



**CORPORATE
RESTRUCTURING**

Our ref: PDW/AMC/BJH/FZT/TOS/LGU010/970069

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TO THE SHAREHOLDERS

When telephoning please ask for:
Ben Henshilwood

email:
bhenshilwood@mcr.uk.com

Direct Line:
020 7535 1185

20 August 2010

Dear Sirs

Legion Group plc and Legion FM Limited (Both in Administration) ("the Companies")

I refer to my appointment as Joint Administrator of the Companies, together with my partners, Paul Clark and John Whitfield. Please find enclosed a notice of the appointment and the Statement of Insolvency Practice 16 ("SIP16") for your information.

As you are aware, the trading of the shares of Legion Group plc (In Administration) ("Group") were suspended from the Alternative Investment Market Exchange on 28 July 2010, owing to uncertainty regarding the financial viability of Group as a going concern and its pending sale. Subsequently, Joint Administrators were appointed on 6 August 2010, and the Companies' business and certain assets were sold to OCS Group UK Limited ("OCS").

Please note that returns to the Companies' creditors will be subject to quantification of the secured and non-preferential unsecured creditor claims. I confirm that the Companies' shareholders rank after the Companies' non-preferential unsecured creditors and will only receive a distribution if the non-preferential creditors are paid in full.

I confirm that there are insufficient realisable assets to enable a dividend to be made to non-preferential unsecured creditors in full, and accordingly there will be no dividend to shareholders.

Should you have any queries, please contact Ben Henshilwood of this office.

Yours sincerely
For and on behalf of
Legion Group plc
Legion FM Limited

Paul Williams
Joint Administrator

Enc.

The affairs, business and property of the Companies are being managed by the Joint Administrators, Paul Williams, Paul Clark and John Whitfield, who act as agents for the Companies and without personal liability. The Joint Administrators are licensed by the Insolvency Practitioners Association.

The Insolvency Act 1986

Notice of administrator's appointment

Name of Company
Legion Group plc

Company number
03553625

In the High Court of Justice,
Chancery division, Birmingham District Registry.

For court use only
8373 of 2010

We Paul David Williams and Paul John Clark
MCR
43-45 Portman Square
London
W1H 6LY

And

John Neville Whitfield
MCR
35 Newhall Street
Birmingham
B3 3PU

give notice that we were appointed as Joint Administrators of the above company on:

(b) Insert date

(b) 6 August 2010

Signed 

Dated 9/8/2010

Joint Administrators IP Nos. 9294, 8570 and 9131

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searches of the public record

MCR
43-45 Portman Square
London
W1H 6LY

Tel: 020 7487 7240

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff CF14 3UZ

DX 33050 Cardiff

Appendix 1

Legion Group plc & Legion FM Limited (Both In Administration) (together "the Companies")

Overview

The purpose of this document is to provide creditors with detailed information on the steps and considerations taken by MCR, the Administrators and/or the Directors of the Companies to value, market and sell the business and certain assets of the Companies in a relatively short time period.

1. Background information

The following information is provided by the Directors of the Companies. In so far as events pre-date MCR / the Joint Administrators engagement, MCR / the Joint Administrators are not able to confirm their accuracy.

The Companies primary activities were the provision of security services. The Legion brand was widely recognised in the industry and was considered to be one of the UK's longest established providers of security and parking services.

Operating from head offices in Hertfordshire and with regional offices in Manchester, Solihull, Preston, Eastleigh and South Wales, the Companies employed approximately 2,800 members of staff.

In March 2009, SectorGuard plc acquired Legion Group plc. In the preceding months prior to the acquisition and during the due diligence, the Directors of SectorGuard plc met with HM Revenue & Customs ("HMRC") to discuss a time to pay arrangement for the outstanding debt of Legion Group plc. Discussions took place regarding the quantum of the debt and the agreed liability which would be taken on by SectorGuard plc on the completion of the sale.

Following the acquisition, SectorGuard plc changed its name to Legion Group plc. The former Legion Group plc (Company number 03611290) changed its name to Legion FM Limited.

Shortly thereafter, an audit of Legion FM Limited resulted in the discovery of an increased tax liability relating to the period prior to its acquisition. The Joint Administrators are advised that the total liability to HMRC had increased from an initial figure of between £1.5 million and £2.3 million to a revised figure of £3.4 million. It is understood that despite the due diligence, the SectorGuard plc Directors were unaware of this increased liability prior to acquisition. This impacted on the working capital demands on the business.

In May 2010, following a short term cash flow requirement for the April 2010 payroll, an emergency loan from two private investors totalling £0.8 million was provided to the Companies to enable them to continue to trade.

Prior to this, the Companies had engaged PricewaterhouseCoopers to correspond with HMRC regarding the unascertained quantum of the debt and the provision of a new time to pay agreement. Unfortunately, the quantum of the debt due and any terms of a time to pay arrangement could not be agreed.

The Directors followed a strategy of an accelerated sale of the business and assets of the Companies to improve, where possible, the creditor position and obtain continuous employment for 2,800 members of staff. The Joint Administrators were advised that this strategy was conducted with the knowledge of HMRC, with whom regular contact was made.

The Companies' Directors commenced marketing the business and assets of the Companies in early May 2010 to certain competitors on a confidential basis. Marketing of the business and assets was accelerated by the appointment of an independent broker who produced and circulated an Information Memorandum to a targeted group of potentially interested parties. Both the Companies' bankers and HMRC were informed of the sales strategy. The sales process resulted in the receipt of three offers for the business and assets of the Companies.

Based on the three offers received, two offers were substantially higher than the other offer. The Directors provided this lower party with an opportunity to increase their offer, however, they chose to withdraw from the sale process.

In July 2010, the Directors advise us that the Companies paid HMRC c£1 million in respect of PAYE liabilities for the month of June 2010. We understand that this payment was made as part of ongoing discussions regarding the deferment of the debt and an ultimate sale of the business.

The Directors granted the two remaining interested parties the opportunity to undertake further due diligence in relation to the Companies and to hold discussions with certain key management staff.

The Directors advised that they later became aware that HMRC had, despite earlier indications that they would not do so, filed a winding-up petition against Legion FM Limited on 14 July 2010 for the sum of £2.7 million. HMRC indicated that they were not willing to withdraw the petition until the debt was paid in full.

The Companies received offers from the two interested parties with a view to completing a sale by management by 29 July 2010. Legion Group plc suspended trading of its shares on 28 July 2010 pending the completion of a sale.

HMRC filed a winding-up petition against Legion Group plc on 29 July 2010 effectively blocking any sale by management of business and assets of the Companies. It is understood that the Directors only became aware of the existence of the petition through a search of the Court register. The service of the winding-up petition was not effected on Legion Group plc until 12 August 2010, after the appointment of Administrators.

The Directors sought insolvency advice, as detailed below. After due consideration, the Directors resolved that the Companies were insolvent and resolved to appoint Administrators.

2. The source of the Administrators' initial introduction

MCR were initially introduced to the Companies Directors by Mat Bhagrath of Kapitalize LLP. It is understood that Mr Bhagrath was providing strategic and commercial advice to the Companies and the Directors, and also providing advice on the possible sale of the Companies. The Directors initially requested MCR to review the Companies' financial positions. This initial introduction by Mat Bhagrath was made on 12 May 2010 and was followed by a meeting with the Directors on 13 May 2010.

The Joint Administrators understand another firm was engaged to conduct an Independent Business Review on the Companies. Once this review was completed, the Directors once more requested advice from MCR and further meetings were held with the Directors on 9 July 2010 and 28 July 2010.

MCR were formally engaged by the Directors of the Companies on 3 August 2010.

3. The extent of the Administrators' involvement prior to appointment

MCR met with the Directors to provide them with initial advice following their review of the cash flow position in May 2010. MCR was advised that the Directors were exploring additional funding opportunities and were pursuing a restructuring strategy with a third party. No further

involvement occurred until 9 July 2010 when MCR was advised that the possibility of funding would not be forthcoming.

The Companies subsequently engaged MCR on 3 August 2010 to provide insolvency advice and assist with a sale of the business. Given the winding-up petitions presented by HMRC, the Companies were considered to be insolvent within the meaning of Section 123 of the Insolvency Act 1986, as they were unable to discharge their debts as and when they fell due.

MCR reviewed the offers that had been received by the Companies and liaised with the interested parties to ascertain whether a sale of the business and assets could be achieved through an insolvency process. Of those parties who had expressed previous written interest, only OCS Group UK Limited ("OCS") were willing to proceed with a sale through an insolvency process. A revised written offer was received for the business and assets from OCS and the steps taken by MCR/the Administrators to review and accept this offer are detailed below.

Due to the petitions presented by HMRC and the extremely short time scale available to conclude a sale, an appointment by the Directors was not considered expedient. The appointments over both Companies were made by the holders of qualifying floating charges, on 6 August 2010.

4. Details of any marketing activities conducted by the Company and/or the Administrator

As outlined above, prior to MCR's involvement the Directors of the Companies contacted in excess of 15 third parties directly or through their independent broker, with a view to them either seeking investment in the Companies or a sale of the business.

The Directors held advanced discussions with two potential purchasers.

The initial offer from OCS on 15 July 2010 totalled £7 million for the goodwill, additional consideration totalling 85% of the value of book debt ledger, and a value of the fixed assets to be agreed between the parties. The terms of this initial offer also included the transfer of the employees in connection of the business (subject to the Transfer of Undertakings (Protection of Employment) 2006 Regulations).

An offer was also received from the other interested party on 21 July 2010. The Directors continued to negotiate with this party as well as OCS with a view to securing the best possible outcome for creditors. However, this offer was subsequently withdrawn.

On 27 July 2010, following further due diligence, OCS revised its offer downward to £6 million for the goodwill and fixed assets plus consideration of 85% of the value of the book debt ledger. However, following the discovery of the winding-up petitions presented against Legion Group plc, OCS withdrew its offer dated 27 July 2010.

The Directors continued to engage with OCS with a view to seeking a positive resolution. On 1 August 2010, and having considered its position further, OCS submitted a further revised offer of £2.9 million for the goodwill and an amount to be agreed for the book debts and other assets.

On 3 August 2010, MCR were engaged to assist the Companies and the Directors. MCR approached the other interested party who reached advanced negotiations to ascertain their level of interest. However, as explained above, this party confirmed that it would withdraw from the sale process as it was unable to complete within the timescale required.

MCR reviewed the marketing activities conducted by the Companies and concluded that, on the basis of the circumstances prevailing at the time, that any subsequently appointed Administrators were unlikely to achieve a higher offer for the business, than that received from OCS. In particular the Directors and MCR considered the following:

1. The Companies were insolvent within the meaning of Section 123 of the Insolvency Act 1986;
2. Due to the winding-up petitions the Companies' bank accounts were frozen;
3. HMRC had stated that these petitions would not be withdrawn unless the Crown debts were settled in full (c£6 million);
4. The Companies had insufficient resources to settle these Crown debts;
5. The Companies were unable to pay the wages (c£3.6 million) which fell due on 6 August 2010;
6. A failure to meet payroll would have left the Companies with the risk that staff would not continue to work; and
7. Non performance of contracts would have resulted in a breach of the terms of the contracts with customers and the potential for termination of these contracts and the resultant diminution in value.

The offer from OCS was accepted for £6.35 million, plus the payment of the gross wages for July 2010.

This offer was discussed with, and the consent obtained from, the secured creditors of the Companies including Lloyds TSB Commercial Finance Limited ("LTSBCF"), who had an assignment of the Companies' book debts under an invoice discounting agreement.

LTSBCF have been discharged in full from the proceeds of the book debts.

In addition to the agreed sales consideration, OCS have agreed to pay the wages and PAYE/NII liabilities totalling c£3.6 million, for the month of July 2010.

5. What alternative courses of action were considered by the Administrator with an explanation of likely financial outcomes

As a result of the filing of the HMRC winding-up petitions the directors were of the opinion that they were unable to sell the Companies outside a formal insolvency process.

MCR and the Directors held discussions with HMRC to seek their thoughts on the possibility of time to pay arrangements for both Companies. HMRC confirmed that they would not withdraw their winding-up petitions without a full repayment of the debt owed to them.

When pressed to provide their thoughts on the possible terms of a time to pay arrangement, HMRC indicated (subject to the appropriate approvals and process) that they may consider a time to pay arrangement on the basis that 50% of the debt was paid immediately with the balance deferred over 6 months.

The Companies did not have the resources available to pay HMRC. Furthermore the Directors did not feel that they were in a position to consider a time to pay arrangement unless they had certainty as to the support of their funders and the future of the business.

Given the limited time frame available it was the Directors' opinion that a sale to OCS through an Administration process, offered the best possible overall outcome to all creditors.

Creditors' Voluntary Liquidation ("CVL") was not considered to be appropriate as it was not considered to be an effective rescue procedure, given the time frame involved and diminution in value caused, which would have resulted in a significantly reduced return to creditors.

A Company Voluntary Arrangement was not considered appropriate due to the time frame involved and the uncertainty over the future funding requirements of the Companies and the support available to meet these requirements.

6. Why it was not appropriate to trade the business and offer it for sale as a going concern, during the Administration

The Joint Administrators did not consider it feasible for the Companies to be traded for the following reasons:

1. The immediate requirement to pay gross wages of £3.6 million and the uncertainty of how this would be funded;
2. The offer from OCS was likely to lapse and no other offers existed;
3. The Administrators would not be able to trade the business without the requisite licence in respect of manned security services;
4. The Directors had already undertaken a marketing campaign and it was considered that no other significantly greater offers would be achieved;
5. The Directors believed that the business would suffer irreparable damage and diminution in value if traded through a period of administration;
6. The Directors advised that the customer contracts (where they existed) were terminable upon insolvency; and
7. An indemnity would have been required to cover the possible trading loss. This was not available.

7. Details of requests made to potential funders to fund working capital requirements

MCR approached the secured creditors who confirmed that they were neither willing nor able to provide funding to the Companies through an insolvency process given the current uncertainties surrounding the future of the business. The secured creditors instead consented to the Directors' request to appoint administrators and to conclude a sale to OCS which in the opinion of the Directors, MCR and the Joint Administrators will provide the creditors with the best available outcome.

8. What efforts were made to consult with major creditors

MCR and the Directors consulted regularly with LTSBCF and the other secured creditors, who were kept informed of the ongoing sale process as far as practicable. During the week commencing 2 August 2010 daily communication was held with the secured creditors who were kept apprised of the developments in relation to the sale. The secured creditors, after due consideration and legal advice, consented to the sale to OCS.

HMRC were also informed of the proposed sale and the Joint Administrators are advised that they received copies of the initial offers.

HMRC were consulted by MCR and the Directors during the week commencing 2 August 2010 on at least two occasions to seek clarity on the possibility of time to pay arrangements and the withdrawal of the petitions. HMRC were also informed of the proposed sale to OCS and the positive effect on jobs and the payment of PAYE/NI deductions for July 2010.

9. The date of the transaction

The sale exchanged and completed on 6 August 2010.

10. Details of any valuations obtained of the business or the underlying assets

Independent agents, Hilco Appraisal Europe ("Hilco"), were engaged to value the Companies' chattel assets.

Hilco valued the plant, machinery and equipment at £19,700 (on an in-situ basis) and £9,200 (on an ex-situ basis).

Hilco valued the motor vehicles at £57,700 (on an in-situ basis) and £45,700 (on an ex-situ basis).

There was no formal valuation undertaken for the business or the goodwill of the Companies.

11. Details of the assets involved and the nature of the transaction

The goodwill, including the name, intellectual property rights and other trade marks, chattel assets and stock are all included in the sale.

The transaction is considered to be a sale as a going concern and, therefore, under Section 49 of the Value Added Tax Act 1994 and the Value Added Tax (Special Provisions) Order 1995 article 5 (as amended), VAT is not payable on the sale.

12. The consideration for the transaction, terms of payment, and any condition of the contract that could materially affect the consideration

The total consideration for the assets was £6,352,040 and was apportioned as follows:

	Legion Group plc	Legion FM Limited	Total
	(£)	(£)	(£)
Goodwill	2,500,000	900,000	3,400,000
Book debts	1,084,013	1,790,613	2,874,600
Motor Vehicles	54,300	3,400	57,700
Plant and machinery	9,850	9,850	19,700
Contracts	1	1	1
Intellectual Property	1	1	1
Website	1	1	1
Website materials	1	1	1
Business Records	1	1	1
Leased Assets	1	1	1
Third Party Assets	1	1	1
Total	3,648,170	2,703,870	6,352,040

In addition, OCS have agreed to pay the July 2010 wages and PAYE/NI deductions totalling c£3.6 million.

13. If the sale is part of a wider transaction, a description of the other aspects of the transaction

The sale is not part of a wider transaction.

14. The identity of the purchaser

The purchaser is OCS Group UK Limited (company registration number: 01298292).

15. Any connection between the purchaser and the Directors, shareholders or secured creditors

None.

16. The names of any Directors, or former Directors, of the Company who are involved in the management or ownership of the purchaser, or of any other entity into which any of the assets are transferred

It is understood that Mark Higgins is discussing the provision of consultancy services to OCS. The Joint Administrators are not involved in these negotiations.

17. Whether any Directors had given guarantees for debts due from the Company to a prior financier, and whether that financier is financing the new business

The Joint Administrators are unaware of any personal guarantees provided by any of the Directors.

The prior financier is not financing the new business.

18. Any options, buy-back arrangements or similar conditions attached to the contract of sale

None.