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

Joint Administrators' progress
report for the period 24 October
2013 to 23 April 2014

19 May 2014

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Section 1 Purpose of the Joint Administrators' progress report

Introduction

This is the eleventh 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 April 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.

Following receipt of a £9.4m settlement from HM Revenue & Customs ("HMRC") in the period, the Joint Administrators propose to make a second interim distribution within the next six months.

Pension liability

Following the Supreme Court judgment in July 2013, to which the Administrators referred to in their last report, the stay which had been in force for the Upper Tribunal proceedings came to an end.

The Upper Tribunal has the role of deciding whether a FSD should be made, and against which entities. LB L&F is one of the potential targets of a FSD. The Upper Tribunal has set a date in February 2015 for a substantive hearing.

Also, since their previous progress report, the Administrators have participated in a High Court application relating to the maximum quantum of any Contribution Notice ("CN"). The High Court held that the aggregate liability under potential CNs issued to more than one target company could exceed the amount of £119m. This judgment is being appealed.

In the light of the activity set out above, the risk of LB L&F having a liability to the pension scheme under a FSD remains, and the Administrators will continue to monitor the position and take any appropriate steps.

Extending the administration

On the application of the Administrators, the High Court made an order to further extend the period of the Administration to 30 November 2014.

The Administrators are currently considering whether a further application to extend the Administration should be made. In deciding whether an extension is appropriate, the Administrators will give due regard to the cost and benefit implications for the Company's creditors.

Future reports

The Administrators will next report to creditors in approximately six months or when the Administration comes to an end, whichever is sooner.

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. No further realisations will be made.

(c\$34m) which were estimated to realise c\$3.4m in the directors' statement of affairs.

LB L&F's largest debtor by far is Lehman Brothers Limited ("LBL"), which is also in Administration. The Administrators have submitted a claim against LBL. However, the Joint Administrators of LBL are not yet in a position to be able to formerly admit unsecured claims and the timing and quantum of that dividend is currently uncertain.

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 reserve has been made for the contingent pension liability.

Outstanding matters

During the reporting period, LB L&F realised a further £40k from a group VAT refund and £19k 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 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.

A tax return has recently been filed for the year ended 16 March 2013, including the interest received in relation to the HMRC settlement. The interest is viewed as a post cessation receipt and as such should be sheltered by brought forward trading losses.

Asset realisations are substantially complete, the only remaining assets being the Company's debtors

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 and more recently to 30 November 2014.
<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. The quantum and 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 October 2013 to 31 March 2014, presented in accordance with Statement of Insolvency Practice 9, together with a narrative of the work performed. Time costs for this period total £108,472 plus VAT, which represents 253.98 hours at an average hourly rate of £427.09. Details of time costs previously incurred have been provided in earlier reports.

To date, remuneration of £1,151,941 plus VAT has been drawn in respect of time costs incurred to 31 January 2014.

Receipts and payments account

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

Cash held as at 23 April 2014 totals approximately £22.5m.

Section 5 Receipts and Payments Account

	Estimated to realise per Directors' Statement of Affairs GBP (£)	As at 23-Apr-14 GBP (£)	Movements GBP (£)	As at 23-Oct-13 GBP (£)
Receipts				
Realisation from infrastructure assets and Level 7 lease	1,868,681	19,710,218	-	19,710,218
Debtors	3,398,336	-	-	-
Realisations from sale of tax losses	-	1,137,712	19,179	1,118,533
Corporation Tax refund	-	5,931,656	-	5,931,656
VAT Refund	-	9,469,857	9,469,857	-
Interest received gross	-	789,061	26,826	762,235
Total	5,267,017	37,038,504	9,515,862	27,522,642
Payments				
Insurance		463,336	-	463,336
Legal Fees		51,936	6,497	45,439
Purchase of Tax Losses		1,180,578	-	1,180,578
Joint Administrators' remuneration		1,151,941	94,490	1,057,451
Joint Administrators' Category 1 disbursements		3,566	-	3,566
Statutory costs		10,693	-	10,693
Corporation Tax		1,430,000	715,000	715,000
Employee costs		2,181	418	1,763
Tax function costs		230,159	-	230,159
IT costs		5,741	-	5,741
Net VAT Paid		249,657	68,898	180,759
Total		4,779,788	885,303	3,894,485
Total receipts less total payments		32,258,716	8,630,559	23,628,157
Distributions				
1st dividend to unsecured creditors of 8p in the £, declared in October 2013		9,738,980	-	9,738,980
Total		9,738,980	-	9,738,980
Cash in hand/ (movement in year)		22,519,736	8,630,559	13,889,177
Cash in hand is represented by				
HSBC (non-interest bearing)		75,263	(985,901)	1,061,164
Money Market		22,444,473	9,616,460	12,828,013
Total Cash		22,519,736	8,630,559	13,889,177

Section 6 Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014

Classification of work	Partner/Director		Senior Manager/Manager		Senior Associate		Associate / Support Staff		Total hours	
	Hours	£	Hours	£	Hours	£	Hours	£	Hours	£
Accounting and treasury	-	-	11.35	4,892	28.65	8,694	26.40	6,046	66.40	19,632
Administration and planning	6.70	4,497	20.25	8,736	31.95	11,492	7.15	1,637	66.05	26,362
Realisation of assets	-	-	0.50	216	0.40	144	-	-	0.90	360
Creditors	-	-	0.40	172	1.75	630	0.37	85	2.52	887
Statutory and other compliance	3.65	2,614	7.30	3,211	16.90	5,919	7.20	1,649	35.05	13,393
Tax and VAT	6.30	5,700	35.60	25,683	2.80	1,052	9.43	1,388	54.13	33,823
Pensions	11.20	7,839	9.05	3,901	1.80	648	4.95	1,134	27.00	13,522
LBL Recharges	0.03	20	0.22	98	0.38	87	1.30	288	1.93	493
Grand Total	27.88	20,670	84.67	46,909	84.63	28,666	56.80	12,227	253.98	108,472
Average Hourly Rate		741.39		554.02		338.72		215.26		427.09

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.
Grade	Max £/hr	Max £/hr	
Partner	838	1,075	* 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.
Director	680	990	
Senior manager	525	905	
Manager	444	545	
Senior Associate	370	410	
Associate/Support Staff	230	212	

Narrative of the Joint Administrators' time costs for the period 1 October 2013 to 31 March 2014

Accounting and treasury - £19,632

- 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 - £26,362

- Discussions regarding strategy for the Administration including quantum and timing of the distribution;
- Team discussions on case progression and resource management;
- Reviewing financial information;
- Reviewing and investigating claim against LBL, quantifying and submitting claim; and
- Updating strategy documents.

Realisation of assets - £360

- Review of debtor positions.

Creditors - £887

- Maintaining list of creditor claims and status of such claims.

Statutory and other compliance - £13,393

- Preparation of Administrators' tenth 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;
- Managing Administration database; and
- Review of time costs in preparation for billing.

Tax and VAT - £33,823

- Concluding negotiations with HMRC regarding settlement of the VAT claim;
- Providing information to Lehman tax team in connection with provisional corporation tax payments on interest arising from the VAT claim;
- Preparation and review of VAT return;
- Year end 2013 VAT reconciliation work;
- 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 - £13,522

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

LBL recharges - £493

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