

# Lehman Brothers Holdings plc – In Administration

Joint Administrators' progress report for the period 15  
September 2008 to 14 March 2009

9 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 of Lehman Brothers Holdings plc ("LBH" or the "Company").

Creditors were sent the Joint Administrators' proposals on 5 November 2008 which were approved at a meeting of creditors held on 21 November 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.

## Objective of the Administration

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

The specific aims of this Administration are to:

- Realise all assets, including all cash and derivative positions on a managed basis;
- Mitigate as far as is possible and agree in principle the claims of all creditors; and
- To continue to manage the assets of its subsidiaries to ensure maximum returns to LBH.

## Creditors' Committee

Your Creditors' Committee was elected at the meeting of creditors and its members are:

1. Lehman Brothers Holdings Inc
2. Lehman Brothers International (Europe)
3. Lehman Brothers Limited
4. LB UK Holdings Limited
5. Lehman Brothers Asia Holdings Limited

They have yet to meet but, when they do, the Administrators will provide your Creditors' Committee with full details of current issues and outline key decisions.

## Administrators' remuneration

No remuneration has as yet been agreed. Your Creditors' Committee will be responsible for agreeing the basis and quantum of the Administrators' remuneration in due course.

## Outcome for creditors

There are no preferential 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 and will also consult with your 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 the enclosed statement of claim form.

## Future reports

The Joint Administrators' next progress report to creditors will be sent in approximately six months time.

Signed:



AV Lomas  
Joint Administrator  
Lehman Brothers Holdings plc

# Section 2: Background information

## Background information

Investment banking was at the core of the business of the global Lehman Brothers Group of companies (the “Lehman Group”). Until its recent collapse, the Lehman Group provided financial services to corporations, governments and municipalities, institutional clients and high net worth individuals.

The ultimate parent company of the Lehman Group is Lehman Brothers Holdings Inc. (“LBHI”), which is incorporated in the United States.

LBHI centrally managed substantially all of the material cash resources of the Lehman Group.

## Events immediately preceding the Administrators’ appointment

In the period immediately prior to its insolvency, there was an escalating loss of confidence in the Lehman Group, as evidenced by a significant deterioration in LBHI’s share price on the New York Stock Exchange of almost 80 per cent during the week from Friday 5 September 2008 to Friday 12 September 2008.

On Wednesday 10 September 2008, the Lehman Group announced a third quarter loss of US\$3.9 billion.

At the same time, the Lehman Group announced plans to sell a majority stake in its investment management business and to spin-off the majority of its commercial real estate assets into a new, separate public company. These measures failed to restore investor confidence and the share price fell by 7 per cent on the same day.

During the afternoon of 14 September 2008, we met with the directors of Lehman Brothers International Europe (“LBIE”) in order to consider what steps should be taken in the event that the New York discussions to save the group were to fail.

At approximately 12.30 am on 15 September 2008, LBH was informed by LBHI that it would no longer be in a position to make payments to or for LBH and other Lehman companies and was preparing to file for Chapter 11 bankruptcy protection in the US.

Overnight, preparations had been made by the directors, employees and advisers for a number of the Lehman Group companies in the UK to seek the protection of an Administration order and directors of those companies, including LBH, met and resolved to place those companies into Administration (collectively “the Lehman Administration Companies”).

At 7.56 a.m. on 15 September 2008 Administration orders were made in respect of each of the Lehman Administration Companies. Immediately upon their appointment, the Administrators and their teams assumed responsibility for LBH’s affairs and began to pursue the purpose of the appointment. Later on 15 September 2008, LBHI announced that it had filed for Chapter 11 bankruptcy protection in the US.

## Business Activities

LBH was a wholly owned subsidiary of Lehman Brothers UK Holdings Limited and was the holding company for a number of other entities in the Lehman Group.

LBH had three primary business activities:

- LBH acted as the “pass through” vehicle for the transfer of sub-debt and cash funding to LBIE.
- It managed the foreign currency accounts under a trust agreement for Lehman Brothers Asset Management (Europe) Limited (“LBAM”).
- LBH played an important role in the funding for UK Group companies.

Using income generated from shares held, LBH made repayments due under long term loans to, amongst others:

- Lehman Brothers UK Holdings Limited (in Administration).
- LB Capital Funding Partnerships.
- LB Holdings Scottish Limited Partnership.

# Section 3: Joint Administrators' actions to date

## Asset review

A detailed review of the asset position has been undertaken to ascertain which of the Group assets were owned by the Company. A strategy was formulated on how best to deal with the identified assets, and to manage and protect these assets for the benefit of LBH's creditors.

The key assets held by LBH are:

- Investments in subsidiary undertakings
- Financial Assets
- Book debts

The action taken in respect of these assets is detailed below.

## Investments in subsidiary undertakings

### LBAM

LBH is the shareholder of LBAM, which formed part of the investment management division within the Lehman Group. Immediately following their appointment the Administrators identified that LBAM was a solvent company and in order to preserve the value in this company it was necessary for it to continue to trade. The Administrators have been working alongside the management of LBAM to put together a variety of realisation strategies to preserve the value of LBAM's business and assets for the benefit of LBH, which includes the following:

- **Retaining key members of staff**  
Key members of staff were identified and retained to assist in the strategies.
- **Transitional Services Agreement**  
A TSA has been agreed with LBHI to meet the costs of the retained staff.
- **Asset management and private equity businesses**  
The Administrators have preserved the value in LBAM's asset management and private equity businesses.
- **Protection of funds**  
There was c\$60m cash within the UK estate of LBAM which has been protected by the Administrators.

- **Inter-company debts**

Cash recoveries of c\$10m have been collected from solvent inter-company debtors.

- **Tax losses**

Tax losses of c\$30m have been identified by the Administrators' staff. These have been protected and an appropriate strategy on how best to use these is being put in place.

- **Wound-down 11 regulated asset management funds**

The Administrators assisted in the wind down of 11 regulated asset management funds. This exercise was completed successfully with all 11 funds being closed at no loss to the underlying investors, no FSA or regulatory issues and at minimal cost to the Company in Administration.

### Dartmouth Capital Partners LLP ("DCP")

DCP was a Limited Liability Partnership of which LBH was the majority member. The fund owned by DCP is being wound down and to date DCP has returned capital of £500k to LBH. A further £300k is expected to be received.

### Furno & Del Castano Capital LLP ("FDCC")

FDCC is another Limited Liability Partnership of which LBH is a member. Steps are being taken to sell the assets of FDCC but the eventual outcome for LBH remains uncertain.

### Other investments

LBH has a number of other investments in subsidiary companies. Investigations are ongoing as to the potential realisations available from these investments.

### Financial Assets

The Company held a number of financial investments. The Administrators are monitoring the investments in order to construct a strategy as to when these should be sold to ensure maximum return. These investments have a book value of \$10m but potential recoveries remain uncertain and are largely dependent on the market conditions.

## Book debts

An investigation has been carried out into the book debt position of LBH, and in particular into intercompany debts. This exercise included submitting claims in the estates of insolvent intercompany debtors.

The Administrators have identified 34 debtors with a book value of \$641m. However, the top ten debtors, all of which are intercompany, represent 95% of the total book debt value, as follows:

	<b>Book value \$</b>
Lehman Brothers (PTG) Limited – in Administration	17,228,134
Lehman Brothers Special Finance Inc	19,427,459
LB Investment Holdings Limited	22,705,974
Sail Investors (UK) Limited – in Liquidation	26,606,912
ELQ Hypotheken NV	33,175,737
Lehman Brothers Holdings Scottish LP	51,098,554
Lehman Brothers Alpha Finance Cayman Limited	53,057,504
Mable Commercial Funding Ltd – in Administration	57,918,789
LBQ Investments Limited	92,490,845
LB Holdings Intermediate 2 Limited – in Administration	237,347,294
	<hr/> <u>611,057,202</u>

Actual recoveries are dependant on both the dividend prospects from those debtors already subject to a formal insolvency procedure and on the ability of the other Lehman Group debtors to pay, and therefore remain uncertain.

## Other Activities

As a holding company for a number of Lehman Group companies, LBH managed the banking facilities for those companies. Following the Administration, there were a number of solvent companies within the Group that still relied on LBH for this service as they do not hold bank accounts of their own.

The Administrators have therefore entered into agreements with LBAM and Lehman Brothers ODC 3 Limited for LBH to continue to provide banking facilities for those companies.

# Section 4: Statutory and other information

<b>Court details for the Administration:</b>	High Court of Justice, Chancery Division, Companies Court - case 7943 of 2008
<b>Full name:</b>	Lehman Brothers Holdings plc
<b>Trading name:</b>	Lehman Brothers Holdings plc
<b>Registered number:</b>	01854685
<b>Registered address:</b>	25 Bank Street, London E14 5LE
<b>Company directors:</b>	Mr IM Jameson, Mr AJ Rush, Mr DS Rushton, Mr C Pellerani, Mr D Gibb
<b>Company secretary:</b>	Ms M Smith, Ms P Dave, 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>	15 September 2008
<b>Administrators' names and addresses:</b>	AV Lomas, SA Pearson, DY Schwarzmann & MJA Jervis, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
<b>Appointer's name and address:</b>	High Court of Justice, Chancery Division, Companies Court
<b>Objective being pursued by the Administrators:</b>	Achieving a better result for LBH's creditors as a whole than would be likely if LBH 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 LBH's net property:</b>	It is too early to estimate the likely dividend for unsecured creditors.
<b>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</b>	It is too early to decide whether such an application might be necessary
<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 Administrators have received a Statement of Affairs from the directors, but the administrators are considering making an application to Court to redact certain information contained therein, which they believe may be prejudicial to the conduct of the Administration. Following such an application, the redacted Statement of Affairs will be filed at the Registrar of Companies.

The Administrators do not believe it is in the interests of creditors to provide an alternative financial analysis at this time, as such analysis is likely to be materially incomplete and, as a result potentially, materially misleading.

## Administrators' remuneration

It is the responsibility of your Creditors' Committee to agree the basis of the Administrators' remuneration.

In arriving at its decision 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 to have carried out, their duties;
- the value and nature of the property which the Administrators have to deal with.

When your Creditors' Committee meet they will be provided with full details of the Administrators' time costs to date, together with a detailed explanation of the work undertaken and an up to date account of receipts and payments.

# Section 6: Receipts and payments

An account of the receipts and payments for the six months to 14 March 2009 is set out below.

<b>Receipts in respect of LBH</b>	<b>GBP (£)</b>	<b>EUR (€)</b>	<b>USD (\$)</b>	<b>Total US Equivalent (\$)</b>
Investments in subsidiaries	559,067	-	-	781,073
Financial Assets	-	-	22,802	22,802
Book debts	-	-	-	-
Receipts under investigation	-	100,742	10,367	140,234
Interest received gross	12,103	-	1,163	18,072
	<u>571,170</u>	<u>100,742</u>	<u>34,332</u>	<u>962,181</u>
<b>Payments in respect of LBH</b>				
Legal fees	4,670	-	-	6,524
Statutory costs	1,192	-	-	1,665
Payment to be refunded	5,626	-	-	7,860
	<u>11,488</u>	<u>-</u>	<u>-</u>	<u>16,049</u>
Net position in respect of LBH	<u>559,682</u>	<u>100,742</u>	<u>34,332</u>	<u>946,132</u>
<b>Receipts in respect of Group companies</b>				
Intercompany - LBAM	2,222,772	2,972,071	54,325,306	61,262,037
Intercompany - LB ODC3 Limited	4,127,922	-	-	5,767,120
	<u>6,350,694</u>	<u>2,972,071</u>	<u>54,325,306</u>	<u>67,029,157</u>
<b>Payments in respect of Group companies</b>				
Intercompany - LBAM	1,322,066	712,683	12,823,279	15,589,057
Intercompany - LB ODC3 Limited	1,662,206	-	-	2,322,268
	<u>2,984,272</u>	<u>712,683</u>	<u>12,823,279</u>	<u>17,911,325</u>
Net position in respect of Group Companies	<u>3,366,422</u>	<u>2,259,388</u>	<u>41,502,027</u>	<u>49,117,832</u>
<b>Net position of all funds held</b>	<u><b>3,926,104</b></u>	<u><b>2,360,130</b></u>	<u><b>41,536,359</b></u>	<u><b>50,063,964</b></u>
<b>Held as follows:</b>				
Bank of England	3,368,229	2,360,130	41,536,359	49,284,555
HSBC	557,875	-	-	779,407
	<u>3,926,104</u>	<u>2,360,130</u>	<u>41,536,359</u>	<u>50,063,962</u>

<b>FX</b>	<b>13/02/2009</b>
<b>GBP</b>	<b>1.3971</b>
<b>EUR</b>	<b>1.2891</b>

It should be noted that of the \$50,063,962 held, \$49,117,832 relates to funds held for LBAM and Lehman Brothers ODC3 Limited.