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

Joint Administrators' progress
report for the period 24 April 2014 to
23 October 2014

21 November 2014

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 2014 to 30 September 2014</i>	<i>8</i>

Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the twelfth 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 progress made in the six months to 23 October 2014.

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.

The Administrators declared and paid a first interim dividend of 8 pence in the £ to the Company's unsecured non-preferential creditors on 22 October 2013. A second interim dividend of 15.48 pence in the £ was paid on 4 September 2014.

A further dividend is anticipated, however the quantum and timing of any dividend is uncertain as it is largely contingent upon receipts from other insolvent estates.

Pension liability

During the reporting period, the Administrators entered into an agreement to settle the Upper Tribunal proceedings against various Lehman

companies. The purpose of the Upper Tribunal proceedings was to decide whether a Financial Support Direction ("FSD") should be made, and against which entities, in respect of the Lehman Brothers Pension Scheme (the "Scheme") such that additional contributions would be paid into the Scheme.

Following the settlement agreement with the Pension Scheme Trustees, and all other potential FSD targets, which became effective on 18 August 2014, LB L&F no longer has a potential liability to the Scheme.

As part of the settlement LB L&F has contributed to certain legal costs of the Pension Scheme Trustees and the Pensions Regulator. LB L&F has not contributed to the cost of funding pension liabilities under the settlement, which are being discharged by other Lehman companies.

Extension of the administration

On the application of the Administrators, the High Court made an order to extend the period of the Administration for a further 36 months to 30 November 2017.

Future reports

The Administrators will next report to creditors in approximately six months.

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 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

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

The Administrators have adjudicated upon all claims received and on 22 October 2013 declared a first interim dividend of 8 pence in the £ to creditors whose claims had been admitted. A second interim dividend of 15.48 pence in the £ was paid on 4 September 2014.

Outstanding matters

During the reporting period, LB L&F realised a further £22k from a group VAT refund and £156k from sales of its tax losses. Further recoveries may still arise from the sale of group relief, however they are unlikely to be significant given the tax profile of LB L&F and the overall loss profile of the Lehman tax group.

The Administrators agreed and have received a settlement from HMRC of LB L&F's claim in respect of pre-appointment VAT of £8.3m plus statutory interest of £1.1m.

Asset realisations are ongoing, the remaining assets being the Company's debtors (c\$34m), estimated to realise c\$3.4m in the directors' statement of affairs.

LB L&F's substantial debtor is Lehman Brothers Limited ("LBL"), which is also in Administration. The Administrators have submitted a claim of £22.8m against LBL. The Administrators of LBL have recently issued a Notice of Intended Dividend, however the quantum of any dividend is currently uncertain.

LB L&F also has a potential VAT compound interest claim against HMRC with an estimated value of £40k to £80k, following a ruling that compound interest is payable in principle on overpaid VAT. However, this ruling is currently being appealed, and therefore, it is estimated that the time frame for making such a claim is at least 3-4 years. The Administrators will continue to keep under review the commercial benefits and the cost in pursuing this claim.

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 wish to retain various exit options available to them. The most likely exit route from the Administration is to continue to distribute from the Administration (the Administrators having obtained permission from the Court to do so in June 2013) and then to apply for the dissolution of the Company.
<i>Estimated dividend for unsecured creditors:</i>	The Administrators declared a first interim dividend of 8p in the £ to unsecured non-preferential creditors on 22 October 2013. A second interim dividend of 15.48 pence in the £ was paid on 4 September 2014. A further dividend is anticipated however the timing of any further dividends remains uncertain at present.
<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

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.

Attached at Section 6, is a summary of the Administrators' time costs for the period 1 April 2014 to 30 September 2014, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £104,217 plus VAT, which represents 261 hours at an average hourly rate of £399. Details of time costs previously incurred have been provided in earlier reports.

To date, remuneration of c.£1.28m plus VAT has been drawn in respect of time costs incurred to August 2014.

Receipts and payments account

An account of the receipts and payments in the Administration showing movements for the six months to 23 October 2014 is set out overleaf.

Key movements in period

- £18.8m in respect of a second interim dividend paid to unsecured creditors;
- £151k received in respect of sale of tax losses;
- £123k plus VAT drawn by the Administrators in respect of their remuneration; and
- £30k earned in interest from the investment of funds on the money markets.

Cash held as at 23 October 2014 totals approximately £3.7m.

Section 5 Receipts and Payments Account

	Note	As at 23-Oct-14 GBP (£)	Movements GBP (£)	As at 23-Apr-14 GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease		19,710,218	-	19,710,218
Debtors		-	-	-
Realisations from sale of tax losses		1,289,338	151,626	1,137,712
Corporation Tax refund		5,916,233	-	5,916,233
Pre-appointment VAT settlement		9,429,838	-	9,429,838
Interest received gross		819,894	30,833	789,061
Total		37,165,521	182,459	36,983,062
Payments				
Insurance		463,336	-	463,336
Legal Fees		63,887	11,951	51,936
Pension related legal costs		25,570	25,570	-
Purchase of Tax Losses		1,180,578	-	1,180,578
Joint Administrators' remuneration		1,275,162	123,221	1,151,941
Joint Administrators' Category 1 disbursements		3,566	-	3,566
Statutory costs		20,485	9,792	10,693
Corporation Tax		1,480,000	-	1,480,000
Employee costs		2,181	-	2,181
Tax function costs		230,159	-	230,159
IT costs		5,741	-	5,741
Capital Goods Scheme payment		32,275	-	32,275
VAT recoverable*		30,275	(5,131)	35,407
VAT irrecoverable*	1	87,398	10,865	76,533
Total		4,900,613	176,267	4,724,346
Total receipts less total payments		32,264,908	6,192	32,258,716
Distributions to unsecured creditors				
1st dividend of 8p 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	-
Total		28,583,906	18,844,926	9,738,980
Cash in hand/ (movement in year)		3,681,001	(18,838,735)	22,519,736
Cash in hand is represented by				
HSBC (non-interest bearing)		485,945	410,682	75,263
Money Market	2	3,195,056	(19,249,417)	22,444,473
Total Cash		3,681,001	(18,838,735)	22,519,736

Notes:

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

2. Funds are invested on the Money Markets in order to accrue interest and to manage risk.

*The Joint Administrators have adjusted the presentation of VAT to more clearly explain the position, and therefore, the prior period has also been adjusted.

Section 6 Joint Administrators' time costs for the period 1 April 2014 to 30 September 2014

Classification of work	Partner/Director Hours	£	Senior Manager/Manager Hours	£	Senior Associate Hours	£	Associate/Support Staff Hours	£	Total Hours	£
Accounting and treasury	0.05	33	16.10	7,043	29.40	8,562	20.10	4,603	65.65	20,241
Administration and planning	3.80	2,527	7.95	3,426	29.75	10,710	9.30	2,130	50.80	18,793
Realisation of assets	-	-	-	-	1.50	540	-	-	1.50	540
Creditors	-	-	3.95	1,702	4.80	1,544	3.60	824	12.35	4,070
Statutory and other compliance	0.20	175	7.65	3,362	5.90	2,124	22.05	5,049	35.80	10,710
Tax and VAT	4.60	4,758	28.15	21,816	24.85	9,763	12.70	1,993	70.30	38,330
Pensions	6.12	4,405	7.99	3,737	6.35	2,287	2.50	572	22.96	11,001
LBL Recharges	0.10	69	0.26	109	0.16	36	1.58	318	2.10	532
Total	14.87	11,967	72.05	41,195	102.71	35,566	71.83	15,489	261.46	104,217
Average hourly rate		804.77		571.76		346.28		215.63		398.6

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 maximum unit for time charged by the Joint Administrators and their staff is 0.05 of an hour.
	Max £/hr		Max £/hr		
Grade	To 30 June 2014	From 1 July 2014	To 30 June 2014	From 1 July 2014	* 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.
Partner	873	873	1,167	1,225	
Director	665	665	1,076	1,076	
Senior manager	512	512	905	905	
Manager	431	431	660	660	
Senior Associate	360	360	490	490	
Associate/Support Staff	229	229	228	229	

Narrative of the Joint Administrators' time costs for the period 1 April 2014 to 30 September 2014

Accounting and treasury - £20,241

- 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.

Administration and planning - £18,793

- Discussions regarding strategy for the Administration including quantum and timing of the distribution;
- Team discussions on case progression and resource management;
- Reviewing financial information; and
- Updating strategy documents.

Realisation of assets - £540

- Review of debtor positions.

Creditors - £4,070

- Maintaining list of creditor claims and status of such claims; and
- Reviewing claims for payment of second interim dividend to unsecured creditors.

Statutory and other compliance - £10,710

- Preparation of Administrators' eleventh progress report;
- Preparation of Administrators' receipts and payments account;
- Circulation of progress report to creditors;
- Statutory filings at Companies House and Court;
- Prepare receipts and payments account;
- Managing LB L&F Administration database;
- Preparation of detailed remuneration summary;
- Undertaking six monthly review of Administration; and
- Review of time costs in preparation for billing.

Tax and VAT - £38,330

- Preparation, review and submission of the 05/14 and 8/14 VAT returns;
- Reconciliation of VAT returns submitted in 2013 to internal systems;
- Internal team meetings and meetings with appointment takers with regard to compound interest claim in the High Court;
- Preparation and review of compound interest claim;
- Internal meetings to discuss VAT compliance;
- Drafting VAT updates for eleventh progress report;
- Preparation of narrative of time costs for eleventh progress report;
- Preparation and monitoring of VAT budget and raising bills;
- Dealing with HMRC queries;
- Internal meetings to discuss ongoing Lehman's Tax/VAT strategy;

- Liaising with the Lehman accounting and tax teams to ensure appropriate controls are in place for the purposes of the Senior Accounting Officer (“SAO”) provisions, including ongoing discussions with SAO specialists;
- Preparing for and presenting findings of SAO investigations to the proposed officer;
- Attending quarterly tax and VAT update meetings;
- Ongoing review of the corporate tax position and quarterly payments; and
- Review of the corporation tax provision requirements.

Pensions - £11,001

- Preparations for and attending the Upper Tribunal pensions hearing; and
- Liaising with internal and external advisors in relation to the ongoing pensions matter.

Intra-group recharges - £532

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