

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

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

18 November 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report prepared by the Joint Administrators (the "Administrators") of Lehman Brothers Lease & Finance No.1 Limited (the "Company" or "LB L&F"), under Rule 2.47(3)(a) of the Insolvency Rules 1986.

This report provides an update on the work the Administrators have undertaken and the progress made since our appointment, with particular focus on the progress made in the six months to 23 October 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

There were insufficient nominations to enable the formation of a Creditors' Committee in LB L&F.

Outcome for unsecured creditors

Based on the quantum of claims recorded in the Company records, the Administrators anticipate that there will be funds available to allow a distribution to be made to creditors.

The Administrators are therefore beginning the process of establishing in principle the claims of

unsecured creditors. This is in line with the proposals as agreed by creditors on 18 December 2008. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

Extension of the Administration

On the application of the Administrators, the High Court made an Order extending the period of the Administration to 30 November 2011.

Future reports

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

Signed:



DA Howell

Joint Administrator

Lehman Brothers Lease & Finance No.1 Limited

Section 2: Joint Administrators' actions to date

Overview

LB L&F was established to permanently lease to Lehman Brothers Limited – in Administration ("LBL"), via a series of formal lease and hire purchase agreements, the Infrastructure Assets for use at 25 Bank Street, Canary Wharf, London ("Bank Street"). One of the expected effects of which was a timing benefit in relation to VAT incurred by LB L&F on the acquisition of the relevant assets.

LB L&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 Lehman Brothers Holdings, Inc ("LBHI") and, therefore LB L&F has a large outstanding debt to that company.

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

Administrators' actions to date

LB L&F holds some of the infrastructure assets of the Lehman building at Bank Street, the extent of which has now been determined. A usage charge has been agreed with LBL, and payment for the period to 31 December 2009 is expected shortly, pending finalisation of invoices.

We continue to collect a proportion of rent paid to LBL by Nomura Holdings, Inc ("Nomura") in relation to the surrender of the lease for Level 7 at Bank Street. During the period a further c£35k has been recovered in this respect.

In addition, Nomura will also pay for asset usage per their lease agreement with LBL. By means

of the agreement between LB L&F and LBL mentioned above, LB L&F will receive payment for the period to 31 December 2009.

Outstanding matters

We will continue to collect the portion of rent paid to LBL that is due to LBL&F in relation to Level 7, and the asset usage charges from LBL and Nomura. The longer term realisation strategy depends upon the wider Group property strategy, which is in the process of being determined. Further information will be given in the next progress report. LB L&F will also seek to dispose of excess chattel assets as and when they become available.

Dispute with HM Revenue & Customs ("HMRC")

In respect of the dispute with HM Revenue & Customs ("HMRC") my specialist tax team continues to work with Leading Tax Counsel and Land Law Counsel in order to develop a strategy for challenging the assessment and penalties being put forward by HMRC. An initial claim has been submitted against HMRC and I am currently awaiting a response.

Extension of the Administration

On 28 July 2009 the Administrators made an application to Court to extend the period of the Administration. The Court made an Order extending the Administration until 30 November 2011.

The application was made for the following reasons:

- Entering into an insolvency process other than Administration has the effect of breaking the Group of Companies for tax purposes. The Administrators are aware that there are potential tax losses within the Group of

Companies which may have value to this estate, and which would be lost if the Company entered into another insolvency process;

- The Administrators have not yet determined the most appropriate exit route from Administration.

Dividend prospects

Dividend prospects for the creditors of LB L&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 LB L&F's creditors, although we do expect there will be funds available.

Section 3: Statutory and other information

Court details for the Administrations:	High Court of Justice, Chancery Division, Companies Court Court 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
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 LB L&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.
Appointer'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.
Details of any extensions for the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2011.
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 4: Financial information

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 8 June 2009, creditors resolved that the Administrators' remuneration 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 as an Appendix, is a summary of the Administrators' time costs for the period 1 May 2009 to 30 September 2009, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed. We previously provided time cost analysis for the period 24 October 2008 to 30 April 2009.

The SIP 9 summary shows that the total time costs for the period is £142,916, which represents 350.3 hours at an average hourly rate of £407.98.

To date, remuneration of £187,254 has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 23 October 2009 is set out in section 5 of this report.

Section 5: Receipts and Payments account to 23 October 2009

	As at 23 October 2009 GBP (£)	As at 23 April 2009 GBP (£)	Movements GBP (£)
RECEIPT			
Rent received from LBL	278,506	40,105	238,401
VAT received	11,776	6,016	5,760
Receipts Grand Totals	290,282	46,121	244,161
PAYMENT			
Legal fees	18,600	2,500	16,100
Joint Administrators' remuneration	187,254		187,254
Statutory costs	1,244		1,244
VAT paid	31,084	375	30,709
Payments Grand Totals	238,182	2,875	235,307
NET POSITION	52,100	43,246	8,854
CASH BALANCES			
Bank of England	-		
HSBC	52,100		
Money market deposits	-		
Total Cash	52,100		

Appendix: Summary of the Joint Administrators' time costs for the period 1 May 2009 to 30 September 2009

Classification of work	PARTNER / DIRECTOR		SENIOR MANAGER / MANAGER		SENIOR ASSOCIATE		ASSOCIATE / SUPPORT STAFF		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Disposals (incl Property issues)	8.0	6,193	84.8	28,590	51	16,313			143.8	51,095
Strategy and Planning (incl Interdependencies)	21.7	16,873	30.9	12,635	5.5	1,602.8	3.0	394.7	61.2	31,506
Tax & VAT	6.1	5,351	26.3	19,563	10	2,619	19.4	3,596.3	61.5	31,129
Accounting and treasury (incl Intercompany)	0.9	454	6.5	2,360	4	1,008	11.0	1,795.3	22.3	5,617
Statutory and other workstreams										
Creditors and Counterparties	2.0	1,570	-	-					2.0	1,570
Investigation and Legal Issues	3.0	2,303	0.0	-					3.0	2,303
Query Management	0.5	393	0.0	-					0.5	393
Reporting	0.0	-	19.4	7,438	30.3	9,440.0	4.3	855.0	54.0	17,733
Statutory and Compliance	2.0	1,570	-	-					2.0	1,570
Grand Total	44.2	34,707	167.9	70,586	100.8	30,983	37.7	6,641	350.3	142,916

* Note that the attached narrative for Statutory and other work stream, is a consolidation of the work types listed above.

The Joint Administrators' policy for charging for disbursements is:

Photocopying is charged at 3p per sheet for creditors and bulk copying
Mileage is charged at a maximum of 62p per mile (up to 2000cc) or 81p per mile (over 2000cc)
All other disbursements are charged at cost

Costs to date (£)
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Current charge out rates	Business Recovery Services		Specialist*	
Grade	Max £/hr	Max £/hr	Max £/hr	Max £/hr
Partner	785	1,070	1,070	1,070
Director	590	890	890	890
Senior manager	450	810	810	810
Manager	390	590	590	590
Senior Associate	320	395	395	395
Associate / Support Staff	200	200	200	200

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 remuneration is to be paid as and when funds become available at the charge-out rates shown for the various grades of staff who may be involved in this administration

*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 give 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 inflationary 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.

Appendix: Narrative of time costs

The following narrative summarises the work undertaken by the Joint Administrators' and their staff during the period.

Asset Disposal (incl Property issues) - £51,095

- Performing detailed review of asset position to ascertain ownership of assets
- Asset discovery and reconciliation of tangible assets to asset register
- Facilitating reorganisation of Bank Street property to optimise occupancy efficiency and reduce costs
- Liaising with LBL with regard to the valuation they received as far as they relate to LB L&F assets
- Holding meetings with Administrators and Lehman's management regarding determination of usage rate to be applied to owned assets
- Negotiating usage charges to be applied to owned assets used by Nomura
- Negotiating usage rates to be applied to owned assets used by other Lehman Group companies
- Sale of small parcell of LB L&F assets to Nomura
- Negotiating surrender of the 7th Floor lease
- Discussion with LBL in respect of future occupancy of Bank Street premises and possible asset disposal strategies

Strategy and planning (incl Interdependencies) - £31,506

- Dealing with the recharging mechanism for Lehman Brothers Limited within the Transitional Services Agreement ("TSA") with Nomura
- Reviewing financial information
- Preparing detailed fee summaries
- Analysing timesheets for completeness and accuracy
- Weekly review of activity on the estate by Administrators' staff
- Signing off on all completed transactions

Tax & VAT - £31,129

- Investigating the circumstances of a former dispute with HMRC concerning a Bank Street asset leasing structure with LBL, implemented to make VAT cashflow savings
- Liaising with Leading Tax Counsel with regards to possible litigation against HMRC
- Dealing with issues on leased assets i.e. valuation or sale
- Meeting with HMRC to notify them of actions taken to date

Accounting and treasury (incl Intercompany) - £5,617

- Reconciliation of bank accounts
- Monitoring flow of funds into bank accounts

Statutory and compliance - £23,569

- Managing LBL&F Administration database
- Monitoring claims received and dealing with statutory issues
- Preparing Administrators' progress report