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

Joint Administrators' progress
report for the period 24 April to 23
October 2015

23 November 2015

Contents

<i>Section 1</i>	<i>Purpose of the Joint Administrators' progress report</i>	<i>3</i>
<i>Section 2</i>	<i>Joint Administrators' actions to date</i>	<i>4</i>
<i>Section 3</i>	<i>Statutory and other Information</i>	<i>5</i>
<i>Section 4</i>	<i>Financial Information</i>	<i>6</i>
<i>Section 5</i>	<i>Receipts and Payments Account</i>	<i>7</i>
<i>Section 6</i>	<i>Joint Administrators' time costs for the period 1 April to 30 September 2015</i>	<i>8</i>

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the 14th 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 their appointment, with particular focus on the six months to 23 October 2015 (the “**reporting period**”).

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 were 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

On 24 June 2013, the Court gave the Administrators of LB L&F permission to agree and pay a dividend in respect of the claims of its unsecured creditors.

LB L&F has two creditors, Lehman Brothers Holdings Inc (“**LBHI**”) and Lehman Brothers Global Services Ltd (“**LBGSL**”). In the reporting period, LBGSL assigned its claim to LBHI.

To date, the Administrators have declared and paid three interim dividends to the Company's unsecured non-preferential creditors totalling £32.7m and equating to 26.87 pence in the £. In the reporting period, a dividend of 3.39 pence in the £, totalling £4.1m was paid.

It is anticipated that a further, final distribution will be made to the unsecured non-preferential creditor within the next six months.

Future reports

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

Signed:



GE Bruce
Joint Administrator
Lehman Brothers Lease & Finance No.1 Limited

AV Lomas, SA Pearson, GE Bruce and JG Parr have been appointed as Joint Administrators of Lehman Brothers Lease & Finance No.1 Limited to manage its affairs, business and property as agents without personal liability. AV Lomas, SA Pearson, GE Bruce and JG Parr are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

*The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at:
<https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>*

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

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.

LB L&F sold all of its infrastructure assets to LBL on 31 March 2010.

Administrators' actions to date

During the reporting period, LB L&F received £1.5m from HMRC in respect of a Corporation Tax refund, plus interest. No further realisations are anticipated from this source.

As previously reported, on 11 October 2011 the Administrators of LB L&F, in conjunction with other UK affiliates, entered into a settlement agreement with LBHI and certain other affiliates previously subject to Chapter 11 proceedings in the USA. The Plans of Reorganisation became effective on 6 March 2012 following approval from the US court. Pursuant to this agreement the Administrators adjudicated and admitted the claim from LBHI of £121.5m (\$192.4m).

On 22 October 2013, the Administrators declared a first interim dividend of 8.00 pence in the £ to those creditors whose claims had been admitted. Second and third interim dividends of 15.48 pence and 3.39 pence in the £ were paid on 4 September 2014 and 2 September 2015, respectively.

Outstanding matters

The Company's principal remaining asset is an inter-company receivable due from LBL, which is also in Administration. The Company has an admitted claim of c.£22.8m against LBL. In December 2014, a first interim distribution of c.£379k was received, representing a dividend of 1.66 pence in the £. The outcome of the 'Waterfall' proceedings will determine the timing and quantum of further distributions made by LBL.

Following a ruling that in principle, compound interest is payable on overpaid VAT, LB L&F has a potential claim against HMRC. The value of the claim is estimated to be in the region of £40k to £80k. As previously reported, this ruling is in the process of being appealed by a different company

which is leading the action. LB L&F's ability to claim is subject to the outcome of the appeal. It is anticipated that the time frame for a decision to be finalised may be in the region of 3-4 years.

In July 2015, the Administrators sought and received approval from LB L&F's sole unsecured non-preferential creditor, LBHI, to distribute its assets yet to be realised, including but not limited to the receivable due to the Company from LBL and the potential claim against HMRC, to its creditor.

Accordingly, the Administrators are now in a position to distribute the remaining unrealised assets, together with the cash balance, which they anticipate will take place within the next six months.

Closure strategy

The Administrators are seeking to make a final distribution and progress the case to closure, exiting the Administration via dissolution, within the next six months.

Discharge

Creditors will recall that JG Parr and GE Bruce were appointed Administrators of LB L&F by the Court in March 2013, replacing two previously appointed Administrators. As they were appointed by the Court, the Insolvency Rules 1986 require the timing of their discharge to be determined by the Court. However this conflicts with the method agreed by creditors in respect of the original appointees.

Accordingly, the Administrators applied to the Court to have the method and timing of their discharge made consistent with that of the originally appointed Administrators, which will then be in accordance with the method set out in the Administrators' Proposals as agreed by creditors. On 29 June 2015, the Court duly granted an order that the Joint Administrators be discharged from liability in respect of any action of theirs as Administrators after 28 days from the date of their ceasing to act.

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>	GE Bruce, SA Pearson, AV Lomas and JG Parr 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>	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 or one or more of the Joint Administrators.
<i>Details of any extensions of the initial period of appointment:</i>	The High Court of Justice has granted three successive extensions to the Administration period to: 30 November 2011; 30 November 2013; 30 November 2014 and more recently to 30 November 2017.
<i>Proposed end of the Administration:</i>	The Administrators will distribute the remaining assets in specie then exit the Administration via dissolution.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim cash dividend of 8.00p in the £ to unsecured non-preferential creditors on 22 October 2013. A second interim cash dividend of 15.48 pence in the £ was paid on 4 September 2014. A third interim cash dividend of 3.39 pence in the £ was paid on 2 September 2015. A final dividend will be paid within the next six months.
<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

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 23 October 2015 is set out overleaf.

Cash held as at 23 October 2015 totals approximately £1.07m.

Administrators' remuneration

In June 2009, the Administrators requested and received consent from LB L&F's creditors for the Administrators' remuneration to 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.

In Section 6 of this report there is a summary of the Administrators' time costs for the period 1 April to 30 September 2015, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £86,785 plus VAT, which represents 224 hours at an average hourly rate of £387. Details of time costs previously incurred have been provided in earlier reports.

To the period to 23 October 2015, remuneration of £1.44m plus VAT has been drawn in respect of time costs incurred to 31 August 2015.

Section 5 Receipts and Payments Account

	Note	As at 23-Oct-15 GBP (£)	Movements GBP (£)	As at 23-Apr-15 GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease		19,710,218	-	19,710,218
Debtors		379,387	-	379,387
Realisations from sale of tax losses		1,289,338	-	1,289,338
Corporation Tax refund		7,409,523	1,493,290	5,916,233
Pre-appointment VAT settlement		9,429,838	-	9,429,838
Interest received gross		824,740	-	824,740
Total		39,043,044	1,493,290	37,549,754
Payments				
Insurance		463,336	-	463,336
Legal Fees		80,183	6,036	74,147
Pension related legal costs recharged from LB SF No.1		145,059	42,364	102,695
Pension related legal costs		25,570	-	25,570
Purchase of Tax Losses		1,180,578	-	1,180,578
Joint Administrators' remuneration		1,437,759	97,932	1,339,827
Joint Administrators' Category 1 disbursements		23,566	20,000	3,566
Statutory costs		29,990	9,505	20,485
Corporation Tax		1,480,000	-	1,480,000
Employee costs		2,402	56	2,346
Tax function costs		209,197	-	209,197
IT costs		5,741	-	5,741
Capital Goods Scheme payment		32,275	-	32,275
VAT recoverable	1	48,236	16,842	31,394
VAT irrecoverable	1	102,752	9,853	92,899
Total		5,266,644	202,588	5,064,056
Total receipts less total payments		33,776,400	1,290,702	32,485,698
Distributions to unsecured creditors				
1st dividend of 8.00p in the £, declared in October 2013		9,738,980	-	9,738,980
2nd dividend of 15.48p in the £, declared in September 2014		18,844,926	-	18,844,926
3rd dividend of 3.39p in the £, declared in September 2015		4,123,635	4,123,635	-
Total		32,707,541	4,123,635	28,583,906
Cash in hand/ (movement in year)		1,068,859	(2,832,933)	3,901,792
Cash in hand is represented by				
HSBC (non-interest bearing)		1,068,859	(2,832,933)	3,901,792
Total Cash		1,068,859	(2,832,933)	3,901,792

Notes:

1. LBL&F is VAT registered and entitled to reclaim 63.09% of input VAT. 36.91% of input VAT is irrecoverable.

Section 6 Joint Administrators' time costs for the period 1 April 2015 to 30 September 2015

Classification of work	Partner/Director Hours	£	Senior Manager/Manager Hours	£	Senior Associate Hours	£	Associate/Support Staff Hours	£	Hours	Total £
Accounting and treasury	0.10	69	2.50	1,100	12.90	4,030	11.40	2,659	26.90	7,858
Strategy and planning	12.40	9,662	16.35	7,204	41.35	15,018	7.35	1,691	77.45	33,575
Statutory and other compliance	1.90	1,497	10.65	4,756	51.90	18,815	26.80	6,228	91.25	31,296
Tax and VAT	2.80	3,067	8.20	5,577	12.80	4,249	2.30	457	26.10	13,350
LBIE Recharges	0.12	81	0.20	85	1.56	423	0.53	118	2.41	707
Total	17.32	14,376	37.90	18,722	120.51	42,535	48.38	11,153	224.11	86,786
Average hourly rate		830		494		353		231		387

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 minimum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.	
Grade		Max £/hr		Max £/hr		* 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 given 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 inflation cost increase) over the period of the Administration. Any material amendments to these rates will be advised to the creditors in the next statutory report.	
		From 1 Jan 2015	From 1 July 2015	From 1 Jan 2015	From 1 July 2015		
Partner		873	899	1,225	1,262		
Director		765	788	1,076	1,108		
Senior manager		512	527	905	932		
Manager		431	444	660	680		
Senior Associate		360	271	490	505		
Associate/Support Staff		229	236	228	235		

Narrative of the Joint Administrators' time costs for the period 1 April 2015 to 30 September 2015

Accounting and treasury - £7,858

- Reconciliation of bank accounts;
- Arranging receipts and payments of funds and coding of movements;
- Monitoring flow of funds into bank accounts; and
- Arranging payment of third interim distribution.

Strategy and planning - £33,575

- Discussions regarding strategy for the Administration including quantum and timing of future dividend distributions;
- Strategy discussions on case progression and resource management;
- Reviewing financial information; and
- Evaluating exit routes and strategy for the closure of the Administration.

Statutory and other compliance - £31,296

- Preparation and circulation of Administrators' 13th progress report;
- Preparation of Administrators' receipts and payments account;
- Statutory filings at Companies House and Court;
- Managing the LB L&F Administration database;
- Preparation of the detailed remuneration summary; and
- Undertaking six monthly review of the Administration.

Tax and VAT - £13,350

- Preparation, review and submission of 05/15 VAT return;
- Internal team meetings and meetings with appointment takers with regard to the compound interest claim;
- Internal meetings to discuss VAT compliance;
- Preparation and monitoring of the VAT budget and raising bills;
- Dealing with HMRC queries;
- Internal meetings to discuss ongoing Lehman's Tax/VAT strategy;
- Attending quarterly tax and VAT update meetings;
- Ongoing review of the corporate tax position and quarterly payments;
- Review of the corporation tax provision requirements; and
- Internal meetings and discussions regarding outstanding issues to resolve before closure.

LBIE recharges - £707

- This is an apportionment of the costs incurred by Lehman Brothers International (Europe) associated with the administration companies.