
Lehman Brothers Lease & Finance No. 1 Limited – In Administration

Joint Administrators' progress
report for the period 24 October
2010 to 23 April 2011

9 May 2011

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the fifth progress report by the Joint Administrators (the "Administrators") of Lehman Brothers Lease & Finance No.1 Limited (the "Company" or "LB L&F").

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 April 2011.

Objectives 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.

Outcome for creditors

As previously advised, the Pensions Regulator listed LB L&F as one of the Lehman companies from which it was seeking a Financial Support Direction ("FSD") in relation to the Lehman Brothers Pension Scheme.

The Determinations Panel of the Pensions Regulator issued a Determination Notice on 13 September 2010 which stated that a Financial Support Direction should not be issued against LB L&F. However, as the FSD legal process has not yet been completed, the Administrators are not certain at this stage that LB L&F will not have liability under an FSD. Accordingly, the Administrators have written to the trustees of the pension scheme in order to obtain clarification on whether a liability under an FSD will fall to LB L&F.

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 quantum

of the distribution will be dependent on whether a liability under an FSD falls to LB L&F.

Owing to ongoing tax and pension matters, the most appropriate strategy at this time is for the Company to remain in administration.

The Administrators currently consider that the exit route most likely to give the best result to creditors is to make an application to Court for permission to make a distribution to creditors and to proceed to have the Company dissolved once the distribution has been made.

Given this ongoing process, the timing of the initial dividend to creditors remains uncertain.

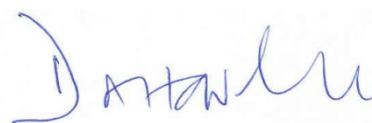
Extension of the administration

On the application of the Administrators, the High Court made an Order to further extend the period of the Administration to 30 November 2011. In light of the outstanding pension issue, the Administrators are expecting to apply to Court for a further extension to the Administration in due course.

Future reports

The Administrators will next report to creditors in approximately six months 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 purchase and subsequently lease infrastructure assets to Lehman Brothers Limited ("LBL"), via a series of formal lease and hire purchase agreements.

Administrators' actions to date

On 31 March 2010 LB L&F sold all of its Infrastructure Assets to LBL.

An agreement has been reached with LBL covering Infrastructure Asset usage and furniture asset usage by Nomura Holdings, Inc ("Nomura") and the Lehman Administration companies.

The Administrators have now realised the total sale proceeds of £19.1m, including the final portion of the proceeds of c.£5.2m in the period.

The level of realisations is well in excess of the statement of affairs value and also exceeds the value that would have been realised by selling the assets on a piecemeal basis to third parties.

In the period the Administrators have also realised c.£1m in respect of the surrender of some of LB L&F's tax losses to group companies. The work involved in the sale of the losses has incurred tax function costs of £73k. These costs are a reallocation of costs incurred by a centralised tax team.

Outstanding matters

As previously advised there is an ongoing dispute regarding a pre-appointment VAT claim with HM Revenue & Customs ("HMRC"). The European Court of Justice has recently made a ruling on a case with similar grounds which should benefit the case of LB L&F. There is ongoing dialogue with HMRC, however, the level of any future realisations in this respect remains uncertain.

Distribution to unsecured creditors

Once there is certainty that LB L&F is not subject to an FSD, the Administrators propose to make a first interim dividend to unsecured creditors, although the timing and quantum remains uncertain at present.

Section 3 Statutory and other Information

<i>Court details for the Administration:</i>	High Court of Justice, Chancery Division, Companies Court - case 9434 of 2008
<i>Full name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Trading name:</i>	Lehman Brothers Lease & Finance No.1 Limited
<i>Registered number:</i>	04387086
<i>Registered address:</i>	Level 23, 25 Canada Square, London E14 5LQ, United Kingdom
<i>Company directors:</i>	IM Jameson (resigned 17/07/09), SJ Williams (resigned 20/07/09)
<i>Company secretary:</i>	M Smith (resigned 25/01/10), P Dave (resigned 25/01/10), ESE Upton (resigned 25/01/10)
<i>Shareholdings held by the directors and secretary:</i>	None of the directors own shares in the Company
<i>Date of the Administration appointment:</i>	24 October 2008
<i>Administrators' names and addresses:</i>	DA Howell, DY Schwarzmman, SA Pearson, MJA Jervis and AV Lomas of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.
<i>Appointer's name and address:</i>	The directors of the Company, 25 Bank Street, London E14 5LE
<i>Objective being pursued by the Administrators:</i>	Achieving a better result for creditors as a whole than would be likely if the Company was wound up (without first being in Administration).
<i>Division of the Administrators' responsibilities:</i>	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Directors of LB L&F Limited (the "Company") have appointed Anthony Victor Lomas, Derek Anthony Howell and Michael John Andrew Jervis of PricewaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT 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. Further to the appointment of Dan Yoram Schwarzmman and Steven Anthony Pearson as additional Administrators, any act required or authorised under any enactment to be done by any or all of the joint administrators may be done by one or more of the persons for that time being holding office.
<i>Details of any extensions of the initial period of appointment:</i>	The Court has granted an extension of the Administration to 30 November 2011.
<i>Proposed end of the Administration:</i>	The Administrators wish to retain various exit options available to them however the most likely exit route from the Administration is to seek permission to distribute from the administration and proceed to dissolve the Company.
<i>Estimated dividend for unsecured creditors:</i>	It is too early to estimate the likely dividend for unsecured creditors.
<i>Estimated values of the prescribed part and LB L&F's net property:</i>	There is no prescribed part as there is no qualifying floating charge.
<i>Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:</i>	Not applicable as there is no prescribed part.
<i>The European Regulation on Insolvency Proceedings (Council Regulation(EC) No. 1346/2000 of 29 May 2000):</i>	The European Regulation on Insolvency Proceedings does apply to this Administration and these are the main proceedings.

Section 4 Financial Information

Administrators' remuneration

At the initial 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 at Section 6 is a summary of the Administrators' time costs for the period 1 October 2010 to 28 February 2011, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed.

Time costs for the period 1 October 2010 to 28 February 2011 are £25,302, which represents 70.3 hours at an average hourly rate of £359.91.

To date, remuneration of £390k plus VAT has been drawn in respect of time costs to 30 September 2010.

Time cost analyses covering the period 24 October 2008 to 30 September 2010 have been provided previously.

Receipts and payments account

An account of the receipts and payments in the Administration for the six months to 23 April 2011 is set out overleaf.

Section 5 Receipts and Payments Account

	As at 23 April 2011 GBP (£'000)	As at 23 October 2010 GBP (£'000)	Movements GBP (£'000)
Receipts			
Realisations from sale of tax losses	1,038	-	1,038
Realisation from furniture assets and Level 7 lease	19,106	13,931	5,175
Interest received gross	52	24	28
Total Receipts	20,196	13,955	6,241
Payments			
Insurance	463	463	-
Legal Fees	19	19	-
Joint Administrators' remuneration	390	344	46
Statutory costs	1	1	-
Net tax function costs	73	-	73
VAT Paid	65	57	8
Total Payments	1,011	884	127
Net Position	19,185	13,071	6,114
Cash Balances			
HSBC	203	107	96
Short term desposits	18,982	12,964	6,018
Total Cash	19,185	13,071	6,114

Section 6 Joint Administrators' time costs

Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011

Classification of work	Partner / Director		Senior Manager / Manager		Senior Associate		Associate / Support staff		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Disposals	-	-	0.4	158	-	-	-	-	0.4	158
Strategy and Planning	1.5	1,200	3.7	1,463	5.2	1,716	0.2	42	10.6	4,421
Tax and VAT	-	-	4.9	4,067	0.2	44	-	-	5.1	4,111
Accounting and Treasury	-	-	7.1	2,823	15.1	4,688	11.4	2,393	33.6	9,904
Statutory and Reporting	-	-	0.6	282	14.8	4,884	-	-	15.4	5,166
LBL recharges	0.1	36	2.2	869	1.4	353	1.5	284	5.2	1,542
Grand Total	1.6	1,236	18.9	9,662	36.7	11,685	13.1	2,719	70.3	25,302

The Joint Administrators' policy for charging for disbursements is:

	Costs to date (£)
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	-
Total	-

Current charge out rates	Business Recovery Services	Specialist*	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.
Grade	Max £/hr	Max £/hr	
Partner	800	980	
Director	610	890	
Senior manager	470	830	
Manager	395	605	
Senior Associate	330	330	
Associate / Support Staff	210	195	

Summary of the Joint Administrators' time costs for the period 1 October 2010 to 28 February 2011

Asset Disposals - £158

- Liaising with LBL regarding payment of sale proceeds.

Strategy and Planning - £4,421

- Reviewing financial information;
- Updating strategy documents; and
- Discussions with advisors regarding pension claims.

Tax & VAT - £4,111

- Advising on VAT and tax queries and treatment;
- Liaising with HMRC regarding pre-appointment claim and progressing claim; and
- Prepare and review VAT return.

Accounting and Treasury - £9,904

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts;
- Managing funds in various institutions in order to mitigate risk; and
- Dealing funds on the money markets and inputting deals.

Statutory and reporting - £5,166

- Managing LB L&F Administration database;
- Monitoring claims received and dealing with statutory issues;
- Preparing and reviewing Administrators' progress report;
- Arranging for billing reports to be produced; and
- Review of time costs in preparation for billing.

LBL recharges - £1,542

- This is an apportionment of the costs incurred by Lehman Brothers Limited in the administration companies.

