

LB SF No. 1 – in Administration

Joint Administrators' progress report for the period 2 April
2009 to 1 October 2009

30 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 LB SF No.1 ("LBSF").

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 1 October 2009.

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 these Administrations are to:

- Protect and control the Company's portfolios of assets; and
- Realise these assets on a managed basis.

Creditors' Committee

There were insufficient nominations to enable the formation of Creditors' Committee.

Creditors' meeting by correspondence

In absence of Creditors' Committee, the Administrators' remuneration is subject to approval by the general body of creditors.

In the last progress report, the Administrators convened a meeting by correspondence to enable creditors to consider the basis and level of the Administrators' remuneration.

Following a review of all time incurred by the Administrators and their staff in respect of LBSF, further costs in relation to Project Eagle have been identified that related to the period to 31 March 2009. Discussions have been held over the past few months with certain US creditors that are in insolvency proceedings regarding approval of these fees. The Administrators are convening a further meeting by correspondence to enable creditors to consider the basis and level of the Administrators' remuneration based

on the correct time costs incurred to 30 September 2009. Further details can be found in Section 4 to this report.

Outcome for unsecured creditors

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 Administrators are therefore beginning the process of establishing in principle the claims of unsecured creditors. This is in line with the proposals as agreed by creditors on 10 December 2008. If you have not already submitted your claim to the Administrators, please do so by completing the enclosed statement of claim form.

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

Signed:



DA Howell
Joint Administrator
LB SF No.1

Section 2: Joint Administrators' actions to date

Overview

LBSF holds a number of investments in subsidiary companies. These companies own a variety of performing, sub performing and non performing mortgage and other loan portfolios.

Administrators' actions to date

LBSF had three primary asset groups:

- Receivables due from other Lehman Group companies;
- Equity investments in subsidiaries; and
- A loan portfolio of its own.

At this time, it is not possible to determine the value of any recoveries LBSF will receive in respect of its intercompany debtors. The Administrators have filed claims against certain US group companies in insolvency proceedings in line with the bar date set by those entities of 22 September 2009. Guarantee claims, where Lehman Brothers Holdings, Inc had guaranteed the liabilities of certain Lehman Group companies, have also been filed in line with that bar date of 22 October 2009.

The equity investments in subsidiaries are unlikely to realise any significant value as they are either in administration, or dormant companies, and therefore have no net assets.

The loan portfolio was realised during the first six months of the Administration.

Extension of the Administration

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:

- 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.

Outstanding matters

As discussed above, the most significant assets remaining are intercompany debtors. The Administrators will continue to monitor these in order to best protect the interests of the Company's creditors.

Section 3: Statutory and other information

Court details for the Administrations:	High Court of Justice, Chancery Division, Companies Court Case no: 8603 of 2008
Full names:	LB SF No.1
Trading names:	LB SF No. 1
Registered numbers:	06001928
Registered address:	25 Bank Street, London E14 5LE England
Company directors:	ID Gibb, M Jameson and AJ Rush
Company secretary:	ESE Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in the Company
Date of the Administration appointments:	2 October 2008.
Administrators' names and address:	DA Howell, D Y Schwarzmann and AV Lomas of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointor's name and address:	The directors of the Companies, 25 Bank Street, London E14 5LE England.
Objective being pursued by the Administrators:	Achieving a better result for creditors as a whole than would be likely if the Company was 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 Administrations are in force, any act required or authorised under any enactment to be done by any or all of the Joint Administrators may be done by any or 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 Administrations:	The Administrators are not yet in a position to determine the most likely exit route from these Administrations and wish to retain the options available to them.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for the unsecured creditor, although it appears funds will be available.
Estimated values of the prescribed part and net property:	There is no prescribed part.
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 applies to these Administrations and these are the main proceedings.

Section 4: Financial information

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").

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 creditors are 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 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.

A copy of SIP 9 is attached at Appendix A to this report.

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.

Attached at Appendix B to this report is a copy of the Administrators' charging and disbursement recovery policy.

The Administrators' remuneration in respect of LBSF will be calculated based upon the time properly spent on the Administration by the Administrators and the various grades of their staff.

Remuneration review and approval process for LBSF

As the Administrators' remuneration request in respect of LBSF is based on time costs, an analysis of the time spent and the charge-out value is provided at Appendix C of this report.

This time analysis gives details of the work performed and grade of staff by Activity for monthly periods.

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 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

Appendix D includes an analysis of staff allocated between six grades.

Creditors meeting by correspondence

In the absence of a Creditors' Committee, the Administrators' are hereby convening a meeting of creditors by correspondence in respect of LBSF to enable the creditors to consider and approve the basis and level of the Administrators' remuneration.

There are three resolutions in respect of the Administrators' remuneration for LBSF, detailed on the enclosed Form 2.25B.

Creditors of LBSF wishing to vote should complete and return the enclosed Form 2.25B by post or by facsimile +44 (0) 20 7212 6598.

We have fixed Tuesday 17th November 2009, as the date by which creditors should return the completed Form 2.25B to vote on the Administrators' fees.

The Administrators' will only draw remuneration when appropriate approval has been given and when funds are available to do so.

Receipts and payments account

Set out in Section 5 of this report is a receipts and payments account for LBSF, for the period from 2 April 2009 to 1 October 2009.

Section 5: Receipts and Payments account

	As at 1 October 2009				As at 1 Oct 09 Total (USD Equivalent) \$	As at 1 Apr 09 Total (USD Equivalent) \$	Movements (USD Equivalent) \$
	GBP (£)	EUR (€)	SEK	USD (\$)			
RECEIPT							
Receipts on loan facilities	26,625,412	4,500,000	307,377,713	-	81,637,109	81,600,710	36,399
Interest on loan facilities	-	452,567	8,805,874	-	1,673,140	1,667,674	5,466
Bank Interest	154,120	4,041	-	21,835	248,875	189,077	59,798
Receipts Grand Totals	26,779,532	4,956,608	316,183,587	21,835	83,559,124	83,457,461	101,663
PAYMENT							
Legal fees	60,005	33,460	-	-	130,898	-	130,898
Legal disbursements	88	-	-	-	127	-	127
Joint Administrators' remuneration	617,327	-	-	-	887,840	-	887,840
Joint Administrators' category 1 disbursements	3,450	-	-	-	4,961	-	4,961
Bank charges	355	160	465	372	1,152	82	1,070
Statutory advertising	1,747	3,210	-	-	6,791	4,247	2,544
Tax paid on interest	-	1	-	-	1	-	1
VAT paid	102,309	-	-	-	147,140	-	147,140
Payments Grand Totals	785,281	36,831	465	372	1,178,910	4,329	1,174,581
INTERCOMPANY TRANSFER (SEK to USD)							
Payment			(316,000,000)		(38,394,000)		
Receipt				38,040,207	38,040,207		
NET POSITION	25,994,251	4,919,777	183,122	38,061,670	82,026,421	83,453,132	
CASH BALANCES							
Bank of England	99,033	-	-	-	142,430		
HSBC	579,186	115,742	183,122	140,131	1,149,637		
Money market deposits	25,316,031	4,804,035	-	37,921,539	80,734,354		
Total Cash	25,994,250	4,919,777	183,122	38,061,670	82,026,421		

FX	01/10/2009
GBP	1.4382
EUR	1.3329
SEK	0.1215

Appendix A: SIP 9 – A creditors’ guide to Administrators’ fees (in accordance with Statement of Insolvency Practice No. 9)

The following information about the joint administrators’ fees is from Statement of Insolvency Practice No.9 (“SIP 9”) produced by the Association of Business Recovery Professionals, Appendix C: A Creditors’ Guide to Administrators’ Fees (England and Wales) (revised with effect from 1 April 2007).

Introduction

1.1 When a company goes into administration the costs of the proceedings are paid out of its assets. The creditors, who hope eventually to recover some of their debts out of the assets, therefore have a direct interest in the level of costs, and in particular the remuneration of the insolvency practitioner appointed to act as administrator. The insolvency legislation recognises this interest by providing mechanisms for creditors to determine the basis of the administrator’s fees. This guide is intended to help creditors be aware of their rights under the legislation to approve and monitor fees and explains the basis on which fees are fixed.

2 The nature of administration

2.1 Administration is a procedure which places a company under the control of an insolvency practitioner and the protection of the court with the following objective:

- rescuing the company as a going concern, or
- achieving a better result for the creditors as a whole than would be likely if the company were wound up without first being in administration, or if the administrator thinks neither of these objectives is reasonably practicable
- realising property in order to make a distribution to secured or preferential creditors.

3 The creditors’ committee

3.1 The creditors have the right to appoint a committee with a minimum of 3 and a maximum of 5 members. One of the functions of the committee is to determine the basis of the administrator’s remuneration. The committee is normally established at the meeting of creditors which the administrator is required to hold within a maximum of 10 weeks from the beginning of the administration to consider his proposals. The administrator must call the first meeting of the

committee within 6 weeks of its establishment, and subsequent meetings must be held either at specified dates agreed by the committee, or when a member of the committee asks for one, or when

the administrator decides he needs to hold one. The committee has power to summon the administrator to attend before it and provide information about the exercise of his functions.

4 Fixing the administrator’s fees

4.1 The basis for fixing the administrator’s remuneration is set out in Rule 2.106 of the Insolvency Rules 1986, which states that it shall be fixed either:

- as a percentage of the value of the property which the administrator has to deal with, or
- by reference to the time properly given by the administrator and his staff in attending to matters arising in the administration.

It is for the creditors’ committee (if there is one) to determine on which of these bases the remuneration is to be fixed, and if it is fixed as a percentage fix the percentage to be applied. Rule 2.106 says that in arriving at its decision the committee shall have regard to the following matters:

- the complexity (or otherwise) of the case;
- any responsibility of an exceptional kind or degree which falls on the administrator;
- the effectiveness with which the administrator appears to be carrying out, or to have carried out, his duties;
- the value and nature of the property which the administrator has to deal with.

4.2 If there is no creditors’ committee, or the committee does not make the requisite determination, the administrator’s remuneration may be fixed by a resolution of a meeting of creditors having regard to the same matters as the committee would. If the remuneration is not fixed in any of these ways, it will be fixed by the court on application by the administrator.

4.3 There are special rules about creditors’ resolutions in cases where the administrator has stated in his proposals that the company has

insufficient property to enable a distribution to be made to unsecured creditors except out of the reserved fund which may have to be set aside out of floating charge assets. In this case, if there is no creditors' committee, or the committee does not make the requisite

determination, the remuneration may be fixed by the approval of:

- each secured creditor of the company; or
- if the administrator has made or intends to make a distribution to preferential creditors –
 - each secured creditor of the company; and
 - preferential creditors whose debts amount to more than 50% of the preferential debts of the company, disregarding debts of any creditor who does not respond to an invitation to give or withhold approval, having regard to the same matters as the committee would.

Note that there is no requirement to hold a creditors' meeting in such cases unless a meeting is requisitioned by creditors whose debts amount to at least 10 per cent of the total debts of the company.

4.4 A resolution of creditors may be obtained by correspondence.

5 What information should be provided by the administrator?

5.1 When seeking fee approval

5.1.1 When seeking agreement to his fees the administrator should provide sufficient supporting information to enable the committee or the creditors to form a judgement as to whether the proposed fee 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 on:

- 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.

5.1.2 Where, at any creditors' or committee meeting, the administrator seeks agreement to the terms on which he is to be remunerated, he should provide the meeting with details of the charge-out rates of all grades of staff, including principals, which are likely to be involved on the case.

5.1.3 Where the administrator seeks agreement to his fees during the course of the administration, he should always provide an up to date receipts and payments account. Where the proposed fee is based on time costs the administrator should disclose to the committee or the creditors the time spent and the charge-out value in the particular case, together with, where appropriate, such

additional information as may reasonably be required having regard to the size and complexity of the case. The additional information should comprise a sufficient explanation of what the administrator has achieved and how it was achieved to enable the value of the exercise to be assessed (whilst recognising that the administrator must fulfil certain statutory obligations that might be seen to bring no added value for creditors) and to establish that the time has been properly spent on the case. That assessment will need to be made having regard to the time spent and the rates at which that time was charged, bearing in mind the factors set out in paragraph 4.1 above. To enable this assessment to be carried out it may be necessary for the administrator to provide an analysis of the time spent on the case by type of activity and grade of staff. The degree of detail will depend on the circumstances of the case, but it will be helpful to be aware of the professional guidance which has been given to insolvency practitioners on this subject. The 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 following categories are suggested as a basis for analysis by grade of staff:

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

The explanation of what has been done can be expected to 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 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 fee agreement.
- Any existing agreement about fees.
- Details of how other professionals, including subcontractors, were chosen, how they were contracted to be paid, and what steps have been taken to review their fees.

It should be borne in mind that the degree of analysis and form of presentation should be proportionate to the size and complexity of the case. In smaller cases not all categories of activity will always be relevant, whilst further analysis may be necessary in larger cases.

5.1.4 Where the fee is charged on a percentage basis the administrator should provide details of any work which has been or is intended to be sub-contracted out which would normally be undertaken directly by an administrator or his staff.

5.2 After fee approval

Where a resolution fixing the basis of fees is passed at any creditors' meeting held before he has substantially completed his functions, the administrator should notify the creditors of the details of the resolution in his next report or circular to them. In all subsequent reports to creditors the administrator should specify the amount of remuneration he has drawn in accordance with the resolution. Where the fee is based on time costs he should also provide details of the time spent and charge-out value to date and any material changes in the rates charged for the various grades since the resolution was first passed. He should also provide such additional information as may be required in accordance with the principles set out in paragraph 5.1.3. Where the fee is charged on a percentage basis the administrator should provide the details set out in paragraph 5.1.4 above regarding work which has been sub-contracted out.

5.3 Expenses and disbursements

There is no statutory requirement for the committee or the creditors to approve the drawing of expenses or disbursements. However, professional guidance issued to insolvency practitioners requires that, where the administrator proposes to recover costs which, whilst being in the nature of expenses or disbursements, may include an element of shared or allocated costs (such as room hire, document storage or communication facilities provided by the administrator's own firm), they must be disclosed and be authorised by those responsible for approving his remuneration. Such expenses must be directly incurred on the case and subject to a reasonable method of calculation and allocation.

6 What if a creditor is dissatisfied?

6.1 If a creditor believes that the administrator's remuneration is too high he may, if at least 25 per cent in value of the creditors (including himself) agree, apply to the court for an order that it be reduced. If the court does not dismiss the application (which it may if it considers that insufficient cause is shown) the applicant must give the administrator a copy of the application and supporting evidence

at least 14 days before the hearing. Unless the court orders otherwise, the costs must be paid by the applicant and not as an expense of the administration.

7 What if the administrator is dissatisfied?

7.1 If the administrator considers that the remuneration fixed by the creditors' committee is insufficient he may request that it be increased by resolution of the creditors. If he considers that the remuneration fixed by the committee or the creditors is insufficient, he may apply to the court for it to be increased. If he decides to apply to the court he must give at least 14 days' notice to the members of the creditors' committee and the committee may nominate one or more of its members to appear or be represented on the application. If there is no committee, the administrator's notice of his application must be sent to such of the company's creditors as the court may direct, and they may nominate one or more of their number to appear or be represented. The court may order the costs to be paid as an expense of the administration.

8 Other matters relating to fees

8.1 Where there are joint administrators it is for them to agree between themselves how the remuneration payable should be apportioned. Any dispute arising between them may be referred to the court, the creditors' committee or a meeting of creditors.

8.2 If the administrator is a solicitor and employs his own firm to act on behalf of the company, profit costs may not be paid unless authorised by the creditors' committee, the creditors or the court.

9. Provision of information – additional requirements

In any case where the administrator is appointed on or after 1 April 2005 he must provide certain information about time spent on a case, free of charge, upon request by any creditor, director or shareholder of the company. The information which must be provided is:

- the total number of hours spent on the case by the administrator or staff assigned to the case;
- for each grade of staff, the average hourly rate at which they are charged out;
- the number of hours spent by each grade of staff in the relevant period.

The period for which the information must be provided is the period from appointment to the end of the most recent period of six months reckoned from the date of the administrator's appointment, or where he has vacated office, the date that he vacated office. The information must be provided within 28 days of receipt of the request by the administrator, and requests must be made within two years from vacation of office.

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Appendix B: The Administrators' charging and disbursements recovery policy in respect of LBSF

Overview of the Administrators' strategy and objectives

Important Notice

DA Howell, AV Lomas and DY Schwarzmann were appointed as Joint Administrators of LB SF No.1 (**LBSF**) on 2 October 2008 to manage its affairs, business and property as agents without personal liability, with the objective of achieving a better result for the Company's creditors as a whole than would be likely if the Company were wound up (without first being in Administration). DA Howell, AV Lomas and DY Schwarzmann are licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

Introduction

The Administrators fully recognise the importance of providing a comprehensive report to the LBSF creditors, explaining how the activities of the PwC team are managed and how the time charges are calculated and regulated. Careful steps have been taken to ensure that a detailed process for capturing time has been implemented on the LBSF Administration. This report summarises the costs for each PwC team working on the case from 1 April to 30 September 2009, together with a cumulative total for the period 2 October 2008 to 30 September 2009. Costs are further broken down by time period and grade of staff utilised. A summary of tasks completed by each key team is included with the cost schedules.

Legal and other professional firms

The Administrators have instructed Linklaters to act as their legal advices. They are remunerated on a time cost basis and were appointed due to their prior knowledge of the Company's business:-

Service provided	Legal advice
Name of firm	Linklaters
Reason selected	Prior knowledge
Basis of fees	Time costs

All third party professionals are required to submit time costs analyses and narrative in support of invoices rendered.

Office holder's charging and disbursement policy

The time charged to the Administration is by reference to the time properly given by the Administrators and their staff in attending to matters arising.

Each of the business groups within PwC has its own range of charging rates that reflect its business and the arrangements that it is accustomed to agree with its clients. These arrangements involve a range of hourly rates for different levels of partners and staff. The current charging rates for each business group have, in the main, been adopted by the Administrators as the basis for recording and calculating the chargeable value for the time being spent by PwC partners and staff in the conduct of the administration proceedings. The rates applied for all PwC Partners and staff working on LBSF are the same as those applied on all other Lehman Brothers companies in Administration.

Set out below are the relevant charge-out rates per hour worked for the grades of the Administrators' staff actually or likely to be involved on this assignment. Time is charged by reference to actual work carried out on the assignment. There has been no allocation of any general costs or overhead costs.

In common with all professional firms, the scale rates used by the Administrators 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 and / or the creditors' committee in the next statutory report. The scale rates increased on 1 July 2009.

Grade	Maximum charge out rate per hour to 30 June 09 (£)	Maximum charge out rate per hour from 1 July 09 (£)
Partner	750	785
Director	570	590
Senior Manager	425	450
Manager	365	390
Senior associate – qualified / consultant	310	320
Associate / Support staff	190	200

Specialist departments within the Administrators' firm such as Tax, VAT, Property and Pensions may charge a number of hours if and when the Administrators require their expert advice. Such specialists' rates do vary but the figures below provide an indication of the maximum rate per hour.

Grade	Maximum charge out rate per hour to 30 June 09 (£)	Maximum charge out rate per hour from 1 July 09 (£)
Partner	970	1070
Director	890	890
Senior Manager	735	810
Manager	540	590
Senior associate – qualified / consultant	390	390
Associate	175	200

Following the meeting of creditors' by correspondence on 18 May 2009, remuneration of £617,327 was drawn in accordance with the resolution approved by creditors.

Disbursements for services provided by the Administrators' own firm(s) (Category 2 disbursements)

The Administrators' firm's expenses policy allows for all properly incurred expenses to be recharged to the case. £44 of Category 2 disbursements have been charged to the case, £2 of photocopying, £31 of mileage and £11 of other costs charged at cost.

Disbursements are charged to the assignment as follows: -

Photocopying	At 3 pence per sheet copied, only charged for circulars to creditors and other bulk copying.
Mileage	At a maximum of 62 pence per mile (up to 2,000cc) or 81 pence per mile (over 2,000cc)

Costs incurred to 30 September 2009

Total costs incurred by PwC on LBSF to 30 September 2009 are £1,577,478. This relates to 3,960 hours at an average hourly rate of £398. The total figure is exclusive of any VAT, which will be added to the fees and expenses when billed. Much of the work incurred during the initial six months related to staff and partners working on Asset Disposal and loan recovery. Project Eagle concluded in March 2009 and the majority of work on loan recovery is now complete. Further details of the activities in each of these areas is provided in Appendix C.

Appendix C: Summary of the Joint Administrators' time costs for the period 2 October 2008 to 30 September 2009

Reporting Category	Previously reported Oct 08 - Mar 09		Project Eagle Adjustments		1 to 30 April 2009		1 to 31 May 2009		1 to 30 June 2009		1 to 31 July 2009		1 to 31 August 2009		1 to 30 September 2009		Total for 2 October 2008 to 30 September 2009	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and Treasury	189	68,620			27	7,410	70	16,561	82	22,703	84	25,709	46	13,961	77	23,548	576	178,512
Asset Realisations	1,212	609,062	588	228,553	107	41,899	40	17,081	27	10,875	38	16,385	42	22,486	-20	-11,028	2,034	935,313
LBL Recharges					26	7,793	143	38,715	147	39,823	125	34,965	81	22,281	34	10,786	557	154,363
Statutory and Compliance	104	44,216			21	8,771	8	3,001	5	1,595	18	6,940	4	1,083	1	158	160	65,764
Strategy and Planning	148	75,394			29	11,559	22	10,212	27	13,369	31	11,889	15	6,789	25	9,677	297	138,889
Tax & VAT	61	27,284			4	1,956	45	6,639	10	2,738	59	19,426	89	27,000	68	19,594	336	104,637
Grand Total	1,714	824,576	588	228,553	214	79,388	328	92,209	298	91,103	355	115,314	277	93,600	185	52,735	3,959	1,577,478

Accounting & Treasury

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
SENIOR MANAGER	1.2	510	2.9	1,233	4.4	1,849	3.3	1,485	2.4	1,080	7.2	3,240	21.4	9,397
MANAGER	7.0	2,526	24.1	7,136	25.2	8,808	33.8	12,596	14.4	5,317	16.5	6,435	120.8	42,818
SENIOR ASSOCIATE	7.7	2,303	18.4	4,488	33.1	8,281	23.9	7,108	16.0	4,844	32.5	9,663	131.6	36,687
ASSOCIATE	10.9	2,071	25.1	3,705	19.8	3,766	22.8	4,520	13.6	2,720	21.1	4,210	113.2	20,992
Grand Total	26.8	7,410	70.5	16,562	82.4	22,704	83.8	25,709	46.3	13,961	77.2	23,548	386.9	109,894

Work performed

- Complete bank reconciliations on a weekly basis;
- Review, reconcile and verify intercompany loans to a number of Group companies
- Monitor incoming funds
- Ensure funds held are properly managed, including employing specialist personnel to invest the funds on appropriate money markets. This ensures that interest realisations are maximised whilst ensuring funds are not at risk. Funds are invested on a daily basis to ensure that risk is minimised.
- Monitoring cash flows to ensure sufficient funds available to meet payments
- Payment of invoices

Asset disposals

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
PARTNER			2.0	1,500	1.5	1,125	0.5	393			4.5	3,533	8.5	6,550
SENIOR MANAGER	99.1	39,016	32.6	13,855	19.9	7,828	23.5	10,575	10.2	4,590	1.0	450	186.3	76,313
MANAGER	7.9	2,884	3.2	1,168	5.2	1,880	14.0	5,460	6.1	2,379	1.3	507	37.7	14,277
SENIOR ASSOCIATE			1.8	558									1.8	558
Grand Total	107.0	41,899	39.6	17,081	27.0	10,875	37.6	16,385	42.6	22,486	-19.5	-11,028	234.3	97,698

Work performed

- Finalisation of Project Eagle;
- Assisting in the sale of Cherry Tree Mortgages Limited's mortgage portfolio to secure a realisation for a debtor. The realisation of £1.23m has been received on 15 October 2009, after the period covered by this report.
- Work performed to assist long term realisation of value in subsidiaries including appointing new directors and attending meetings of those subsidiaries.

Statutory & Other Compliance

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
PARTNER	2.7	1,995	1.0	750	0.5	375	1.0	785					5.2	3,905
SENIOR MANAGER	6.0	2,550	0.7	298			2.1	945	0.1	45			8.9	3,838
MANAGER	7.5	2,738	1.7	621	1.9	694	11.3	4,206	2.5	658	0.6	158	25.5	9,075
SENIOR ASSOCIATE	4.8	1,488	4.3	1,333	0.9	279	2.7	864					12.7	3,964
ASSOCIATE					1.3	247	0.7	140	1.9	380			3.9	767
Grand Total	21.0	8,771	7.7	3,002	4.6	1,595	17.8	6,940	4.5	1,083	0.6	158	56.2	21,549

Work performed

- Preparation of reports to creditors;
- Work to apply to Court to achieve the extension to the initial period of administration;
- Other statutory work required to comply with the Insolvency Act 1986; and,
- Correspondence with creditors.

Strategy & Planning

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
PARTNER	1.0	750			6.5	4,875	0.6	471	1.8	1,413	2.7	2,120	12.6	9,629
DIRECTOR			9.5	5,415									9.5	5,415
SENIOR MANAGER	14.3	6,078	3.9	1,658	16.8	7,140	13.0	5,850	9.6	4,320	2.5	1,125	60.1	26,171
MANAGER	12.7	4,617	8.6	3,139	3.2	1,168							24.5	8,924
SENIOR ASSOCIATE					0.6	186	17.4	5,568	3.3	1,056	20.1	6,432	41.4	13,242
ASSOCIATE	0.6	114											0.6	114
Grand Total	28.6	11,559	22.0	10,212	27.1	13,369	31.0	11,889	14.7	6,789	25.3	9,677	148.7	63,494

Work performed

- Reviewed financial information;
- Prepared detailed fee summary;
- Performed fee analysis for Administrators' update;
- Analysed timesheets for completeness and accuracy;
- Regular reviews of activity on the estate by PwC staff;
- Preparation of estimated outcome statements in order to form longer term strategy of the administration;
- Answered and directed queries from teams; and
- Signed off on all transactions.

Tax & VAT

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
PARTNER											1.0	980	1.0	980
SENIOR MANAGER			0.9	458	1.1	560	0.4	324	1.6	720	0.1	56	4.1	2,118
MANAGER	3.6	1,922	1.9	1,026			30.0	11,200	43.0	14,620	13.5	4,590	92.0	33,358
SENIOR ASSOCIATE			42.6	5,155	9.0	2,178	29.0	7,902	44.0	11,660	51.5	13,648	176.1	40,543
ASSOCIATE	0.2	35									1.6	320	1.8	355
Grand Total	3.8	1,957	45.4	6,639	10.1	2,738	59.4	19,426	88.6	27,000	67.7	19,594	275.0	77,353

Work performed

- Preparation of 2008 accounts to enable completion and submission of the 2008 Corporation Tax returns to HMRC
- Defending group relief position of administration companies;
- Preparation of group VAT returns to ensure correct refunds are received and payments made; and
- Providing advice to the Administrators on the tax consequences of the Cherry Tree transaction.

LBL recharges

Global Grade	Apr-09		May-09		Jun-09		Jul-09		Aug-09		Sep-09		Total	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
PARTNER	0.8	350	2.1	1,295	2.5	1,172	2.4	1,722	1.6	1,105	1.4	856	10.8	6,500
DIRECTOR	0.5	217	3.9	2,200	4.1	2,322	3.6	1,874	3.1	1,608	0.6	287	15.8	8,508
SENIOR MANAGER	5.0	1,987	28.8	10,534	30.2	10,978	25.6	8,444	14.8	4,761	6.4	2,618	110.7	39,322
MANAGER	3.4	1,238	28.8	8,526	29.1	8,992	30.1	9,328	21.0	6,323	8.7	3,180	121.1	37,587
SENIOR ASSOCIATE	10.0	2,944	42.2	10,822	43.2	11,282	39.3	10,026	25.4	6,209	12.6	3,325	172.8	44,608
ASSOCIATE	6.9	1,058	37.5	5,339	37.9	5,077	24.1	3,571	14.8	2,275	4.3	519	125.4	17,839
Grand Total	26.4	7,794	143.3	38,716	147.0	39,823	125.2	34,965	80.7	22,281	34.0	10,785	556.6	154,364

Work performed

Lehman Brothers Limited (“LBL”) provides central services to the Lehman Brothers companies in Administration and to certain other subsidiaries and associates. Centrally provided services include IT, infrastructure and property, and intercompany claims assistance. These services cannot be attributed directly to any one company, so the net cost is apportioned on a fair and reasonable basis across all companies benefiting from the services.

Asset realisations (additional time in period to 31 March 2009)

Global Grade	to 31 March 2009		Total	
	Hours	£	Hours	£
PARTNER				
DIRECTOR	18	10,133	18	10,133
SENIOR MANAGER	570	218,420	570	218,420
MANAGER				
SENIOR ASSOCIATE				
ASSOCIATE				
Grand Total	588	228,553	588	228,553

Following a review of all time incurred in Project Eagle to 31 March 2009, LBSF is due a further £228,553 of time costs. Project Eagle concluded on 31 March 2009, so there will no further time incurred in this regard.