

Lehman Brothers Lease & Finance (No.1) Limited - in Administration

Joint Administrators' progress report for the period
24 October 2008 to 23 April 2009

22 May 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This report has been prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Lease and Finance (No.1) Limited (the "Company" or "LBL&F"), under Rule 2.47(3)(a) of the Insolvency Rules 1986.

Creditors were notified of the Administrators' Proposals for achieving the purpose of the Administration on 3 December 2008.

The Administrators' Proposals for LBL&F were approved without modification on 18 December 2008.

This report provides details of the work undertaken and the progress made during the first six months to 23 April 2009.

Objective 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 are 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.

Creditors' Committee

No Creditors' Committee was formed as only one nomination was received.

Creditors' meeting by correspondence

In the absence of a Creditors' Committee, the Administrators' remuneration is subject to the approval of the general body of creditors.

I am therefore convening a meeting of creditors by correspondence in respect of LBL&F to enable the creditors to consider the basis and level of the Administrators' remuneration and Category 2 disbursements. Further details can be found at Section 5 of this report.

Outcome for unsecured creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are 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.

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 the enclosed statement of claim form.

Future reports

The next progress report to creditors will be in six months time.

Signed:



DA Howell
Joint Administrator
Lehman Brothers Lease & Finance (No.1)
Limited

Section 2: Background information

Background information

LBL&F was a subsidiary of Lehman Brothers UK Holdings (Delaware) Inc and part of the Lehman Brothers group of companies (the “Lehmans Group”). It acquired the air conditioning, office furniture and equipment and IT networking /communication equipment (the “Infrastructure Assets”) for the UK Head Office at 25 Bank Street, London (the “Premises”), with funding from Lehman Brothers Holdings Inc (“LBHI”). LBL&F then leased the Infrastructure Assets to Lehman Brothers Limited (“LBL”).

LBL&F also held a lease from LBL for Level 7 (“Level 7”) of the Premises, which houses the staff restaurant and gym, for which it paid a peppercorn rent.

On 15 September 2008, LBHI announced that it was preparing to file for Chapter 11 insolvency protection in the USA, precipitating the appointment of Administrators to protect the business and assets of LBL, amongst other Lehmans Group companies based in the UK, on the same day.

Following a detailed review of the UK operations of the Lehman Group it was established that in the absence of income from LBL, LBL&F could not repay its liabilities to LBHI. LBL&F was therefore insolvent. Consequently the directors resolved to place the Company into Administration and DA Howell, AV Lomas and MJA Jervis were appointed Administrators on 24 October 2008.

Section 3: Joint Administrators' actions to date

Overview

LBL&F was established to permanently lease to LBL, via a series of formal lease and hire purchase agreements, the Infrastructure Assets for use at the Premises. One of the expected effects of which was a timing benefit in relation to VAT incurred by LBL&F on the acquisition of the relevant assets.

LBL&F was registered independently of the Lehman Group VAT registration with the intention of enabling the Company to fully recover VAT on the original purchase of the Infrastructure Assets.

The Infrastructure Assets were purchased using funding from LBHI and, therefore LBL&F has a large outstanding debt to that company.

The only other asset relating to LBL&F was a lease held for Level 7 of the Premise, which was leased from LBL for a peppercorn rent.

Administrators' actions to date

Infrastructure Assets

Since the appointment, the Premises has been reorganised to optimise occupancy efficiency and reduce to costs.

Under the Transitional Services Agreement ("TSA") entered into between Nomura Holdings ("Nomura") and LBL, costs incurred by LBL in respect of the Infrastructure Assets which are utilised by Nomura, can be recharged to Nomura.

Accordingly, Nomura now pay a usage charge (rent) to LBL as part of the TSA and funds are paid over to LBL&F to the extent that they relate to assets owned by LBL&F. Approximately £3.6m has recently been received by LBL for this, and these funds are due to LBL&F.

In order to establish ownership and value of these Infrastructure Assets, the Real Estate team (within their wider role for LBL) have:

- Performed a detailed review of the Lehman Group's fixed asset register to determine ownership;
- Instructed valuers to gain a better understanding of the value of the Lehman Group assets;
- Negotiated usage charges with Nomura as part of the sale of business to Nomura; and
- Negotiated the sale of certain Infrastructure Assets to Nomura for approximately £800k. These funds are being held by LBL and will shortly be paid to LBL&F.

Lease for Level 7 at 25 Bank Street

The Administrators have now surrendered this lease to LBL, who have in turn subleased this part of Level 7 to Nomura. LBL&F receive a proportion of the rent payable by Nomura under the new sublease as a surrender premium. To date £46k has been received in this regard.

Dispute with HM Revenue & Customs ("HMRC")

As reported in the Proposals, the dispute between LBL&F and HMRC related to the independent registration of LBL&F on the grounds that in HMRC's view it constituted VAT avoidance. HMRC issued an assessment which LBL&F subsequently paid, however LBL&F did not accept that HMRC's view was correct.

The Administrators have continued to investigate the detail relating to both the asset leasing structure and its implementation and considered HMRC's view.

The Administrators have researched relevant legislation and case law and are in the process of developing a strategy for deciding whether there is the prospect of challenging the assessments and penalties.

Leading Tax Counsel has been consulted on the possible merits of the case against HMRC, to enable the Administrators to make a decision on whether it would be cost effective and beneficial to commence such a challenge, whether by way of negotiation or litigation. On Leading Tax Counsel's advice a specialist Land Law Counsel has also been consulted.

The Administrators hope to receive the advice shortly and will then consider what further steps should be taken.

Dividend prospects

Dividend prospects for the creditors of LBL&F are dependent on the income it can derive from the assets and ultimately any value that can be realised on their disposal either in situ or ex situ.

It is not yet possible to provide an estimate of the potential dividend for LBL&F's creditors.

Section 4: Statutory and other information

Court details for the Administrations:	High Court of Justice, Chancery Division, Companies Court Case no: 9434 of 2008
Full names:	Lehman Brothers Lease & Finance (No.1) Limited
Trading names:	Lehman Brothers Lease & Finance (No.1) Limited
Registered numbers:	04387086
Registered address:	25 Bank Street, London E14 5LE England
Company directors:	Ian Michael Jameson, Simon John Williams and Raymond O'Grady
Company secretary:	Margaret Smith
Shareholdings held by the directors and secretary:	The directors do not own shares in LBL&F.
Date of the Administration appointments:	24 October 2008
Administrators' names and address:	DA Howell, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT.
Appointor's name and address:	The directors of the Company, 25 Bank Street, London E14 5LE England.
Objective being pursued by the Administrators:	Achieving a better result for creditors as a whole than would be likely if the Companies were wound up (without first being in Administration).
Division of the Administrators' responsibilities:	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Directors of Lehman Brothers Lease & Finance (No.1) Limited (the "Company") have appointed Anthony Victor Lomas, Derek Anthony Howell and Michael John Andrew Jervis of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT as joint administrators of the Company. The joint administrators will act jointly and severally so that all functions may be exercised by any or all of them.
Proposed end of the Administrations:	The Administrators are not yet in a position to determine the most likely exit route from these Administrations and wish to retain the options available to them.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and net property:	There is no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to these Administrations and these are the main proceedings.

Section 5: Financial information

Statements of Affairs

The Administrators granted the Directors an extension of time in which to prepare a Statement of Affairs (the “Statement”), due to the complexity of the task. The Statement has now been received, which has allowed the Administrators to prioritise and focus their activities on asset recovery and claims management.

The 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”).

There are two alternative 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 creditors are 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 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.

A copy of “A creditor’s guide to administrators’ fees (in accordance with Statement of Insolvency Practice No.9)” is attached at Appendix A to this report.

When seeking agreement for time costs, the Administrators are required to provide sufficient supporting information to enable those responsible for approving their time costs (‘the approving body’) to form a judgement as to whether the proposed time costs are 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.

Attached at Appendix B to this report is a copy of the Administrators’ charging and disbursement recovery policy.

It is proposed that the Administrators’ remuneration in respect of LBL&F will be calculated based upon the time properly spent on the Administration by the Administrators and the various grades of their staff.

Remuneration review and approval process for LBL&F

As the Administrators’ remuneration request in respect of LBL&F is based on time costs, an analysis of the time spent and the charge-out value is provided at Appendix C of this report.

Section 5: Financial information

This time analysis gives details of the work performed and grade of staff by Activity for monthly periods.

SIP 9 guidance suggests the following areas of activity as a basis for the analysis of time spent:

- Asset Disposals
- Strategy and planning
- Tax and VAT
- Statutory and compliance
- Accounting and treasury

The analysis that has been provided contains five subdivisions properly reflecting the allocation of time spent.

The following categories are suggested by SIP9 as a basis for analysis by grade of staff:

- Partner
- Director
- Senior manger
- Manager
- Senior associate
- Associate / support staff

Appendix C includes an analysis of staff allocated between six grades.

Creditors meeting by correspondence

In the absence of a Creditors' Committee, the Administrators are hereby convening a meeting of creditors by correspondence in respect of LBL&F to enable the creditors to consider and approve the basis and level of the Administrators' remuneration and Category 2 disbursements.

There are two resolutions in respect of the Administrators' time costs for LBL&F, detailed on the enclosed Form 2.25B.

Creditors of LBL&F wishing to vote should complete and return the enclosed Form 2.25B by post or by facsimile +44 (0) 20 7212 6598.

We have fixed 8 June 2009, as the date by which creditors should return the completed Form 2.25B to vote on the Administrators' fees.

The Administrators will only draw remuneration when appropriate approval has been given and when funds are available to do so.

Administrators' discharge from liability

Paragraph 98, Schedule B1, of the Insolvency

Act 1986 provides that the Administrators' discharge from liability, in respect of any action of theirs as Administrators, shall take effect at a time appointed by resolution of the Creditor's Committee (or if there is no Committee, by resolution of the creditors).

As there is no Creditors' Committee for LBL&F, the Administrators have included a third resolution on the enclosed Form 2.25B in respect of the time from which they shall be discharged from liability in respect of LBL&F.

Receipts and payments account

Set out in Section 6 of this report is a receipts and payments account for LBL&F for the period from 24 October 2008 to 23 April 2009.

Section 6: Receipts and Payments

Receipts and payments for the period 24 October 2008 to 23 April 2009

	GBP (£)
RECEIPTS	
Rent received	46,121
Total Receipts	46,121
PAYMENTS	
Legal fees	2,875
Total Payments	2,875
Cash at Bank	43,246
CASH BALANCE	
HSBC	43,246
Total Cash	43,246