

Lehman Commercial Mortgage Conduit Limited – In Administration

Joint Administrators' progress report for the period
30 October 2009 to 29 April 2010

28 May 2010

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the third 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 April 2010.

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.

Outcome for creditors

Based on the quantum of claims recorded in the Company's 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. The Administrators are planning to apply to Court in order to convert the administration of LCMC into a distributing administration. This will allow a distribution to creditors to be paid during the administration.

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

On 30 November 2009, Graham Hunter Martin resigned as Administrator of LCMC, and Steven Anthony Pearson and Michael John Andrew Jervis were appointed as additional Administrators.

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 Schwarzmenn 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 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 £21.4m has been received into the estate as deferred purchase consideration. A further £1.9m was received after 29 April 2010 and will be reflected in the next report period.

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 employee to assist in the process of realising these loans due to the extensive input required. Previously, one loan has been repaid in full, and two further loans have been settled with their respective borrowers below par. Recoveries on the 17 loans for the last six months total £11.9m.

The Administrators continue to be of 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

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

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:	Level 23, 25 Canada Square, London E14 5LQ.
Company directors:	Paul Anthony Sherwood (resigned 31/10/08)
Company secretary:	Emily Sarnia Everard Upton (resigned 25/01/10)
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, MJA Jervis and SA Pearson 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. Further to the appointment of MJA Jervis and SA Pearson as additional Administrators, and the resignation of GH Martin, any act required of authorised under any enactment to be done by any or all of the joint administrators may be done by one or more of the persons for that time being holding 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 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 November 2009 to 31 March 2010, presented in accordance with Statement of Insolvency Practice 9 ("SIP 9"), together with a narrative of the work performed.

The SIP 9 summary shows that the total time costs for the period are £162,178, which represents 509.7 hours at an average hourly rate of £318.16.

We have previously provided time cost analysis for the period 30 October 2008 to 31 October 2009.

To date, remuneration of £996,049 plus VAT has been drawn.

Receipts and payments account

An account of the receipts and payments in the Administration to 29 April 2010 is set out overleaf.

Section 5: Receipts and payments for the period ended 29 April 2010

	As at 29 April 2010 GBP (£)	As at 29 October 2009 GBP (£)	Movements GBP (£)
RECEIPT			
Cash at bank on appointment	14,078,043	14,078,043	-
Residual Interests - Diversity	21,434,907	13,827,836	7,607,071
Recoveries on loan portfolio	20,295,020	8,648,066	11,646,954
Bank Interest	102,294	34,547	67,747
Third party funds received in error	227	-	227
Total Receipts	55,910,491	36,588,492	19,321,999
PAYMENT			
Joint Administrators' remuneration	996,049	860,454	135,595
Loan portfolio servicing fees	264,044	207,581	56,463
Legal fees and disbursements	442,409	325,783	116,626
Loan to group company	-	51,800	(51,800)
Joint Administrators' Category 1 disbursements	5,733	2,355	3,378
Employee costs	171,038	-	171,038
Statutory advertising	968	933	35
Bank charges	632	565	67
Insurance	17,043	17,043	-
VAT paid	271,763	226,696	45,067
Total Payments	2,169,679	1,693,210	476,469
NET POSITION	53,740,812	34,895,282	18,845,530
CASH BALANCES			
HSBC	433,291		
Money market deposits	53,307,521		
Total Cash	53,740,812		

Note

Cash not required for day to day expenses of the Administration is invested on money markets

Appendix: Summary of the Joint Administrators' time costs for the period 1 November 2009 to 30 April 2010

Classification of work	PARTNER / DIRECTOR	SENIOR MANAGER / MANAGER	SENIOR ASSOCIATE	ASSOCIATE / SUPPORT STAFF	Total
	Hrs	Hrs	Hrs	Hrs	Hrs
	£	£	£	£	£
Asset Realisations	6.0	5.3	38.7	19.5	69.5
Strategy and Planning	31.7	6.3	39.9	7.2	85.1
Accounting and treasury	9.7	43.5	113.8	100.4	267.4
Statutory, compliance and other workstreams	2.2	13.8	23.0	48.7	87.7
Grand Total	49.6	68.9	215.4	175.8	509.7
	37,860	28,771	66,065	29,482	162,178

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

Costs to date (£)

Current charge out rates	Business Recovery Services	Specialist*
Grade	Max £/hr	Max £/hr
Partner	790	1,070
Director	590	1,030
Senior manager	580	810
Manager	390	590
Senior Associate	320	410
Associate / Support Staff	200	205

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 - £22,942

- Monitored ongoing loan portfolio, including taking strategic decisions on refinancing options and loan enforcement;
- Ensure servicer is acting in best interests of LCMC by maintaining dialogue; and
- Continuing to assist the servicer of the Diversity SPV.

Strategy and planning - £40,984

- Work carried out on options surrounding loan portfolio;
- Updating strategy on the overall loan portfolio.

Accounting and treasury - £79,805

- Reconciliation of bank accounts;
- Actively investing funds on money markets to ensure appropriate return on funds, whilst minimising risk;
- Preparing receipts and payment vouchers; and
- Monitoring flow of funds into bank accounts.

Statutory, compliance and other workstreams - £18,447

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