings Inc. totalling US\$1,463m by the prescribed bar date. This covered relationships with US group companies, LBIE and Bankhaus.

### Repo transaction between LBIE and LBEL

The Administrators have continued negotiations with LBIE in relation to LBEL's claim to the title of certain securities returned to LBIE by JP Morgan Chase Bank N.A. In particular, LBIE has provided LBEL with a statement of its position and a statement of facts based on LBIE's initial investigations. These securities were valued prior to the Administration at c.\$856m.

LBEL has discussed the scope of that initial investigation with LBIE and is currently negotiating an agreement pursuant to which further information regarding the returned

securities will be provided by LBIE. The discussions are also addressing the management of the relevant securities whilst discussions continue as to their title.

Since the last progress report, LBEL was issued with a default notice by LBIE in respect of the Global Master Repurchase Agreement ("GMRA") which both parties had entered into pre-Administration. LBEL asserts that the GMRA governed the securities which are now held by LBIE. However, negotiations between the parties as to the substantive merits of the legal issues between them (including the applicability of the GMRA) are currently on hold pending further factual investigations.

## Future strategy

The Administrators will continue to:

- Pursue recoveries from M&A deals;
- Gather evidence and support for claims to be made against the other estates;
- Establish title to the securities held with LBIE; and
- Consider the most appropriate route to distribute dividends to the creditors.

# Section 3: 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>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom.
<b>Company directors:</b>	D Gibb (resigned 17/07/09), JM Isaacs (resigned 29/09/08), IM Jameson (resigned 17/07/09), WT John (resigned 23/10/08), R Magnoni (resigned 22/10/08), JP Phizacherley (resigned 24/10/08), AJ Rush (resigned 23/10/08), PR Sherratt (resigned 06/10/2008) and A Wright (resigned 23/10/08).
<b>Company secretaries:</b>	P Dave (resigned 25/01/10), M Smith (resigned 25/01/10) and ESE Upton (resigned 25/01/10).
<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>	DY Schwarzmman, MJA Jervis, AV Lomas, SA Pearson and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT, England.
<b>Appointer's name and address:</b>	The directors of the Company, whose address at appointment was 25 Bank Street, London, E14 5LE, United Kingdom.
<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>Details of any extensions of the initial period of appointment :</b>	The Court has granted an extension of the Administration to 30 November 2010.
<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 4: Financial information

## Statement of Affairs

A copy of the Directors' Statement of Affairs ("SoA") as at 23 September 2008 is attached at Appendix A.

The SoA contains the list of creditors and shareholders, including their name, address and amount due together with a breakdown of the assets held by the Company as at 23 September 2008.

## 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 has been provided with details of the charge-out rates for all grades of staff who have been or will be involved on the case.

The Committee have not yet resolved the basis or quantum of the Administrators remuneration.

## Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 22 March 2010, and a cumulative total since commencement of the Administration, is set out in section 5 to this report.



Significant receipts in the period covered by this report include:

- £21.2m in respect of outstanding debts.

Significant payments in the period covered by this report include:

- £5.9m in respect of employee costs which mainly relate to the first month of the Administration. The payment of this was delayed whilst we made sufficient recoveries to cover the outstanding cost.

Total Cash held as at 22 March 2010 was £16.2m.

# Section 5: Receipts and payments

	As at 22 March 2010			As at 22 March 2010 TOTAL GBP equivalent £	Movements 23 September 2009 to 22 March 2010 (GBP equivalent) £	As at 22 September 2009 (GBP equivalent) RESTATED at 22 March 2010 exchange rate £
	GBP (£) 000	US (\$) 000	EUR (€) 000	000	000	000
<b>RECEIPT</b>						
Book debts	443	6,319	21,144	23,717	21,238	2,478
Currency transfer	8,367	-	-	8,367	7,581	787
<b>Receipts Grand Totals</b>	<b>8,810</b>	<b>6,319</b>	<b>21,144</b>	<b>32,084</b>	<b>28,819</b>	<b>3,265</b>
<b>PAYMENT</b>						
Employee costs	5,938	16	64	6,007	5,938	69
Building and occupancy cost	889	-	-	889	889	-
Legal fees	500	65	-	543	309	234
Office holders' category 1 disbursements	11	-	-	11	-	11
Currency transfer	-	170	9,196	8,403	7,607	796
<b>Payments Grand Totals</b>	<b>7,338</b>	<b>251</b>	<b>9,260</b>	<b>15,853</b>	<b>14,743</b>	<b>1,110</b>
<b>NET POSITION</b>	<b>1,472</b>	<b>6,068</b>	<b>11,884</b>	<b>16,231</b>	<b>14,076</b>	<b>2,155</b>
<b>CASH BALANCES</b>						
Bank of England	0	967	478	1,075		
HSBC	1,472	9	250	1,704		
Money markets	-	5,092	11,156	13,452		
<b>Total Cash</b>	<b>1,472</b>	<b>6,068</b>	<b>11,884</b>	<b>16,231</b>		

Exchange rates as at 22 September 2009:

US\$ 1 : GBP	0.6107
EURO €1 : GBP	0.9034

Exchange rates as at 22 March 2010:

US\$ 1 : GBP	0.6664
EURO €1 : GBP	0.9016

Amounts include VAT where applicable

As per previous report, exchange rate at 22 September 2009	
As at 22 September 2009 (GBP equivalent) £	As at 22 September 2009 (USD equivalent) Previously reported \$
000	000
2,466	4,039
786	1,288
<b>3,253</b>	<b>5,326</b>
68	112
-	-
233	382
11	18
792	1,296
<b>1,104</b>	<b>1,808</b>
<b>2,149</b>	<b>3,519</b>