

Eldon Street Holdings Limited – In Administration

Joint Administrators' progress report for the period
9 June 2009 to 8 December 2009

6 January 2010

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Section 1: Purpose of the Joint Administrators' progress report

Introduction

This is the second progress report by the Joint Administrators (the "Administrators") of Eldon Street Holdings Limited ("Eldon Street" or the "Company") pursuant to 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 9 December 2009.

Objectives of the Administration

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

The specific aims of this Administration are to:

- Protect and control the Company's assets; and
- Maximise value for the Company from its real estate interests, inter-company debtors and shareholdings in subsidiary companies.

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 timing or quantum of the dividend to ordinary unsecured creditors as there are uncertainties regarding future net realisations.

Extension of the Administration

On the application of the Administrators, the High Court has made an Order extending the period of the Administration to 30 November 2010.

Appointment of further Joint Administrators

By order of the High Court, on 30 November 2009 SA Pearson and MJA Jervis were appointed as Joint Administrators of the Company. AV Lomas, DA Howell and DY Schwarzmann continue to act as Administrators along with them.

Future reports

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

Signed:



DA Howell
Joint Administrator
Eldon Street Holding Limited

Section 2: Joint Administrators' actions to date

Overview of the Company's business

Eldon Street was initially created to be a holding company for a number of the Lehman Brothers group real estate investments.

As well as direct equity investments in other Eldon Street subsidiaries, which in turn hold debt or equity stakes in off-balance sheet joint ventures, Eldon Street's principal investment was in real estate assets, £151m of which relates to a loan to the Thayer group, which is likely to be significantly impaired. Thayer Properties Limited is a subsidiary of Eldon Street which acquired, and subsequently disposed of, the assets held by the Burford group, a large property investment group.

Administrators' actions to date

Following the Administrators' appointment an initial exercise was undertaken to identify and review the value of Eldon Street's investments in real estate assets, and to consider a strategy for disposal of those assets. A realisation strategy for the majority of Eldon Street's assets has now been defined. In some cases this has involved negotiation with third party Joint Venture Partners.

The Administrators continue to utilise the central Lehman Real Estate asset management team. They have provided assistance with realisation strategy development and will perform the day to day management of Eldon Street's assets.

Market conditions have not altered since the first Progress report to creditors. The Administrators will therefore continue to follow the strategy of disposing of assets, in an orderly fashion over the next three to five years. The Administrators believe this approach will realise greater value for creditors than if assets were disposed of immediately.

The Administrators continue to work closely with independent directors appointed to a number of solvent Eldon Street subsidiaries, and have met payments on behalf of these subsidiaries where they do not have available cash. These payments are only being made where the Administrators expect a greater recovery from the subsidiary.

In September 2009, the Administrators

submitted Eldon Street's claims against certain US Lehman companies in line with the bar dates by those entities. The Administrators also assisted the directors of certain subsidiaries in compiling their claims.

The Administrators are continuing to monitor the ongoing solvent liquidation of the Burford group of companies, which had commenced some time prior to the collapse of the Lehman Brothers group.

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 Eldon Street Group and the wider Lehman Brothers group which may have value to this estate, and which would be lost if the Company entered into another insolvency process; and
- The Administrators have not yet determined the most appropriate exit route from Administration.

Dividend prospects

Dividend prospects for the creditors of Eldon Street are dependent on its realisations from other Lehman Group companies and its subsidiaries. We do expect there will be funds available, though we are not yet able to determine the quantum and timing of a distribution to ordinary unsecured creditors.

Section 3: Statutory and other information

Court details for the Administration:	High Court of Justice, Chancery Division, Companies Court - case 11056 of 2008
Full name:	Eldon Street Holdings Limited
Trading name:	Eldon Street Holdings Limited
Registered number:	04108165
Registered address:	25 Bank Street, London E14 5LE
Company directors:	Ian Michael Jameson and Anthony John Rush
Company secretary:	Ms M Smith and Ms ESE Upton
Shareholdings held by the directors and secretary:	None of the directors own shares in the Company
Date of the Administration appointment:	9 December 2008
Administrators' names and addresses:	DA Howell, AV Lomas, DY Schwarzmans, SA Pearson and MJA Jervis of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT
Appointer's name and address:	High Court of Justice, Chancery Division, Companies Court
Objective being pursued by the Administrators:	Achieving a better result for Eldon Street's creditors as a whole than would be likely if Eldon Street were wound up (without first being in Administration)
Division of the Administrators' responsibilities:	In relation to statement of powers for the purpose of paragraph 100(2) of schedule B1 to the IA1986, the Directors of Eldon Street Holdings Limited ("the Company") have appointed Anthony Lomas, Derek Howell, Dan Schwarzmans, Steven Pearson and Michael Jervis of PricewaterhouseCoopers LLP, Plumtree Court, London EC4A 4HT as Joint Administrators of the Company. The Joint Administrators of the Company 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 Administration:	First extension was granted by the High Court of Justice until 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:	The Administrators expect to pay a dividend, though it is too early to estimate the likely quantum for unsecured creditors.
Estimated values of the prescribed part and Eldon Street'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 does apply 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 13 February 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 from time to time.

Attached as an Appendix, is a summary of the Administrators' time costs for the period 1 June 2009 to 30 November 2009, 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 is £137329, which represents 414.8 hours at an average hourly rate of £331.07.

Time costs of £318,024 were incurred in the period 9 December 2008 to 1 May 2009.

The Administrators have not yet drawn remuneration.

Further costs have been incurred by other Administration companies which will be recharged to Eldon Street in due course.

Receipts and payments account

An account of the receipts and payments in the Administration to 8 December 2009 is set out in section 5 of this report.

Certain costs have been incurred on behalf of subsidiaries that are in the process of recovering cash. Eldon Street intends to recover these costs incurred from the relevant subsidiaries once funds become available.

Section 5: Receipts and payments account for the period ended 8 December 2009

	As at 8 December 2009 GBP (£)	As at 8 December 2009 EUR (€)	As at 8 Dec 09 Total (GBP Equivalent) £	As at 8 Jun 09 Total (GBP Equivalent) £	Movements (GBP Equivalent) £
RECEIPT					
Loan from LBIE	442		442	442	-
Dividend from subsidiary	300,000		300,000		300,000
Recovery of intercompany loan	280,000		280,000		280,000
Interest	735		735		735
Assets held on Trust - Harley	43,400		43,400		43,400
Assets held on Trust - Parkmetro	43,000		43,000	343,000	(300,000)
Assets held on Trust - Scalescene		100,000	90,453		90,453
Receipts Grand Totals	667,577	100,000	758,030	343,442	414,588
PAYMENT					
Statutory costs	3,936		3,936	442	3,494
Professional fees	6,622		6,622		6,622
Bank charges	4	16	18		18
Payments of behalf of subsidiaries	37,522		37,522		37,522
VAT	6,523		6,523		6,523
Payments Grand Totals	54,607	16	54,621	442	54,179
NET POSITION	612,970	99,984	703,409	343,000	
CASH BALANCES					
HSBC	612,970	99,984	703,409		
Total Cash	612,970	99,984	703,409		

Exchange rate as at 8 December 2009 - GBP £1 : EURO €1.1055

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

Classification of work	PARTNER / DIRECTOR		SENIOR MANAGER / MANAGER		SENIOR ASSOCIATE		ASSOCIATE / SUPPORT STAFF		Total	
	Hrs	£	Hrs	£	Hrs	£	Hrs	£	Hrs	£
Asset Realisations	3.0	2,320	1.1	468	3.2	1,024	0.0	0	7.3	3,812
Strategy and Planning	7.7	5,975	36.4	15,773	43.6	13,545	6.2	732	93.9	36,025
Tax & VAT	1.0	785	87.3	31,387	117.5	25,107	0.0	0	205.8	57,279
Accounting and treasury	3.4	3,030	11.4	5,145	3.8	1,014	20.3	3,978	38.9	13,167
Statutory, compliance and other workstreams	10.3	7,371	36.2	13,879	16.8	4,932	5.6	864	68.9	27,046
Grand Total	25.4	19,481	172.4	66,652	184.9	45,622	32.1	5,574	414.8	137,329

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 (£)
-

Grade	Business Recovery Services		Specialist*	
	Max £/hr	Recovery Services	Max £/hr	Specialist*
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 - £3,812

- Reviewed all Eldon Street assets held in subsidiaries and joint ventures;

Strategy and planning - £36,025

- 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.

Tax and VAT - £57,279

- Liaison with asset management team and accounting team to review the exit strategy papers and cash flow projections prepared; consider tax implications and prepare tax analysis on various deals;
- Preparing March - May 2009 VAT return;
- Preparation of cash flow projections to support exit strategies prepared by asset management / loan servicing work stream for companies in the Eldon Street group.
- Preparing statutory accounts for subsidiaries and liaising with auditors

Accounting and treasury - £13,167

- Reconciliation of bank accounts;
- Preparing receipts and payment vouchers; and
- Monitoring flow of funds into bank accounts.
- Assistance for preparation of statutory accounts for subsidiaries including retrieving historic accounting data

Statutory, compliance and other workstreams - £27,046

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