

Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress report for the period
30 April 2009 to 29 October 2008

23 November 2009

Contents

Section	Page
1 Purpose of the Joint Administrators' progress report	2
2 Joint Administrators' actions to date	3
3 Statutory and other information	4
4 Financial information	5
5 Receipts and payments account for period ended 29 October 2009	6
Appendix	
Time cost analysis for the period 1 March 2009 to 31 October 2009	7

Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report prepared by the Joint Administrators (the "Administrators") of Lehman Commercial Mortgage Conduit Limited ("LCMC" or the "Company"), under Rule 2.47(3)(a) of the Insolvency Rules 1986.

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 29 October 2009.

Objective of the Administration

The Administrators are pursuing the objective of achieving a better result for the creditors of LCMC as a whole than would be likely if LCMC were wound up (without first being in Administration).

The specific aims of this Administration are to:

- protect and control the Company's assets, namely its portfolio of commercial mortgages;
- identify future cash flows and secure payments for the benefit of the Company;
- maximise trading income from utilisation of the assets; and
- maximise value for the Company at the time of sale or transfer of the assets.

Creditors' Committee

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

Outcome for creditors

At this time the Administrators are unable to provide a reliable estimate of the likely dividend to ordinary unsecured creditors as there are uncertainties regarding future net realisations. The timing and level of any dividend, therefore, remains uncertain.

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 or when the Administration comes to an end, whichever is sooner.

Signed:



DA Howell

Joint Administrator

Lehman Commercial Mortgage Conduit Limited

Section 2: Joint Administrators' actions to date

Overview

LCMC is a subsidiary of LB SF No.1 – in administration ("LBSF1") and part of the Lehman Brothers group of companies (the "Lehman Group"). LCMC owns a portfolio of loans, which were purchased from Northern Rock with funding from LBSF1.

The Company purchased a portfolio of commercial property loans from Northern Rock which, with the exception of a small sub group of loans, was securitised by the Company into a Special Purpose Vehicle ("SPV") known as "Diversity".

Administrators' actions to date

The Administrators continue to monitor the Company's contractual interest in the loans securitised in the Diversity SPV and to date a total of £13.8m has been received into the estate as deferred purchase consideration. A further £6.3m has been received after 29 October 2009 and will be reflected in the next reporting periods receipts and payments account.

Of the 20 loans which were not securitised by LCMC through Diversity, three were financed to a third party and LCMC had no title to them. The recoveries on these loans have been returned to the third party and all work in this regard has been concluded.

The Administrators have appointed a third party servicer to oversee the remaining 17 loans. The Administrators have also retained the services of a former LCMC employee to assist in the process of realising these loans due to the extensive input required. During the period, one of the loans in the portfolio has been repaid in full. Recoveries on the 17 loans for the last six months total £4.35m.

The Administrators continue to hold the opinion that, given the current market conditions, it would not be in the best interests of creditors to sell the loan portfolio at present. This decision will be kept under review.

In order to maximise realisations for creditors, and to minimise risks, funds are being actively invested on the money markets.

Extension of the Administrations

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;

- There are various matters in the estate that, in the Administrators' view, would be better dealt with in Administration;
- 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.

Section 3: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - Court Case 9635 of 2008
Full name:	Lehman Commercial Mortgage Conduit Limited
Trading name:	Lehman Commercial Mortgage Conduit Limited
Registered number:	06221756
Registered address:	25 Bank Street, London E14 5LE.
Company directors:	Barry Porter and Paul Anthony Sherwood
Company secretary:	Emily Sarnia Everard Upton
Shareholdings held by the directors and secretary:	Neither of the directors own shares in LCMC
Date of the Administration appointment:	30 October 2008
Administrators' names and addresses:	DA Howell, AV Lomas, DY Schwarzmman and GH Martin of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	The directors of the Company, 25 Bank Street, London E14 5LE
Objective being pursued by the Administrators:	Achieving a better result for LCMC's creditors as a whole than would be likely if LCMC were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	Statement of Power for the purposes of paragraph 100(2) Schedule B1 to the Insolvency Act 1986. The Sole Director of Lehman Commercial Mortgage Conduit Limited (the "Company") has appointed AV Lomas, DY Schwarzmman, GH Martin and DA Howell of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT 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.
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 Administration:	The Administrators are not yet in a position to determine the most likely exit route from the Administration and wish to retain the options available to them.
Estimated dividend for unsecured creditors:	It is too early to estimate the likely dividend for unsecured creditors.
Estimated values of the prescribed part and LCMC's net property:	Not applicable as there is no prescribed part.
Whether and why the Administrators intend to apply to court under Section 176A(5) IA86:	Not applicable as there is no prescribed part.
The European Regulation on Insolvency Proceedings (Council Regulation(EC) No 1346/2000 of 29 May 2000):	The European Regulation on Insolvency Proceedings applies to this Administration and these are the main proceedings.

Section 4: Financial information

Administrators' remuneration

At the meeting of creditors which was held by correspondence on 6 January 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 March 2009 to 31 October 2009, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed. We previously provided a time cost analysis for the period 30 October 2008 to 28 February 2009.

The SIP 9 summary shows that the total time costs for the period are £574,287, which represents 1,531.9 hours at an average hourly rate of £374.86.

To date, remuneration of £860,454 has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration to 29 October 2009 is set out in section 5 of this report.

Section 5: Receipts and payments for the period ended 29 October 2009

	As at 29 October 2009 GBP (£)	As at 29 April 2009 GBP (£)	Movements GBP (£)
RECEIPT			
Cash at bank on appointment	14,078,043	15,288,640	(1,210,597)
Residual Interests - Diversity	13,827,836	4,588,238	9,239,598
Assets held on Trust	-	3,457,942	(3,457,942)
Recoveries on loan portfolio	8,648,066	3,089,224	5,558,842
Bank Interest	34,547		34,547
Total Receipts	36,588,492	26,424,044	10,164,448
PAYMENT			
Joint Administrators' remuneration	860,454	364,454	496,000
Loan portfolio servicing fees	207,581	204,947	2,634
Legal fees and disbursements	325,783	143,306	182,477
Loan to group company	51,800	51,800	-
Joint Administrators' Category 1 disbursements	2,355	2,355	-
Statutory advertising	933	462	471
Bank charges	565	410	155
Insurance	17,043		17,043
VAT paid	226,696	94,961	131,735
Total Payments	1,693,210	862,695	830,515
NET POSITION	34,895,282	25,561,349	9,333,933
CASH BALANCES			
Bank of England	-		
HSBC	667,475		
Money market deposits	34,227,807		
Total Cash	34,895,282		

Note: The reduction in Cash at Bank on appointment figure relates to the Trust funds held on behalf of a third party, that were subsequently paid over to them.

Appendix: Summary of the Joint Administrators' time costs for the period 1 March 2009 to 31 October 2009

Classification of work	PARTNER / DIRECTOR	SENIOR MANAGER / MANAGER	SENIOR ASSOCIATE	ASSOCIATE / SUPPORT STAFF	Total
	Hrs	Hrs	Hrs	Hrs	Hrs
	£	£	£	£	£
Asset Realisations	80.8	212.3	264.3	3.3	560.7
Strategy and Planning	55.0	200.6	80.2	18.1	353.9
Accounting and treasury	1.1	859	90.7	95.1	286.2
Statutory, compliance and other workstreams	11.4	7,646	37.8	48.5	331.1
Grand Total	148.3	101,381	473.0	165.0	1,531.9
		309,324	135,468	28,114	574,287

The Joint Administrators' policy for charging for disbursements is:

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

Costs to date (£)
-

Current charge out rates	Business	Specialist*
Grade	Recovery Services	
	Max £/hr	Max £/hr
Partner	785	1,070
Director	590	890
Senior manager	450	810
Manager	390	590
Senior Associate	320	395
Associate / Support Staff	200	200

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.

Appendix: Narrative of time costs

The following narrative summarises the work undertaken by the Joint Administrators' and their staff during the period.

Asset Realisations - £ 208,173

- Reconciled loan assets to original Lehman ledgers;
- Completed portfolio review of each of the 17 LCMC loans;
- Verified ownership of three loans by a third party; and
- Identified alternative loan servicer and negotiated competitive contract

Strategy and planning - £153,470

- Reviewed financial information;
- Prepared detailed fee summary;
- Performed fee analysis for Administrators' update;
- Analysed timesheets for completeness and accuracy;
- Weekly review of activity on the estate by PwC staff and retained Lehman staff; and
- Worked on options surrounding loan portfolio.

Accounting and treasury - £81,674

- Reconciliation of bank accounts;
- Preparing receipts and payment vouchers; and
- Monitoring flow of funds into bank accounts.

Statutory, compliance and other workstreams - £130,970

- Managed the statutory database;
- Dealing with statutory issues;
- Lehman Brothers Limited – in administration recharges;
- Tax and VAT issues; and
- Prepared Administrators' progress reports.