

LB SF No. 1 – in Administration

Joint Administrators' progress report for the period 2
October 2009 to 1 April 2010

29 April 2009

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the third progress report by the Joint Administrators of LB SF No.1 ("LBSF" or the "Company").

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 April 2010.

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.

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 unsecured creditors.

Under the provisions of the Insolvency Act 1986 ("IA86"), paragraph 65(3) of Schedule B1, states that an administrator cannot make a distribution to creditors unless permission is granted by the Court. Accordingly, the Administrators will shortly be applying to Court to request an Order to convert the administration of LBSF1 into a distributing administration in order to allow them to pay a dividend to unsecured creditors.

A first dividend to creditors is expected to be made during 2010 Q3. 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.

Additional Administrators

Steven Anthony Pearson and Michael John Andrew Jervis were appointed as additional Administrators on 30 November 2009.

SA Pearson and MJA Jervis are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

AV Lomas, DY Schwarzmans and DA Howell continue to act as Joint Administrators.

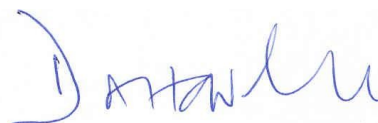
Change of business address

The Company has relocated from 25 Bank Street and all future correspondence should be addressed to Level 23, 25 Canada Square, London, E14 5LQ.

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, which are:-

- Receivables due from other Lehman Group companies

It is still not possible to determine the value of any recoveries LBSF will receive in respect of these intercompany receivables. The Administrators have filed claims against certain US group companies in insolvency proceedings in line with the bar date set by those entities. Guarantee claims, where Lehman Brothers Holdings Inc had guaranteed the liabilities of certain Lehman Group companies, have also been filed.

- Equity investments in subsidiaries

The equity investments in subsidiaries are unlikely to realise any value as those subsidiaries are either in administration, or are dormant companies with insufficient assets to enable a distribution to be made to their respective shareholders.

- A loan portfolio

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

Further extension of the Administration

The Administrators will decide in due course whether a further extension of the Administration is necessary.

Outstanding matters

The most significant assets yet to be realised are intercompany receivables and these will be realised as and when dividends are paid in those proceedings.

The Administrators are also making preparations to pay a dividend to unsecured 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:	Level 23, 25 Canada Square, London E14 5LQ
Company directors:	D Gibb (resigned 17/07/09), IM Jameson (resigned 17/07/09) and AJ Rush (resigned 17/07/09)
Company secretary:	ESE Upton (resigned 25/01/10), P Dave (resigned 25/01/10)
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 Schwarzmman, SA Pearson, MJA Jervis 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 expected that creditors will be paid in full, with statutory interest
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

At the meeting of creditors which was held by correspondence on Tuesday 17th November 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 on account from time to time.

Attached as an Appendix, is a summary of the Administrators' time costs for the period 1 October 2009 to 28 February 2010, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed. We provided a time cost analysis for the period 2 October 2008 to 30 September 2009 in our previous progress report.

The SIP 9 summary shows that the total time costs for the period are £231,980.07, which represents 679.4 hours at an average hourly rate of £341.45. This brings the total cost from 2 October 2008 to 28 February 2010 to £1,809,458.

To date, remuneration of £617,327 has been drawn, comprising 1,283.2 hours at an average hourly rate of £481.08.

Receipts and payments account

A receipts and payments account for LBSF, for the period from 2 October 2009 to 1 April 2010 is provided overleaf.

Section 5: Receipts and Payments account

								As per previous report, exchange rate at 1 October 2009	
	GBP (£)	As at 1 April 2010 EUR (€)	USD (\$)	SEK	As at 1 Apr 10 TOTAL GBP equivalent £	Movements 2 October 2009 to 1 April 2010 (GBP equivalent) £	As at 1 October 2009 (GBP equivalent) £ RESTATED at 1 Apr 10 FX rate	As at 1 October 2009 (GBP equivalent) £	As at 1 October 2009 (USD equivalent) \$ Previously reported
RECEIPT									
Receipts and interest on loan facilities	27,855,340	4,952,567	38,040,207	183,587	57,222,927	1,246,689	55,976,238	54,925,088	83,310,249
Bank Interest	188,104	8,253	44,796		224,809	52,781	172,027	171,455	248,875
Receipts Grand Totals	28,043,444	4,960,820	38,085,003	183,587	57,447,735	1,299,470	56,148,265	55,096,543	83,559,124
PAYMENT									
Legal fees	66,569	33,460			96,162	6,564	89,598	90,476	130,898
Legal disbursements	88		-		88	0	88	88	127
Joint Administrators' remuneration	617,327		-		617,327	-	617,327	617,327	887,840
Joint Administrators' category 1 disbursements	7,948		-		7,948	4,498	3,450	3,450	4,961
Bank charges	620	142	350		975	192	783	775	1,152
Statutory advertising	1,747	3,210			4,586	0	4,586	4,670	6,791
Tax paid on interest		1	-		1	0	1	1	1
VAT paid	104,009		-		104,009	1,700	102,309	102,309	147,140
Payments Grand Totals	798,308	36,813	350	-	831,096	12,954	818,142	819,096	1,178,911
CASH BALANCES									
Bank of England	131,730	-	-		131,730			99,033	142,430
HSBC	528,439	115,760	140,152	183,587	739,581			788,555	1,149,637
Money market deposits	26,584,967	4,808,247	37,944,500		55,745,327			53,406,232	80,734,354
Total Cash	27,245,136	4,924,007	38,084,653	183,587	56,616,639			54,293,821	82,026,421
FX	01/10/2009	01/04/2010							
USD	0.6254	0.6564							
EUR	0.9107	0.8844							
SEK	0.0892	0.0913							

Appendix: Summary of the Joint Administrators' time costs for the period 1 October 2009 to 28 February 2010

Classification of work	PARTNER / DIRECTOR		SENIOR MANAGER / MANAGER		SENIOR ASSOCIATE		ASSOCIATE / SUPPORT STAFF		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Realisation	11.4	7,970	79.7	32,481	39.0	9,753	-	-	130.1	50,204
Strategy and Planning	5.2	4,115	12.8	5,548	56.2	17,471	9.4	1,135	83.6	28,269
Tax & VAT	5.7	3,729	38.9	15,508	16.1	4,382	0.2	25	60.9	23,644
Statutory, accounting and other *										
Accounting and treasury	2.3	1,894	74.1	30,008	165.0	49,770	91.0	18,173	332.4	99,845
Branches and Subsidiaries	2.5	1,963	-	-	-	-	-	-	2.5	1,963
Creditors and Counterparties	-	-	2.9	1,450	2.6	832	-	-	5.5	2,282
Intercompany	3.4	1,763	8.6	2,759	5.9	1,320	4.3	272	22.2	6,114
Interdependencies	1.1	857	3.9	1,683	6.7	2,160	-	-	11.7	4,700
Investigations	5.0	3,925	-	-	-	-	-	-	5.0	3,925
Reporting	2.0	1,570	16.7	6,681	4.4	1,408	1.0	200	24.1	9,859
Statutory and Compliance	1.5	1,178	-	-	-	-	-	-	1.5	1,178
Grand Total	40.1	28,964	237.6	96,118	295.9	87,096	105.9	19,805	679.5	231,983

* Note that the attached narrative for Statutory, accounting and other work stream, is a consolidation of the work types listed above.

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		4,498.59

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
Grade	Max £/hr	Max £/hr	
Partner	785	1,070	*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.
Director	590	1030	
Senior manager	450	810	
Manager	390	590	
Senior Associate	320	410	
Associate / Support Staff	200	205	

Appendix: Narrative of time costs

Asset Realisation - £50,204

- Assisting in the sale of Cherry Tree Mortgages Limited's mortgage portfolio to secure a realisation for a debtor. The realisation of £1.23m was received on 15 October 2009;
- Work performed to assist long term realisation of value in subsidiaries including appointing new directors and attending meetings with those subsidiaries; and,
- Submission of guarantee claims against LBHI, in line with the bar date set by LBHI.

Strategy and planning - £28,269

- Reviewed financial information;
- Regular review of activity on the estate by PwC staff;
- Answered and directed queries from teams; and,
- Initial work to apply to Court for permission to convert the administration into a distributing administration.

Tax & VAT - £23,644

- Preparation and submission to HMRC of the 2008 Corporation Tax returns;
- Preparation of the first post administration Corporation Tax return;
- 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 converting the administration to a distributing administration.

Statutory, accounting and other - £129,866

- 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 supplier invoices;
- Prepared detailed fee summary for second progress report;
- Performed fee analysis for Administrators' update;
- Analysed timesheets for completeness and accuracy;
- Preparation of reports to creditors;
- Other statutory work required to comply with the Insolvency Act 1986;
- Correspondence with creditors; and,
- 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 these services.