

Lehman Brothers Holdings plc – In Administration

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

13 October 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report by the Joint Administrators of Lehman Brothers Holdings plc ("LBH" or the "Company").

This report provides an update on the work that the Administrators have undertaken and the progress made since their appointment, with particular focus on the progress made in the six months to 14 September 2009.

Objective of the Administration

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
- Continue to manage its subsidiaries to ensure maximum returns to LBH.

Creditors' Committee

A Creditors' Committee was formally constituted on 12 December 2009 and has the following members:

1. Lehman Brothers Holdings Inc
2. Lehman Brothers Asia Holdings Limited
3. Lehman Brothers International (Europe) ("LBIE") – in administration
4. Lehman Brothers Limited – in administration
5. LB UK RE Holdings Limited – in administration

The Administrators have met with the Creditors' Committee on two occasions since 12 December 2008, in order 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 it seems likely that funds will become available for unsecured creditors, the Administrators are beginning the process of establishing in principle the claims of unsecured creditors. This is in line with the proposals as agreed by creditors on 20 November 2008. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

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

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 2010.

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: Joint Administrators' actions to date

Asset review

It was noted in the Administrators' previous progress report that a detailed review of the asset position had been carried out following appointment, which identified the following category of assets:

- Investments in subsidiary undertakings
- Financial assets
- Inter-company debts

Investments in subsidiary undertakings Lehman Brothers Asset Management (Europe) Limited ("LBAM")

LBAM was the 100% owned solvent subsidiary of the Company, with its primary business being asset management focusing on liquid instruments, equities, and fixed income.

The Administrators have worked 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 the Company. The initial priority was to preserve and protect the cash, tax and goodwill assets of LBAM.

Whilst the non-viable parts of the business were wound down in an orderly fashion meeting all FSA requirements, a sale process was commenced in order to identify a purchaser for the business. This resulted in high level negotiations with Neuberger Berman LLC ("NB") to purchase the shares of LBAM.

The sale of the business and assets was concluded on 7 May 2009 for a total cash consideration of \$74m, with residual tax losses being retained by LBH. There are certain assets yet to be transferred to NB, which will take place following the account being finalised.

Financial Assets

The Company held a number of financial investments, which are being monitored and a strategy has been developed to realise maximum value.

Of the 12 financial investments identified in the Directors' Statement of Affairs, it was established that these were held by way of bonds and noted, equity holdings in listed entities, investments in private equity funds and an asset management fund.

The most significant financial assets to note are:

EPE Special Opportunities plc ("ESO")

At the date of Administration, LBH held a 36.67% interest in ESO, which at that time had an implied market value of approximately £2.8m. In June 2009, ESO raised additional funding and undertook a share consolidation, diluting LBH's interest to 9%, although LBH does remain a major shareholder of the fund.

LBH had a close relationship with ESO's investment advisors. The Administrators have met with them to discuss the fund, its investments, the strategy for realising LBH's shareholding and the recent activities of the fund.

A strategy has been agreed in consultation of the Creditors' Committee and the Administrators are continuing to work closely with the investment advisors in order to realise value when most advantageous to do so.

Dartmouth Capital Partners LLP ("DCP")

LBH was the majority member of DCP, a Limited Liability Partnership. To date £500k has been received in returned capital from the fund which is being wound down. A further £300k is expected to be received in due course.

Campo Iris

Campo Iris, a 100% subsidiary of LBH, holds 50% of a Spanish real estate company that is being liquidated. The only asset in this company is cash, of which €500k is expected to be received by LBH.

LB USD Liquidity Fund

This asset management fund was terminated with effect from 30 March 2009. As shareholder, LBH has received redemption proceeds of \$476k. Further minor proceeds are expected.

Summary

The Administrators continue to monitor all the investments, ensuring that the strategy put in place remains the most effective way to realise value for the benefit of LBH's creditors.

Section 2: Joint Administrators' actions to date

Inter-company debts

The Company had two key functions:

- As a holding company for a number of entities in the UK Group;
- As a pass-through vehicle for the transfer of sub-debt and cash funding to LBIE.

Of the 61 intercompany relationships that have been identified, there are net debts due of \$681m and \$2bn in net creditors. The top six debtors and the top five creditors represent 86% of the total balances.

The Administrators established a specific workstream dedicated to working on the book debt position of the UK Administration companies. Its primary task is to identify and submit claims against any of the US entities subject to an insolvency process that had imposed a bar date of 22 September 2009 and 22 October for guarantee claims.

The workstream is continuing to identify and evidence the debtor position, chasing for payments where relevant or submitting claims against those companies subject to formal insolvency processes.

Other activities

Liquidation workstream

A Liquidation workstream has been set up, to assist with the simplification of the corporate structure and to provide a controlled means by which intercompany dividends can flow through the group.

As a holding company and pass through vehicle for many other group companies, LBH has a high level interest in the activities being carried out by this workstream. The Administrators are therefore working closely with the Liquidation workstream in order to monitor the flow of potential dividends into the estate.

Extension of the Administrations

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 2010.

The application was made for the following reasons;

- There are various matters in the estate that, in the Administrators' view, would be better dealt with in Administration;
- 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.

Section 3: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 7943 of 2008
Full name:	Lehman Brothers Holdings plc
Trading name:	Lehman Brothers Holdings plc
Registered number:	01854685
Registered address:	25 Bank Street, London E14 5LE
Company directors:	Mr IM Jameson (resigned 25/07/09), Mr AJ Rush (resigned 19/11/08), Mr DS Rushton (resigned 25/07/09), Mr C Pellerani (13/11/08), Mr D Gibb (28/07/09)
Company secretary:	Ms M Smith, Ms P Dave, Ms ESE Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in the Company
Date of the Administration appointment:	15 September 2008
Administrators' names and addresses:	AV Lomas, SA Pearson, DY Schwarzmann & MJA Jervis, of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	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)
Division of the Administrators' responsibilities:	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.
Details of any extensions for the initial period of appointment:	The Court has granted an extension of the Administration to 30 November 2010.
Proposed end of the Administration:	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.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LBH's net property:	Not applicable.
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 does apply to this Administration and these are the main proceedings.

Section 4: Financial information

Statement of Affairs

The directors' Statement of Affairs (the "Statement") was received on 3 September 2009. This Statement has been filed at Companies House.

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").

On 12 December 2008 a Creditors' Committee was formed, whose duties include approving the basis and quantum of the Administrators' remuneration.

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 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.

Committee members have each been provided with a copy of SIP 9.

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 which are involved on the case.

Section 4: Financial information

As the Administrators' remuneration request is based on time costs the Committee has been 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.

Extensive disclosure has been made which comprises a detailed explanation of the Administrators' activities, methods and achievements in order to enable the value of the exercise to be understood.

The time analysis provided to the Committee gives details of the work performed and grade of staff and by Activity.

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

- Administration and planning
- Investigations
- Realisation of assets
- Trading
- Creditors
- Any other case-specific matters

The analysis that has been provided to the Committee contains six subdivisions of time spent.

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

- Partner
- Manager
- Other senior professionals
- Assistants and support staff

The Committee has been provided with an analysis of staff allocated between six grades.

SIP 9 also suggests that an explanation of what has been done should include an outline of the nature of the assignment and the Administrator's own initial assessment, including the anticipated return to creditors. To the extent applicable it should also explain:

- Any significant aspects of the case, particularly those that affect the amount of time spent;
- The reasons for subsequent changes in strategy;

- Any comments on any figures in the summary of time being spent accompanying the request the Administrator wishes to make;
- The steps taken to establish the views of creditors, particularly in relation to agreeing the strategy for the assignment, budgeting, time recording, fee drawing or remuneration agreement; and

Each of these matters has been covered in some detail in the discussions we have had with the Committee. The administrative matters referred to in summary in the body of this report have been covered in extensive detail with the Committee and each area of our activities discussed in depth.

Resolution of the Creditors' Committee

The Administrators' have provided the Creditors' Committee with full details of their time costs. They have approved the Administrators' remuneration for the period 15 September 2008 to 30 June 2009, totalling £1,713,766 which represents 4,532.50 hours at an average hourly rate of £378.11. To date the amount of £1,683,364 has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 14 September 2009, and a cumulative total since commencement of the Administration, is set out in section 5 to this report.

Net receipts as at 14 September 2009 total \$118.6m, of which c£3m is being held on trust for LB ODC3. Of the funds held on trust for LBAM, an element of this will be retained by LBH pending finalisation of the account of the sale of the business and assets to NB, with the balance of the funds being returned to NB. This is expected to be in the region of \$40m.

Section 5: Receipts and payments

	As at 14 September 2009		As at 14 Sep 09	As at 14 Mar 09	Movements
	GBP (£)	EUR (€)	USD (\$)	Total (USD Equivalent) \$	(USD Equivalent) \$
RECEIPT					
Investments in subsidiaries	559,067	-	476,050	781,073	623,811
Financial assets	-	-	23,459	22,802	657
Receipts under investigation	-	21,591	-	140,234	(108,644)
Bank Interest	12,103	-	32,935	18,072	34,971
Assets held on trust - LBAM	3,924,484	3,075,618	54,335,016	61,262,037	4,093,053
Sale of LBAM	-	-	74,335,016	-	74,063,196
Assets held on trust - LB ODC3	4,506,820	-	-	5,767,120	1,720,511
Receipts Grand Totals	9,002,474	3,097,209	129,202,476	67,991,338	80,427,555
PAYMENT					
Legal fees	275,241	-	4,161	6,524	454,922
Statutory costs	2,791	-	-	1,665	2,972
Payment to be refunded	-	-	-	7,860	(7,860)
Assets held on trust - LBAM	3,841,895	739,083	14,723,454	15,589,057	6,598,674
Assets held on trust - LB ODC3	1,428,419	-	-	2,322,268	50,907
Inter estate currency transfer	(601,468)	-	1,000,000	-	721
Bank charges	8,448	22	68	-	14,136
IT costs	150,000	-	-	-	249,210
Joint Administrators' remuneration	1,683,364	-	-	-	2,796,741
Joint Administrators' category 1 disbursements	33,864	-	-	-	56,262
VAT	968,144	3,725	-	-	1,613,924
Payments Grand Totals	7,790,698	742,830	15,727,683	17,927,374	11,830,609
NET POSITION	1,211,776	2,354,379	113,474,793	50,063,964	68,596,946
CASH BALANCES					
Bank of England	6,823	-	-	-	11,340
HSBC	527,330	3,355	10,558,477	11,439,492	11,439,492
Money market deposits	-	-	63,000,150	63,000,150	63,000,150
Bank of England trust account	677,623	2,351,024	39,644,346	44,209,928	44,209,928
Total Cash	1,211,776	2,354,379	113,202,973	118,660,910	118,660,910

FX	14/09/2009
GBP	1.6614
EUR	1.4631

**Lehman Brothers Holdings Plc - in Administration
Statement of claim**

As directed by Article 42(1) of the EC Regulation on Insolvency Proceedings 2000 the following is brought to your attention:

Invitation to lodge a claim. Time limits to be observed

Oproep tot indiening van schuldvorderingen. In acht te nemen termijnen

Invitation à produire une créance. Délais à respecter

Convocatoria para la presentación de créditos. Plazos aplicables

Opfordring til anmeldelse af fordringer. Vær opmærksom på fristerne

Aufforderung zur Anmeldung einer Forderung. Etwaige Fristen beachten!

Πρόσκληση για αναγγελία απαιτήσεως. Προσοχή στις προθεσμίες

Invito all'insinuazione di un credito. Termine da osservare

Aviso de reclamação de créditos. Prazos legais a observar

Kehotus saatavan ilmoittamiseen. Noudatettavat määräajat

Anmodan att anmäla fordran. Tidsfrister att iaktta

Výzva k uplatnění nároku. Termíny budou plněny.

Zaproszenie do zgłaszania roszczeń. Termin zgłaszania roszczeń jest nieprzekraczalny.

Felszólítás követelés benyújtására. A határidők betartandók.

Poziv k vložiti tožbe, z upoštevanjem časovnih terminov.

Приглашение к подаче иска. Соблюдайте установленные сроки.

Pasiūlymas pateikti reikalavimą. Nustatytas laiko apribojimas.

Stedina biex taghmel talba. It-termini taz-zmien ghandhom jigu mharsa.

Palve esitada nõue. Palun jälgige aja piiranguid.

Uzaicinājums prasības pieteikšanai. Prasības pieteikšanas laiks stingri ierobežots.

Invitatie pentru depunerea cererii de admitere a creantei asupra averii debitorului. Termene care trebuie respectate

Покана за предявяване на вземания. Съгласно обявените срокове

Cuireadh le h-eilimh a loisteach. Caithfear cloi le teorainneacha ama

Please complete and return this claim form with supporting documentation as soon as possible to SA Pearson, Joint Administrator, c/o PricewaterhouseCoopers LLP (IMT), 25 Bank Street, London E14 5LE.

Creditors whose claims are secured or preferential (in part or in whole) should provide details of their claim to the above address. However they need not use this claim form.

Creditor's name and address.	
Total amount of your claim, including any VAT at the date the Administration commenced.	£
Please provide details of any documents that substantiate your claim including where applicable, details of any reservation of title in respect of goods to which the debt relates. If relevant, please attach a statement of account.	
What goods or services did you provide?	
Is all or part of your claim preferential as defined in the Insolvency Act 1986? (see footnote) If so, please provide details where indicated, otherwise leave this section blank.	Category Amount (s) claimed as preferential £
If you have security for your debt, please provide details of the type and value of the security, the date it was given, and provide details of how you have valued your security. If no security held, leave this section blank.	
We have a duty as Administrators to consider the conduct of the directors prior to our appointment. Are there any particular matters relating to the purchase of goods and services from yourselves, or any other matters that you feel should be reviewed? If so, please provide brief details on this form, or on a separate sheet if there is insufficient room.	
Signature of creditor or person authorised to act on behalf of the creditor.	Date
Name in block capitals.	
Position with or relation to the creditor (e.g. director, company secretary, solicitor).	

SAP/AGW/CJW/DB/D355E – LBH PLC

Footnote: -

Categories of preferential creditors are defined by section 386 and Schedule 6 of the Insolvency Act 1986 (amended by the provisions of section 251 of the Enterprise Act 2002). They include:

- 1) Contributions to occupational pension schemes;
- 2) Remuneration and accrued holiday pay of employees including payments ordered to be made under the Reserve Forces (Safeguard of Employment) Act 1985; and
- 3) Levies on coal and steel production