

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

CORRPRO COMPANIES INC /OH/

Form 10-Q

August 14, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003
OR

[] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-12282

CORRPRO COMPANIES, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of incorporation or organization)

34-1422570

(I.R.S. Employer Identification No.)

1090 ENTERPRISE DRIVE, MEDINA, OHIO 44256
(Address of principal executive offices) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (330) 723-5082

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X

NO

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES

NO X

As of August 12, 2003, 8,440,847 Common Shares, without par value, were outstanding.

CORRPRO COMPANIES, INC.

INDEX

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

	Page ----
PART I. FINANCIAL INFORMATION	
ITEM 1. Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6-14
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15-27
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	28
ITEM 4. Controls and Procedures	29-30
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	31-33
ITEM 6. Exhibits and Reports on Form 8-K	34

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORRPRO COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	June 30, 2003 (Unaudited)	March 31, 2003 (Audited)
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,601	\$ 5,514
Accounts receivable, net	19,536	15,849
Other receivables, net	1,248	7,192
Inventories	7,728	7,066
Prepaid expenses and other	4,267	3,713
Assets held for sale	14,242	14,600
	-----	-----
Total current assets	52,622	53,934
	-----	-----

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Property, plant and equipment, net	6,678	6,683
Other Assets:		
Goodwill	14,216	13,343
Other assets	2,700	3,023
	-----	-----
Total other assets	16,916	16,366
	-----	-----
	\$ 76,216	\$ 76,983
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 49,253	\$ 50,476
Accounts payable	6,684	7,282
Accrued liabilities and other	9,315	9,671
Liabilities held for sale	7,127	7,236
	-----	-----
Total current liabilities	72,379	74,665
	-----	-----
Long-term debt, net of current portion	742	765
Deferred income taxes	386	354
Commitments and contingencies	--	--
Shareholders' Equity:		
Serial preferred shares	--	--
Common shares	2,276	2,276
Additional paid-in capital	46,560	46,560
Accumulated deficit	(44,243)	(45,076)
Accumulated other comprehensive loss	(920)	(1,597)
Common shares in treasury, at cost	(964)	(964)
	-----	-----
Total shareholders' equity	2,709	1,199
	-----	-----
	\$ 76,216	\$ 76,983
	=====	=====

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

CORRPRO COMPANIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

For the Three
Months Ended
June 30,

-----	-----
2003	2002
-----	-----

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Revenues	\$29,675	\$ 26,835
Operating cost and expenses:		
Cost of sales	19,745	18,270
Selling, general & administrative expenses	7,192	8,030
	-----	-----
Operating income	2,738	535
Interest expense	1,255	1,056
	-----	-----
Income (loss) from continuing operations before income taxes, discontinued operations and cumulative effect of change in accounting principle	1,483	(521)
Provision for income taxes	253	169
	-----	-----
Income (loss) from continuing operations before discontinued operations and cumulative effect of change in accounting principle	1,230	(690)
Discontinued operations:		
Loss from operations, net	(351)	(1,758)
Loss on disposal, net of income taxes	(46)	--
Cumulative effect of change in accounting principle	--	(18,238)
	-----	-----
Net income (loss)	\$ 833	\$ (20,686)
	=====	=====
Earnings (loss) per share - Basic:		
Income (loss) from continuing operations	\$ 0.15	\$ (0.08)
Discontinued operations:		
Loss from operations, net	(0.04)	(0.21)
Loss on disposal, net of income taxes	(0.01)	--
Cumulative effect of change in accounting principle	--	(2.18)
	-----	-----
Net income (loss)	\$ 0.10	\$ (2.47)
	=====	=====
Earnings (loss) per share - Diluted:		
Income (loss) from continuing operations	\$ 0.13	\$ (0.08)
Discontinued operations:		
Loss from operations, net	(0.03)	(0.21)
Loss on disposal, net of income taxes	(0.01)	--
Cumulative effect of change in accounting principle	--	(2.18)
	-----	-----
Net income (loss)	\$ 0.09	\$ (2.47)
	=====	=====
Weighted average shares -		
Basic	8,408	8,350
Diluted	9,383	8,350

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

(IN THOUSANDS)

	Three Months Ended June 30,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 833	\$ (20,686)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:		
Loss from discontinued operations	397	1,758
Depreciation and amortization	766	726
401(k) matching contribution in Treasury shares	--	71
Deferred income taxes	--	(14)
Cumulative effect of change in accounting principle	--	18,238
Loss on sale of assets	--	(9)
Changes in operating assets and liabilities:		
Accounts and other receivables	2,537	1,660
Inventories	(434)	574
Prepaid expenses and other	(920)	(774)
Other assets	(242)	606
Accounts payable and accrued expenses	(842)	(595)
	-----	-----
Total adjustments	1,262	22,241
	-----	-----
Net cash provided by continuing operating activities	2,095	1,555
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment	(156)	(82)
Proceeds from disposal of property, plant and equipment	79	30
	-----	-----
Net cash used for investing activities	(77)	(52)
	-----	-----
Cash flows from financing activities:		
Net payments under Revolving Credit Facility and lines of credit	(1,923)	(49)
	-----	-----
Net cash used for financing activities	(1,923)	(49)
	-----	-----
Effects on cash of foreign currency exchange rates	140	(6)
	-----	-----
Cash used for discontinued operations	(148)	(1,153)
	-----	-----
Net increase in cash and cash equivalents	87	295
Cash and cash equivalents at beginning of period	5,514	3,959
	-----	-----
Cash and cash equivalents at end of period	\$ 5,601	\$ 4,254
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ 251	\$ 127
Interest	\$ 1,275	\$ 1,394

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

5

CORRPRO COMPANIES, INC. AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

NOTE 1 - INTERIM FINANCIAL STATEMENTS

The accompanying interim consolidated financial statements include the accounts of Corrpro Companies, Inc. and subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The information furnished in the accompanying interim consolidated financial statements has not been audited by independent accountants. In the opinion of management, the interim consolidated financial statements include all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods presented. The results of operations for the three months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2004 or any other period. The interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2003.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - INVENTORIES

	June 30, 2003	March 31, 2003
	-----	-----
Inventories consist of the following:		
Component parts and raw material	\$5,304	\$5,005
Finished goods	2,424	2,061
	-----	-----
	\$7,728	\$7,066
	=====	=====

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

June 30, 2003	March 31, 2003
------------------	-------------------

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Property, plant and equipment consist of the following:		
Land	\$ 466	\$ 443
Buildings and improvements	5,076	4,897
Equipment, furniture and fixtures	15,660	15,312
	-----	-----
	21,202	20,652
Less: Accumulated depreciation	(14,524)	(13,969)
	-----	-----
	\$ 6,678	\$ 6,683
	=====	=====

NOTE 4 - EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income for the period by the

6

weighted average number of common shares outstanding for the period, which was 8,408 and 8,350 for the three months ended June 30, 2003 and 2002, respectively. Diluted EPS for the period has been determined by dividing net income by the weighted average number of common shares and potential common shares outstanding for the period, which was 9,383 and 8,350 for the three months ended June 30, 2003 and 2002, respectively. Stock options and the warrants (see Note 12 - Revolving Credit Facility and Senior Notes) are the only potential common shares.

NOTE 5 - STOCK PLANS

The Company granted 0 and 20 to purchase common shares under the 1997 Option Plan and the Non-Employee Director Option Plan during the three months ended June 30, 2003 and 2002, respectively. In addition, options previously granted to purchase 15 and 23 common shares at exercise prices ranging from \$1.50 to \$12.10 were terminated during the three months ended June 30, 2003 and 2002, respectively.

NOTE 6 - SHAREHOLDERS' EQUITY

During the quarter ended September 30, 2002, the Company issued warrants to the lenders (see Note 12 - Revolving Credit Facility and Senior Notes) under its Revolving Credit Facility and Senior Notes. The warrant issued to the Revolving Credit Facility lender permits the lender to purchase 467 shares at a purchase price of \$0.01 per share, and the warrant issued to the Senior Notes lender permits the lender to purchase 467 shares at a purchase price of \$0.01 per share. For purposes of financial reporting, the warrants were valued at \$313 each and the aggregate amount of \$626 increased paid-in-capital and reduced short-term and long-term debt. The \$313 discount per facility will be fully amortized by the Revolving Credit Facility termination date of July 2003, and by the Senior Notes termination date of January 15, 2008.

NOTE 7 - COMPREHENSIVE INCOME

Accumulated other comprehensive income (loss) is reported separately from retained earnings and additional paid-in-capital in the Consolidated Balance Sheets. Items considered to be other comprehensive income (loss) include adjustments made for foreign currency translation (under SFAS No. 52) and pensions (under SFAS No. 87).

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Components of other accumulated comprehensive loss consist of foreign currency translation adjustment of \$(920) and \$(1,597) as of June 30, 2003 and March 31, 2003, respectively.

7

Components of comprehensive income (loss) consist of the following:

	Three Months Ended June 30,	
	2003	2002
	----	----
Net income (loss)	\$ 833	\$ (20,686)
Other Comprehensive income (loss):		
Write-off of translation adjustment related to Australian operations	--	1,590
Translation adjustment	677	1,858
	-----	-----
Total comprehensive income (loss)	\$1,510	\$ (17,238)
	=====	=====

NOTE 8 - ASSETS AND LIABILITIES HELD FOR SALE

In July 2002, the Company's Board of Directors approved a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. The Company intends to sell non-core business units and use the proceeds to reduce debt. The Company has engaged outside professionals to assist in the disposition of the domestic and international non-core business units. Prior to the quarter ended September 30, 2002, the Company's non-core domestic and international units were reported as the Other Operations and International Operations reporting segments. Effective for the quarter ended September 30, 2002, the Other Operations and the International Operations reporting segments have been eliminated and the non-core domestic and international units are reported as discontinued operations. Prior-year financial statements have been reclassified to reflect these non-core units as discontinued operations, which are also referred to as "assets and liabilities held for sale."

Assets and liabilities held for sale as of June 30, 2003 and March 31, 2003 consisted of:

	June 30, 2003	March 31, 2003
	----	----
Cash	\$ 1,084	\$ 2,819
Accounts receivable	7,732	6,203
Inventory	2,517	2,348
Prepaid expenses	1,809	2,135
Property, plant and equipment, net	58	58
Goodwill and other assets	1,042	1,037

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Assets held for sale	----- \$14,242 =====	----- \$14,600 =====
Current liabilities	\$ 7,132	\$ 7,310
Deferred taxes & minority interest	(5)	(74)
Liabilities held for sale	----- \$ 7,127 =====	----- \$ 7,236 =====

The Company allocated interest to discontinued operations of \$412 and \$630 for the three months ended June 30, 2003 and 2002, respectively, based on estimated proceeds from the discontinued operations disposition that will be used to pay down the Revolving Credit Facility and Senior Notes (see Note 12 - Revolving Credit Facility and Senior Notes). The interest rate used to calculate the interest expense allocated was the weighted average interest rate of the Revolving Credit Facility and Senior Notes.

8

Potential operating gains or losses may be experienced with the disposition of the non-core assets at the time of disposal during implementation of the restructuring plan. Listed below are the statements of operations for discontinued operations for the three months ended June 30, 2003 and 2002.

	For the Three Months Ended June 30,	
	2003	2002
	----	----
Revenues	\$6,844	\$ 9,095
Operating cost and expenses:		
Cost of sales	4,923	5,964
Selling, general & administrative expenses	1,676	2,467
Currency translation adjustment	83	1,590
Loss on disposal	46	--
	-----	-----
Operating income (loss)	116	(926)
Interest expense	412	630
	-----	-----
Loss from discontinued operations before income taxes	(296)	(1,556)
Provision for income taxes	101	202
	-----	-----
Loss from discontinued operations	\$ (397)	\$ (1,758)
	=====	=====

During the first quarter of fiscal 2004, the Company sold its Asia Pacific operations for a net loss of \$46 after taking into account an impairment charge on net assets which was recorded during the fourth quarter of fiscal 2003 totaling \$1,575. During fiscal 2003, the Company disposed of four non-strategic business units. First, in March 2003, the Company sold its Bass Trigon Software division for \$3,150 and recognized a gain of \$194. Also, in March 2003, the Company recorded a note receivable for \$6,232, of which the Company has

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

collected \$5,932 on April 2, 2003, for its Rohrback Cosasco Systems division and recognized a gain of \$1,809. The Company also disposed of two smaller international offices with a net gain of \$92 during fiscal 2003. The net proceeds from dispositions were used to pay down debt.

NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of various interest entities as defined in the Interpretation. The Company does not expect the adoption of this Interpretation to have a material impact on its results of operations or financial position.

In April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (2) in connection with other FASB projects dealing with financial instruments and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, with certain exceptions. The Company does not expect the adoption of SFAS No. 149 to have a material impact on

9

its results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity" which requires freestanding financial instruments such as mandatorily redeemable shares, forward purchase contracts, written put options to be reported as liabilities by their issuers as well as related new disclosure requirements. The provisions of SFAS No. 150 are effective for instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003. The application of this Statement is not expected to have an effect on the Company's consolidated financial statements.

NOTE 10 - PRODUCT WARRANTIES

In the normal course of business, we provide warranties and indemnifications for our products and services. We provide warranties that the products we distribute are in compliance with prescribed specifications. In addition, we have indemnity obligations to our customers for these products, which have also been provided to us from our suppliers, either through express agreement or by operation of law.

At June 30, 2003, accrued warranty costs were not material to the consolidated balance sheet.

NOTE 11 - BUSINESS SEGMENTS

In July 2002, the Company's Board of Directors approved a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. The Company intends to sell non-core business units and use the proceeds to reduce debt. The Company has engaged outside professionals to assist in the disposition of the domestic

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

and international non-core business units. Prior to the quarter ended September 30, 2002, the Company's non-core domestic and international units were reported as the Other Operations and International Operations reporting segments. Effective as of the quarter ended September 30, 2002, the Other Operations and the International Operations reporting segments have been eliminated and the non-core domestic and international units are reported as discontinued operations. Prior-year financial statements have been reclassified to reflect these non-core units as discontinued operations, which are also referred to as "assets and liabilities held for sale."

We have organized our operations into two business segments: Domestic Core Operations and Canadian Operations. Our business segments and a description of the products and services they provide are described below:

Domestic Core Operations. The Domestic Core Operations segment consists of the Company's operations in the United States, which provide products and services including corrosion control, coatings, pipeline integrity, risk assessment and inspection services. This segment provides corrosion control products and services to a wide-range of customers in a number of industries including: energy, utilities, water and wastewater treatment, chemical and petrochemical, pipelines, defense and municipalities. In addition, this segment provides coatings services to customers in the entertainment, aerospace, transportation, petrochemical and electric power industries, as well as inspection services to customers in the pharmaceutical, chemical and energy industries. Finally, this segment includes a production facility in the United States that assembles and distributes cathodic protection products, such

10

as anodes, primarily to the United States market.

Canadian Operations. The Canadian Operations segment provides corrosion control, pipeline integrity and inspection services to customers in Canada who are primarily in the oil and gas industry. These customers include pipeline operators, petrochemical plants and refineries. The Canadian Operations segment also includes production facilities that assemble products such as anodes and rectifiers.

Financial information relating to the Company's operations by segment are presented below:

	FOR THE THREE MONTHS ENDED	
	JUNE 30,	
	2003	2002
	----	----
Revenue:		
Domestic Core Operations	\$23,978	\$22,455
Canadian Operations	5,697	4,380
	-----	-----
	\$29,675	\$26,835
	=====	=====
Operating Income:		
Domestic Core Operations	\$ 4,421	\$ 3,323
Canadian Operations	974	743
Corporate Related Costs and Other	(2,657)	(3,531)
	-----	-----

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

\$ 2,738

=====

\$ 535

=====

NOTE 12 - REVOLVING CREDIT FACILITY AND SENIOR NOTES

In March 1999, the Company entered into an \$80 million revolving credit facility that expires on October 31, 2003 (the "Revolving Credit Facility"). Initial borrowings were used to repay existing domestic bank indebtedness. Through a series of subsequent amendments, including an amendment executed by the Company on August 8, 2003 and effective as of July 31, 2003, ("August 2003 Amendment") the size of the Revolving Credit Facility was reduced to \$27.5 million. Also, the August 2003 Amendment requires the Company to meet certain milestones related to its efforts to refinance this debt. In addition, any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any net asset disposition payments to reduce the Revolving Credit Facility will result in a proportionate reduction in the lender's commitments in the Revolving Credit Facility. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The Revolving Credit Facility provides for interest on borrowings at prime plus 5.00% and requires the Company to pay a facility fee of 1.00% on the commitment amount. Also, in connection with the Sixth Amendment to the Revolving Credit Facility, the lender group received a warrant ("Revolving Credit Facility Warrant") to purchase 467 of the Company's common shares at a purchase price of \$0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Revolving Credit Facility Warrant can be reduced up to 50% if the Company partially pays the Revolving Credit Facility principal amount prior to July 31, 2003 with cash proceeds received from the disposition of targeted Company assets. This resulted in the Warrant being reduced by 82 common shares at July 31, 2003.

Borrowings under the Revolving Credit Facility are secured by the Company's domestic accounts receivable, inventories, certain intangibles, machinery and equipment and owned real estate as

11

well as certain assets in Canada. The Company also has pledged slightly less than two-thirds of the capital stock of two of its foreign subsidiaries. The Revolving Credit Facility, as amended, requires the Company to maintain certain financial ratios and places limitations on the Company's ability to pay cash dividends, incur additional indebtedness and make investments, including acquisitions. At June 30, 2003, the Company had \$22,682 outstanding under the Revolving Credit Facility. Total availability under the Revolving Credit Facility at June 30, 2003 was approximately \$1,116, after giving consideration to the borrowing base limitations, under the Revolving Credit Facility.

Due to the fact that the Company's Revolving Credit Facility expires on October 31, 2003, it will be necessary for the Company to amend this Revolving Credit Facility to extend the expiration date. If the Company is unable to negotiate an amendment to the Revolving Credit Facility, it will be necessary for the Company to refinance or repay this debt. The Company cannot assure that it will be able to accomplish such a transaction on terms acceptable to the Company or at all. Failure to do so would have a material adverse effect on the Company's liquidity and financial condition and could result in the Company's inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

At June 30, 2003, the Company was in violation of several financial covenants for which it obtained waivers through July 31, 2003. The Company was in compliance with the financial covenants under the Revolving Credit Facility, as amended by the August 2003 Amendment.

In January 1998, the Company issued, through a private placement, \$30 million of Senior Notes due 2008 (the "Senior Notes"). The Senior Notes, as amended, bear interest at 11.35% until October 31, 2003. In addition, the agreement relating to the Senior Notes, as amended, provides for any overdue amount to bear an interest rate of the greater of 13.35% or 2.00% over the rate of interest publicly announced by The Bank of New York from time to time in New York City as its Prime Rate on the outstanding principal payments and overdue amounts. Also, the Senior Notes Agreement as amended, requires the Company to meet certain milestones related to its efforts to refinance this debt. Furthermore, in connection with prior amendments in September 2002, the Senior Notes lender received a warrant ("Senior Notes Warrant") to purchase 467 of the Company's Common Shares at a purchase price of \$0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Senior Notes Warrant can be reduced up to 50% to the extent the Company partially pays the Revolving Credit Facility principal and the Senior Notes principal prior to July 31, 2003 with cash proceeds received from the disposition of targeted Company assets. This resulted in the warrant being reduced by 82 common shares at July 31, 2003. The Company is required to maintain certain financial ratios under the Senior Notes. As of June 30, 2003, the Company was in violation of several of these financial covenants for which it obtained waivers through July 31, 2003. The Company is currently in compliance with the financial covenants under the amended agreement relating to the Senior Notes, executed on August 8, 2003 and effective July 31, 2003.

The Senior Notes, as amended, require a principal payment of \$8,712 by October 31, 2003 and monthly principal payments of \$384 commencing on November 15, 2003 ("Notes Principal Repayments") and are secured equally and ratably with debt under the Revolving Credit Facility. In addition, the Senior Notes provide that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any such additional payments used to reduce the Senior Notes will result in an equal reduction in the Notes Principal Repayments. The Company cannot assure that it will be able to make Notes Principal Repayments when due. Failure to do so would result in a default under the Senior Notes, in which case, the Senior Notes lender could pursue its remedies for default, including acceleration of principal, which would have a material adverse effect on the Company's liquidity and

12

financial condition and could result in the Company's inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

Within the Senior Notes Agreement is a yield maintenance amount provision which ensures that the lender is paid the entire interest amount of the note. The make-whole provision states that the Notes shall be subject to prepayment, in whole at any time or from time to time in part, at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the yield maintenance amount, if any, with respect to each Note. Any partial prepayment of the Notes which meet certain criteria shall be applied against the principal amount of the Notes scheduled to become due in the inverse order of maturity thereof. Fiscal 2003 results include an interest

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

charge of approximately \$1,045 relating to the yield maintenance amount provisions of our Senior Notes agreement. The yield maintenance amount provisions apply to certain optional prepayments of principal under the Senior Notes.

The Company is still seeking other financing to retire the Senior Notes and the Revolving Credit Facility or will seek to get an extension. There can be no assurance, however, that the Company will be able to obtain other financing or if obtained, what the terms and conditions would be.

Until such time when the Company is able to refinance the Senior Notes and Revolving Credit Facility it will attempt to negotiate arrangements with its lenders to, among other things, extend the maturity of the Revolving Credit Facility beyond October 31, 2003 and defer the principal payments due under the Senior Notes. If the Company is not able to negotiate mutually acceptable arrangements with its existing lenders, events could occur that would have a material adverse effect on the Company's liquidity and financial condition and could result in its inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

NOTE 13 - CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In June 2001, Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), were issued by the Financial Accounting Standards Board. SFAS 141 eliminates the pooling-of-interests method for business combinations and requires the use of the purchase method and establishes criteria to be used in determining whether acquired intangible assets are to be separated from goodwill.

In July 2001, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), were issued by the Financial Accounting Standards Board. SFAS 142 changes the accounting for goodwill and indefinite life intangibles from an amortization approach to a non-amortization approach, and require periodic tests for impairment of these assets. Upon the Company's adoption of SFAS 142 on April 1, 2002, the provisions of SFAS 142 required the discontinuance of amortization of goodwill and indefinite life intangibles that had been recorded in connection with previous business combinations. The Company has completed its initial impairment testing as of April 1, 2002 under SFAS 142 and recorded an impairment loss totaling \$18,238 of which \$11,832 related to discontinued operations and \$6,406 related to continuing operations. The loss was

13

recognized as the cumulative effect of a change in accounting principle. This impairment testing is also done annually in the fourth quarter and such testing indicated no additional impairment as of March 31, 2003.

Amortizable intangibles at June 30, 2003 amounted to a net book value of \$1,026. These intangibles are primarily related to patents and trademarks with useful lives ranging from 3 to 15 years. Amortization expense for each of the next five years is expected to be \$242.

NOTE 14 - SUBSEQUENT EVENT

During the second quarter of fiscal 2004, the Company's Board of Directors approved a resolution to keep the European Operations and remove them

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

from discontinued operations. Effective in the second quarter of fiscal 2004, the Company will report future quarterly and annual results of the European Operations in its continuing operations. Prior-year financial statements will be reclassified to reflect the European Operations as continuing operations.

Assets and liabilities for European Operations as of June 30, 2003 and March 31, 2003 consisted of:

	JUNE 30, 2003 ----	MARCH 31, 2003 ----
Cash	\$ 504	\$ 1,524
Accounts receivable	3,360	2,368
Inventory	1,298	1,168
Prepaid expenses	143	140
Property, plant and equipment, net	307	299
Goodwill and other assets	836	836
	-----	-----
Assets	\$ 6,448 =====	6,335 =====
Current liabilities	\$ 5,465	\$ 5,312
Deferred taxes & minority interest	(5)	(5)
	-----	-----
Liabilities	\$ 5,460 =====	\$ 5,307 =====

Operating results for the Company's European operations are presented below:

	FOR THE THREE MONTHS ENDED JUNE 30,	
	2003 ----	2002 ----
Revenues	\$3,376	\$2,852
Operating cost and expenses:		
Cost of sales	2,299	1,882
Selling, general & administrative expenses	737	712
Currency translation adjustment	(264)	--
	-----	-----
Operating income	604	258
Interest expense	2	(3)
	-----	-----
Earnings before income taxes	602	261
Provision for income taxes	101	125
	-----	-----
Earnings from operations	\$ 501 =====	\$ 136 =====

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Corrpro Companies, Inc. was founded in 1984 and is organized under the laws of the State of Ohio. As used in this report, the terms "Corrpro" and the "Company" mean Corrpro Companies, Inc. and its consolidated subsidiaries unless the context indicates otherwise.

PRODUCTS AND SERVICES

Corrpro provides corrosion control related services, systems, equipment and materials to the infrastructure, environmental and energy markets. Our products and services include (i) corrosion control engineering services, systems and equipment ("corrosion control"), (ii) coatings services ("coatings") and (iii) pipeline integrity and risk assessment services.

CORROSION CONTROL. Corrpro's specialty in the corrosion control market is cathodic protection. We offer a comprehensive range of services in this area, which include the design, manufacture, installation, maintenance and monitoring of cathodic protection systems. Cathodic protection is an electrochemical process that prevents corrosion for new structures and stops the corrosion process for existing structures. It can provide a cost-effective alternative to the replacement of corroding structures. In order to understand how cathodic protection works, it is helpful to first understand the corrosion process. Steel, the most common metal protected by cathodic protection, is produced from iron ore. To produce steel, the iron ore is subjected to a refining process that adds energy. Once the steel is put back into the environment, it begins to revert back to its original state (i.e., iron ore) by releasing the added energy back into the surrounding environment. This process of dispersing energy is called corrosion. Cathodic protection electrodes, called anodes, are placed near, and connected to, the structure to be protected (i.e., the cathode). Anodes are typically made from cast iron, graphite, aluminum, zinc or magnesium. A cathodic protection system works by passing an electrical current from the anode to the cathode. This process maintains the energy level on the cathode, thus stopping it from corroding. Instead, the anode corrodes, sacrificing itself to maintain the integrity of the structure. In order for the electrical current to pass from the anode to the cathode, they both must be in a common environment. Therefore, cathodic protection can only be used to protect structures that are buried in soil, submerged in water or encased in concrete. Structures commonly protected against corrosion by the cathodic protection process include oil and gas pipelines, offshore platforms, above and underground storage tanks, ships, electric power plants, bridges, parking garages, transit systems and water and wastewater treatment equipment.

In addition to cathodic protection, our corrosion control services include corrosion engineering, material selection, inspection services, advanced corrosion research and testing. We also sell a variety of materials and equipment including anodes, rectifiers and corrosion monitoring probes used in cathodic protection and corrosion monitoring systems.

COATINGS. Corrpro offers a wide variety of coatings-related services designed to provide our customers with longer coatings life, reduced corrosion, improved aesthetics and lower life-cycle costs for their coated structures. Coatings services include research, testing, evaluation and application of coatings. In addition, we provide project management services for coatings maintenance programs, including condition surveys, failure analysis, selection of site surface preparation methods and selection and application of coatings. We also provide specialized coatings application services for structures

with aggressive corrosion conditions such as the inside and outside of storage tanks and pipelines.

PIPELINE INTEGRITY AND RISK ASSESSMENT SERVICES. Corrpro offers a comprehensive line of pipeline integrity, risk assessment and inspection services, including assessment, surveys, inspection, analysis, repairs and ongoing maintenance. By offering a wide range of services, we are able to provide pipeline owners with one-stop shopping for the preservation of their pipeline systems.

DISPOSITIONS

In July 2002, the Company's Board of Directors approved a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. The Company intends to sell non-core business units and use the proceeds to reduce debt. The Company has engaged outside professionals to assist in the disposition of the domestic and international non-core business units. Prior to the quarter ended September 30, 2002, the Company's non-core domestic and international units were reported as the Other Operations and International Operations reporting segments. Effective as of the quarter ended September 30, 2002, the Other Operations and the International Operations reporting segments have been eliminated and the non-core domestic and international units are reported as discontinued operations. Prior-year financial statements have been reclassified to reflect these non-core units as discontinued operations, which are also referred to as "assets and liabilities held for sale."

During fiscal 2004, the Company sold its Asia Pacific operations for a minimal loss after taking into account an impairment charge on net assets which was recorded during the fourth quarter of fiscal 2003 totaling \$1.6 million. During fiscal 2003, four non-strategic business units were sold. These dispositions included Rohrback Cosasco Systems, Bass Trigon Software and two smaller international offices. The proceeds from these dispositions were used to pay down debt. For further information about our discontinued operations see Note 8, Assets and Liabilities Held for Sale, Notes to Consolidated Financial Statements.

SEGMENTS

We have organized our operations into two business segments: Domestic Core Operations and Canadian Operations. Our non-core domestic and international operations are reported as discontinued operations. Our business segments and a description of the products and services they provide are described below:

DOMESTIC CORE OPERATIONS. The Domestic Core Operations segment consists of the Company's operations in the United States, which provide products and services including corrosion control, coatings, pipeline integrity, risk assessment and inspection services. This segment provides corrosion control products and services to a wide-range of customers in a number of industries including: energy, utilities, water and wastewater treatment, chemical and petrochemical, pipelines, defense and municipalities. In addition, this segment provides coatings services to customers in the entertainment, aerospace, transportation, petrochemical and electric power industries, as well as inspection services to customers in the pharmaceutical, chemical and energy industries. Finally, this segment includes a production facility in the United States that assembles and distributes cathodic protection products, such as anodes, primarily to the United States market.

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

CANADIAN OPERATIONS. Our Canadian Operations segment provides corrosion control, pipeline integrity and inspection services to customers in Canada which are primarily in the oil and gas industry.

16

These customers include pipeline operators and petrochemical plants and refineries. The Canadian Operations segment also includes production facilities that assemble products such as anodes and rectifiers.

A. RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002

REVENUES

Revenues from continuing operations for the fiscal 2004 first quarter totaled \$29.7 million compared to \$26.8 million in the fiscal 2003 first quarter, an increase of \$2.8 million, or 10.6%. Revenues from the discontinued operations were \$6.8 million in the fiscal 2004 first quarter compared to \$9.1 million in the prior-year period, a decrease of \$2.3 million or 24.7%.

Fiscal 2004 first quarter revenues relating to our Domestic Core Operations segment totaled \$24.0 million compared to \$22.5 million in the fiscal 2003 first quarter, an increase of \$1.5 million or 6.8%. This revenue increase relates primarily to a large engineering project that started in late calendar 2002 and is scheduled to continue into fiscal year 2005. Also, contributing to this increase were improved revenue levels in our coatings services and material sales businesses compared to the prior-year period.

Our Canadian Operations segment revenues for the first quarter of fiscal 2004 totaled \$5.7 million compared to \$4.4 million in the prior-year first quarter, an increase of \$1.3 million or 30.1%. This increase is due primarily to material and rectifier sales and increases in the energy segment of our business.

GROSS PROFIT

Gross profit margins were 33.5% for the fiscal 2004 first quarter compared to 31.9% for the fiscal 2003 first quarter. Gross margins benefited in the current quarter from a number of high margin jobs in both the Domestic Core Operations as well as our overall continued effort to improve operating efficiencies and productivity.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses totaled \$7.2 million (24.2% of revenues) for the fiscal 2004 first quarter compared to \$8.0 million (29.9% of revenues) in the fiscal 2003 first quarter, a decrease of \$0.8 million. The fiscal 2004 first quarter had \$0.4 million related to professional fees associated with our lender requirements while the fiscal 2003 first quarter had \$0.7 million in professional fees related to lender requirements. Selling, general and administrative expenses, as a percentage of revenue, continue to show positive results from our efforts to streamline our operations.

OPERATING INCOME FROM CONTINUING OPERATIONS

Operating income totaled \$2.7 million in the first quarter of fiscal 2004 compared to \$0.5 million for the fiscal 2003 first quarter, an increase of \$2.2 million. The increase in operating income in the fiscal 2004 first quarter resulted from improved revenue levels, improved operating margins and lower

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

operating expenses.

17

INTEREST EXPENSE

Interest expense totaled \$1.3 million in first quarter of fiscal 2004 compared to \$1.1 million in the prior-year period. The increase in interest rates year-over-year were partially offset by reduced debt levels. Additionally, the increase in interest expense is also attributable to the amount of interest allocated to discontinued operations which decreased for the same year-earlier period.

INCOME TAX PROVISION

The Company recorded a provision for income taxes of \$0.3 million for the fiscal 2004 first quarter compared to a provision of \$0.2 million for the fiscal 2003 first quarter. Our income tax provision is based on our effective tax rate. Our effective tax rate is based on the statutory rates in effect in the countries in which we operate. The Company recorded a provision below the statutory tax rate of 34% since the Company has utilized the tax benefits of losses in the Domestic Core Operations it had previously provided for. The Company intends to maintain a full valuation allowance on its domestic net deferred tax assets and net operating loss carry-forwards until sufficient evidence exists to support the reversal of the remaining reserve.

INCOME FROM CONTINUING OPERATIONS

Income from continuing operations for the fiscal 2004 first quarter was \$1.2 million compared to a loss of \$0.7 million in the first quarter of fiscal 2003, an increase of \$1.9 million. The fiscal 2004 first quarter increase in operating income is the result of improved revenue levels, improved operating margins and our overall efforts to streamline operations.

DISCONTINUED OPERATIONS

Loss from discontinued operations for the fiscal 2004 first quarter was \$0.4 million compared to a loss from discontinued operations of \$1.8 million in the prior-year period, an improvement of \$1.4 million. Also, during the first three months of fiscal 2004, the Company sold its Asia Pacific operations for a \$46,000 loss after taking into account a \$1.6 million impairment charge on net assets which was recorded during the fourth quarter of fiscal 2003.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During fiscal 2003, the Company, with the assistance of independent valuation experts, completed its initial assessment test and concluded that certain of its goodwill was impaired. Effective April 1, 2002, the Company recognized a transitional impairment charge of \$18.2 million as the cumulative effect of a change in accounting principle to reduce the carrying values of certain indefinite lived intangible assets and goodwill to estimated fair values as required by SFAS No. 142. This was a non-cash charge and did not impact compliance with the financial covenants contained in our lender agreements. This impairment testing is also done annually in the fourth quarter and such testing indicated no additional impairment as of March 31, 2003.

NET INCOME

Net income totaled \$0.8 million in the first quarter of fiscal 2004 compared to a net loss of \$20.7 million in the prior-year period, an increase in

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

earnings of \$21.5 million. Income per share on a diluted

18

basis totaled \$0.09 per share compared to a loss per share of \$2.47 in the year-earlier period.

B. LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2003, the Company had negative working capital of \$26.9 million excluding net assets held for sale, compared to negative \$28.1 million at March 31, 2003, excluding net assets held for sale, which was an improvement of \$1.2 million. This improvement is primarily attributable to decreases in accounts payable and accrued liabilities.

During the first three months of fiscal year 2004, cash provided by operating activities totaled \$2.1 million compared to cash provided by operating activities of \$1.6 million in the year-earlier period. Cash used in investing activities totaled \$0.1 million during the first three months of fiscal 2004, which included \$0.2 million for capital expenditures, offset by, \$0.1 million of proceeds from the disposal of capital assets. This compares to cash used for investing activities totaling \$0.1 million during the first three months of fiscal 2003, which included \$0.1 million used for capital expenditures, partially offset by proceeds of less than \$0.1 million from the disposal of capital assets. Cash used for financing activities totaled \$1.9 million which was used to pay down debt during the first three months of fiscal 2004 compared to cash used by financing activities of less than \$0.1 million that was used to pay down debt in the first three months of fiscal 2003.

In March 1999, the Company entered into an \$80 million revolving credit facility that expires on October 31, 2003 (the "Revolving Credit Facility"). Initial borrowings were used to repay existing domestic bank indebtedness. Through a series of subsequent amendments, including an amendment executed by the Company on August 8, 2003 and effective as of July 31, 2003, ("August 2003 Amendment") the size of the Revolving Credit Facility was reduced to \$27.5 million. Also, the August 2003 Amendment requires the Company to meet certain milestones related to its efforts to refinance this debt. In addition, any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any net asset disposition payments to reduce the Revolving Credit Facility will result in a proportionate reduction in the lender's commitments in the Revolving Credit Facility. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The Revolving Credit Facility provides for interest on borrowings at prime plus 5.00% and requires the Company to pay a facility fee of 1.00% on the commitment amount. Also, in connection with the Sixth Amendment to the Revolving Credit Facility, the lender group received a warrant ("Revolving Credit Facility Warrant") to purchase 467,000 of the Company's common shares at a purchase price of \$0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Revolving Credit Facility Warrant can be reduced up to 50% if the Company partially pays the Revolving Credit Facility principal amount prior to July 31, 2003 with cash proceeds received from the disposition of targeted Company assets. This resulted in the Warrant being reduced by approximately 82,000 common shares at July 31, 2003.

Borrowings under the Revolving Credit Facility are secured by the Company's domestic accounts receivable, inventories, certain intangibles, machinery and equipment and owned real estate as well as certain assets in Canada. The Company also has pledged slightly less than two-thirds of the capital stock of two of its foreign subsidiaries. The Revolving Credit Facility,

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

as amended, requires the Company to maintain certain financial ratios and places limitations on the Company's ability to pay cash dividends, incur additional indebtedness and make investments, including acquisitions. At June 30, 2003, the Company had \$22.7 million outstanding under the Revolving Credit Facility. Total availability under the Revolving Credit Facility at June 30, 2003 was approximately \$1.1 million, after giving consideration to the borrowing base limitations, under the Revolving Credit Facility.

19

Due to the fact that the Company's Revolving Credit Facility expires on October 31, 2003, it will be necessary for the Company to amend this Revolving Credit Facility to extend the expiration date. If the Company is unable to negotiate an amendment to the Revolving Credit Facility, it will be necessary for the Company to refinance or repay this debt. The Company cannot assure that it will be able to accomplish such a transaction on terms acceptable to the Company or at all. Failure to do so would have a material adverse effect on the Company's liquidity and financial condition and could result in the Company's inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

At June 30, 2003 the Company was in violation of several financial covenants for which it obtained waivers through July 31, 2003. The Company was in compliance with the financial covenants under the Revolving Credit Facility, as amended by the August 2003 Amendment.

In January 1998, the Company issued, through a private placement, \$30 million of Senior Notes due 2008 (the "Senior Notes"). The Senior Notes, as amended, bear interest at 11.35% until October 31, 2003. In addition, the agreement relating to the Senior Notes, as amended, provides for any overdue amount to bear an interest rate of the greater of 13.35% or 2.00% over the rate of interest publicly announced by The Bank of New York from time to time in New York City as its Prime Rate on the outstanding principal payments and overdue amounts. Also, the Senior Notes Agreements as amended, requires that the Company meet certain milestones related to its efforts to refinance this debt. Furthermore, in connection with prior amendments in September 2002, the Senior Notes lender received a warrant ("Senior Notes Warrant") to purchase 467,000 of the Company's Common Shares at a purchase price of \$0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Senior Notes Warrant can be reduced up to 50% to the extent the Company partially pays the Revolving Credit Facility principal and the Senior Notes principal prior to July 31, 2003 with cash proceeds received from the disposition of targeted Company assets. This resulted in the warrant being reduced by approximately 82,000 common shares at July 31, 2003. The Company is required to maintain certain financial ratios under the Senior Notes. As of June 30, 2003, the Company was in violation of several of these financial covenants for which it obtained waivers through July 31, 2003. The Company is currently in compliance with the financial covenants under the amended agreement relating to the Senior Notes, executed on August 8, 2003 and effective July 31, 2003.

The Senior Notes, as amended, require a principal payment of \$8.7 million by October 31, 2003 and monthly principal payments of \$0.4 million commencing on November 15, 2003 ("Notes Principal Repayments") and are secured equally and ratably with debt under the Revolving Credit Facility. In addition, the Senior Notes provide that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any such additional payments used to reduce the Senior Notes will result in an equal reduction in

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

the Notes Principal Repayments. The Company cannot assure that it will be able to make Notes Principal Repayments when due. Failure to do so would result in a default under the Senior Notes, in which case, the Senior Notes lender could pursue its remedies for default, including acceleration of principal, which would have a material adverse effect on the Company's liquidity and financial condition and could result in the Company's inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

Within the Senior Notes Agreement is a yield maintenance amount provision which ensures that the lender is paid the entire interest amount of the Note. The make-whole provision states that the Notes shall be subject to prepayment, in whole at any time or from time to time in part, at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the

20

prepayment date and the yield maintenance amount, if any, with respect to each Note. Any partial prepayment of the Notes which meet certain criteria shall be applied against the principal amount of the Notes scheduled to become due in the inverse order of maturity thereof. Fiscal 2003 results include an interest charge of approximately \$1.0 million relating to the yield maintenance amount provisions of our Senior Notes agreement. The yield maintenance amount provisions apply to certain optional prepayments of principal under the Senior Notes.

The Company is still seeking other financing to retire the Senior Notes and the Revolving Credit Facility or will seek to get an extension. There can be no assurance, however, that the Company will be able to obtain other financing or if obtained, what the terms and conditions would be.

Until such time when the Company is able to refinance the Senior Notes and Revolving Credit Facility it will attempt to negotiate arrangements with its lenders to, among other things, extend the maturity of the Revolving Credit Facility beyond October 31, 2003 and defer the principal payments due under the Senior Notes. If the Company is not able to negotiate mutually acceptable arrangements with its existing lenders, events could occur that would have a material adverse effect on the Company's liquidity and financial condition and could result in its inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

The following table summarized the Company's contractual obligations at June 30, 2003:

(IN THOUSANDS)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN ONE YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
Indebtedness:					
Senior Notes	\$ 25,083	\$25,083	\$ --	\$ --	\$ --
Revolving Line of Credit	22,651	22,651	--	--	--

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Other Debt Obligations	2,261	1,519	742	--	--
Operating Leases	6,712	2,291	3,471	750	200
	-----	-----	-----	-----	-----
Total Contractual Cash Obligations	\$ 56,707	\$51,544	\$4,213	\$ 750	\$ 200
	=====	=====	=====	=====	=====

21

FACTORS INFLUENCING FUTURE RESULTS AND ACCURACY OF FORWARD LOOKING INFORMATION

This document includes certain statements that may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on management's expectations and beliefs concerning future events and discuss, among other things, anticipated future performance and revenues, expected growth and future business plans. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" or variations of such words and similar expressions are intended to identify such forward-looking statements. We believe that the following factors, among others, could affect our future performance or the price and liquidity of our common shares and cause our actual results to differ materially from those that are expressed or implied by forward-looking statements, or diminish the liquidity of our common shares: our ability to further extend, amend or refinance our existing debt, including the availability to us of external sources of financing and capital (the failure to receive such financing would have a material adverse effect on our results of operations and financial condition) and the terms and timing thereof; our ability to successfully divest our non-core and international business units and the timing, terms and conditions of such divestitures; the ultimate outcome of the SEC's and the Australian Securities and Investment Commission's investigation of accounting irregularities; the impact of any litigation or regulatory process related to the financial statement restatement process, including the class action litigation already filed (the dismissal of which has been appealed); our mix of products and services; the timing of jobs; the availability and value of larger jobs; qualification requirements and termination provisions relating to government jobs; the impact of inclement weather on our operations; the impact of energy prices on us and our customers' businesses; adverse developments in pending litigation or regulatory matters; the impact of existing, new or changed regulatory initiatives; our ability to satisfy the listing and trading requirements of the AMEX (which, if not satisfied, could result in the suspension of trading - as occurred in August 2002 - or delisting of our shares from the exchange, which could diminish the liquidity of our common shares) or any other national exchange on which our shares are or will be listed or otherwise provide a trading venue for our shares; and the impact of changing global political and economic conditions. In addition, any forward-looking statement speaks only as of the date on which such statement is made and we do not undertake any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

All phases of our operations are subject to a number of uncertainties, risks and other influences, many of which are beyond our control. Any one of such influences, or a combination, could materially affect the accuracy of the forward-looking statements and the assumptions on which the statements are based. Some important factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements include the following:

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

OUR ABILITY TO OBTAIN EXTENSIONS, AMENDMENTS AND WAIVERS UNDER OUR DEBT AGREEMENTS AND AVAILABILITY OF ADDITIONAL SOURCES OF FINANCING AND CAPITAL. The Company is currently in compliance of all its financial ratios required to be maintained under the current debt agreements which includes its net worth covenant and its operating income before depreciation and amortization financial covenant. During August of fiscal 2004, we amended our Revolving Credit Facility and Senior Notes because we were not in compliance with the provisions, including certain financial covenants, of these agreements. As amended, both the Revolving Credit Facility and the Senior Notes require that the Company meet certain milestones related to its efforts to refinance this debt. As amended, the Revolving Credit Facility expires on October 31, 2003, and it will be necessary for us to amend this Revolving Credit Facility to extend the expiration date. If we are unable to negotiate a further amendment to the Revolving Credit Facility, which, among other things, extends the maturity of the Revolving Credit Facility beyond October 31, 2003, it will be necessary for us to

22

refinance or repay this debt. We cannot assure that we will be able to accomplish such a transaction on terms acceptable to us or at all. Failure to do so would have a material adverse effect on our liquidity and financial condition and could result in our inability to operate as a going concern. If we are unable to operate as a going concern, we may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors. In addition, the Senior Notes, as amended, require a principal payment of \$8.7 million by October 31, 2003 and monthly principal payments of \$0.4 million commencing on November 15, 2003. We cannot assure that we will be able to make these payments when due, which will result in our being in default under the Senior Notes and, in that event, the Senior Notes lender may pursue its remedies against us for such a default, including acceleration of principal, which would have a material adverse effect on our liquidity and financial condition and could result in our inability to operate as a going concern. If we are unable to operate as a going concern, we may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors. We intend to seek other financing during fiscal 2004 to pay down the Senior Notes and the Revolving Credit Facility. There can be no assurance, however, that we will be able to obtain other financing or as to the terms and conditions under which such financing may be available.

THE EFFECTIVENESS OF OUR BUSINESS RESTRUCTURING PLAN. In July 2002, our Board of Directors approved a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. We intend to sell non-core business units and use the proceeds to reduce debt. While we expect that operating income improvements combined with debt reduction will result from the business restructuring plan in the long term, it is uncertain at this time to what extent such operating income improvements and debt reduction will be achieved as a result of the business restructuring plan and the terms and/or timing thereof. We cannot assure that the business restructuring plan will be successful in enhancing our ability to pursue financing alternatives acceptable to us. During fiscal 2004 our Asia Pacific Operations was sold and in fiscal 2003, we sold four non-strategic business units. The fiscal 2003 dispositions included Rohrback Cosasco Systems, Bass Trigon Software and two smaller international offices. The proceeds from these dispositions were used to pay down debt. For further information about our discontinued operations see Note 2, Assets and Liabilities Held for Sale, Notes to Consolidated Financial Statements included in Item 8 of our Form 10-K.

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

OUR REPUTATION AND FINANCIAL CONDITION COULD BE AFFECTED BY THE SECURITIES LITIGATION AND RELATED INVESTIGATIONS AND/OR A RESTATEMENT OF FINANCIAL STATEMENTS. On March 20, 2002, we first announced that we had become aware of accounting irregularities caused by apparent internal misconduct in our Australian subsidiary and that, to the extent that the accounting irregularities materially affect previously filed financial statements, we restated our audited financial statements for our fiscal year which ended March 31, 2001 as well as unaudited financial information for the first nine months through December 31, 2001 of our fiscal year ended March 31, 2002, as previously released. In addition, we recorded a charge to earnings for our loss on investment related to the subsidiary. This charge was taken in the Company's fiscal fourth quarter ended March 31, 2002. Subsequent to this announcement, a purported class action lawsuit was filed against us and certain of our current and former directors and officers, asserting claims under the federal securities laws, which was dismissed with prejudice in May 2003. In June 2003, the plaintiffs filed a notice of appeal from the order of dismissal. In addition to significant expenditures we may have to make to defend ourselves in these matters and the related significant financial penalties that might be imposed on us if the plaintiffs prevail, the publicity surrounding the litigation and the SEC inquiry of these matters could affect our reputation with our customers and suppliers and have an impact on our financial condition and results of operations.

23

OUR COMPLIANCE WITH THE LISTING STANDARDS AND REPORTING REQUIREMENTS OF THE STOCK EXCHANGE ON WHICH OUR COMMON SHARES TRADE. We are required by the stock exchange on which we list our common shares for trading to maintain certain listing standards and meet certain reporting requirements in order to continue trading and to remain listed on that exchange. The exchange does not use any precise mathematical formula to determine whether a security warrants continual trading on the exchange. Each case is considered on the basis of all relevant facts and circumstances. The exchange has adopted certain guidelines under which it will normally give consideration to suspending dealings in, or removing, a security from listing. The exchange will normally consider suspending dealings in, or removing from the list, securities of a company which does not meet such guidelines. We do not currently have a sufficient amount of shareholders' equity to meet the guidelines. If we cannot demonstrate that we will be in compliance within a limited time frame, our common shares may not be allowed to trade on the stock exchange, although we would pursue an alternative national trading venue and it may make it more difficult for us to raise funds through the sale of our securities. In addition, it may make it more difficult for an investor to dispose of, or to obtain accurate quotations of, our common shares and negatively impact the market price. Our shares had been suspended from trading on the American Stock Exchange in August 2002, because of, among other reasons, the late filing of our Form 10-K/A for the fiscal year ended March 31, 2002. There can be no assurances that trading will not be suspended again and if so, that trading would be permitted to resume.

ADVERSE DEVELOPMENTS IN PENDING LITIGATION OR REGULATORY MATTERS. From time to time, we are involved in litigation and regulatory proceedings, including those disclosed in "Legal Proceedings" of our annual report on Form 10-K and in our other periodic reports filed with the Securities and Exchange Commission. There are always significant uncertainties involved in litigation and regulatory proceedings and we cannot guarantee the result of any action. Regulatory compliance is often complex and subject to variation and unexpected changes, including changing interpretations and enforcement agendas affecting the regulatory community. We may need to expend significant financial resources in connection with legal and regulatory procedures and our management may be required to divert attention from other portions of our business. If, as a result of any proceeding, a judgment is rendered, decree is entered or

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

administrative action is taken against us or our customers, it may materially and adversely affect our business, financial condition and results of operations.

OUR PROFITABILITY CAN BE IMPACTED BY OUR MIX OF PRODUCTS AND SERVICES. Given that our selling, general and administrative costs are largely fixed in terms of dollars, our profitability is dependent upon the amount of gross profit that we are able to realize. We typically generate higher gross profit margins on pure engineering service jobs than on those jobs that include a material or installation component. In addition, our gross profit margins also can be negatively impacted when we utilize subcontractors. Therefore, a shift in mix from engineering services to more construction and installation type work or an increase in the amount of subcontracting costs could have a negative impact on our operating results. In addition, certain of the products that we sell have gross profit margins that are considerably lower than our overall average gross profit margin. A shift in mix which results in a greater percentage of revenues relating to these lower margin products would also have a negative impact on our operating results.

THE TIMING OF JOBS CAN IMPACT OUR PROFITABILITY. There are a number of factors, some of which are beyond our control, that can cause projects to be delayed and thus negatively impact our profitability for the related period. These factors include the availability of labor, equipment or materials, customer scheduling issues, delays in obtaining required permits and weather. In addition, when we are working as a subcontractor on a project, our portion of the project can be delayed as a result of factors relating to other contractors.

24

THE AVAILABILITY AND VALUE OF LARGER JOBS CAN IMPACT OUR PROFITABILITY. While the majority of our jobs are relatively small, we can have a number of individual contracts in excess of \$1 million in progress at any particular time. These larger contracts typically generate more gross profit dollars than our average size jobs. Therefore, the absence of larger jobs, which can result from a number of factors, including market conditions, can have a negative impact on our operating results.

QUALIFICATION REQUIREMENTS AND TERMINATION PROVISIONS RELATING TO GOVERNMENT JOBS. We derive revenues from contracts with the United States, its agencies and other governmental entities. Government contracting is subject to competitive bidding processes and there can be no assurance that we will be the successful bidder for future contracts. Fluctuations in government spending and the amount of government contracts received also could adversely affect our revenues and profitability. In addition, it is the policy of the United States that certain small businesses and other concerns have the maximum practicable opportunity to participate in performing contracts let by any federal agency. To the extent that we do not meet applicable criteria for government jobs, we could be limited in our ability to participate directly in contracts being let by the United States and other governmental entities with similar requirements. Certain contracts with governmental entities contain provisions permitting the governmental entities to terminate the contract for convenience prior to completion of the contract. To the extent that any of our contracts with a government entity are so terminated, our revenues and profitability could be adversely impacted.

OUR OPERATIONS CAN BE IMPACTED BY INCLEMENT WEATHER. A large portion of our service work is performed in the field. Therefore, excessive amounts of rain, snow or cold, as well as other unusual weather conditions, including hurricanes and typhoons, can result in work stoppages. Also, working under inclement weather conditions can reduce our efficiencies, which can have a

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

negative impact on our profitability.

OUR BUSINESS IS IMPACTED BY CHANGES IN ENERGY PRICES. The products and services we provide to our customers in the energy markets are, to some extent, deferrable in the event that these customers reduce their capital and discretionary maintenance expenditures. The level of spending on these types of expenditures can be influenced by oil and gas prices and industry perceptions of future prices. Our experience indicates that our energy customers react to declining oil and gas prices by reducing their capital and discretionary maintenance expenditures. This reaction has in the past, and may in the future, have a negative impact on our business. We are unable to predict future oil and gas prices. However, we believe that a prolonged period of low energy prices could have a negative impact on our business. Typically, there is a delay between the time prices decline and when we start to experience a negative impact on our results of operations. Conversely, there is also a delay between the time energy prices increase and when we start to experience a positive impact on our results of operations.

THE IMPACT OF CHANGING GLOBAL, POLITICAL AND ECONOMIC CONDITIONS. Changing political and economic conditions regionally or worldwide can adversely impact our business. Deteriorating political and general economic conditions may result in customers delaying or canceling contracts and orders for our products and services, difficulties and inefficiencies in the performance of our services including work stoppages, and difficulties in collecting payment from our customers. As a result, such conditions can negatively impact our results of operations and our cash flows. Moreover, we have operations in the Middle East region with revenues totaling \$3.0 million for first three months of fiscal 2004 and net assets of approximately \$7.2 million at June 30, 2003. These operations can be negatively impacted by changing economic and political conditions. All of our international operations except Canada are a part of the Company's net assets held for sale. Subsequent to the first quarter of fiscal 2004, the European Operations will be reported as continuing operations.

25

EXISTING, NEW OR CHANGED REGULATORY INITIATIVES CAN IMPACT OUR BUSINESS. Corrpro and its customers are subject to federal, state and local environmental and other laws and regulations. These laws and regulations affect our operations by imposing standards for the protection of health, welfare and the environment. Such laws and regulations, and applicable interpretations thereof, could expose us to liability for acts which are or were in compliance at the time such acts were performed. We cannot predict whether future legislative or regulatory developments may occur which would have an adverse effect on Corrpro.

These risks must be considered by any investor or potential investor in the Company.

C. CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. As such, some accounting policies have a significant impact on amounts reported in these financial statements. A summary of those significant accounting policies can be found in the Company's fiscal 2003 Annual Report on Form 10-K, filed on June 30, 2003, in the Note 1 - Summary of Significant Accounting Policies, Notes to Consolidated Financial Statements, and under the caption "Significant Accounting Policies" within Management's Discussion and Analysis of Financial Condition and Results of Operations. In particular, judgment is used in areas such as revenue recognition for construction and engineering contracts, determining the allowance for uncollectible accounts and inventory valuation

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

reserves, asset impairment and deferred tax assets.

D. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of various interest entities as defined in the Interpretation. The provisions of FIN 46 are effective on February 1, 2003 for all variable interest entities created after January 31, 2003, and on July 1, 2003 for all variable interest entities created prior to February 1, 2003. The Company does not expect the adoption of this Interpretation to have a material impact on its results of operations or financial position.

In April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS No. 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, (2) in connection with other FASB projects dealing with financial instruments and (3) in connection with implementation issues raised in relation to the application of the definition of a derivative. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003, with certain exceptions. The Company does not expect the adoption of SFAS No. 149 to have a material impact on its results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments and Characteristics of both Liabilities and Equity" which requires freestanding financial instruments such as mandatorily redeemable shares, forward purchase contracts, written put options to be reported as liabilities by their issuers as well as related new disclosure requirements. The provisions of SFAS No.

26

150 are effective for instruments entered into or modified after May 31, 2003 and pre-existing instruments as of the beginning of the first interim period that commences after June 15, 2003. The application of this Statement is not expected to have an effect on the Company's consolidated financial statements.

27

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK DISCLOSURES

In the normal course of business, our operations are exposed to continuing fluctuations in foreign currency values and interest rates that can affect the cost of operating and financing our business.

INTEREST RATE RISK

Our primary interest rate risk exposure results from our variable interest rate Revolving Credit Facility, Senior Notes and various smaller lines of credit that we maintain with foreign banks. If interest rates were to increase 200 basis points (2%) from the rates at June 30, 2003 rates, and assuming no changes in debt from the June 30, 2003 levels, the additional annual expense would be approximately \$1.0 million on a pre-tax basis.

FOREIGN OPERATIONS AND FOREIGN CURRENCY EXCHANGE RISK

Our foreign subsidiaries generally conduct business in local currencies, creating foreign exchange risk. During the first three months of fiscal 2004, the Company recorded a favorable foreign currency translation adjustment of \$0.7 million related to net assets located outside the United States. This foreign currency translation adjustment resulted primarily from the weakening of the United States Dollar in relation to the Canadian Dollar. We do not enter into derivatives to hedge foreign currency exchange risk. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the effect of local laws and taxes, tariff increases and regulations and requirements for export licenses, the potential imposition of trade or foreign exchange restrictions and transportation delays.

28

ITEM 4. CONTROLS AND PROCEDURES

(a) Controls and Procedures.

On August 9, 2002, the Company issued restated consolidated financial statements included in its filings with the Securities and Exchange Commission (the "SEC") as of and for the fiscal years ended March 31, 2002 and 2001, and related quarterly periods (the "10-K/A"). The restatement occurred because certain accounting errors and irregularities in the Company's financial statements were identified. As discussed in the Company's Annual Report on Form 10-K for the fiscal year 2002 filed with the SEC on August 9, 2002, the Company has been advised that the SEC is conducting an investigation into the facts and circumstances giving rise to the restatement, and the Company has been and intends to continue cooperating with the SEC. The Company cannot predict the outcome of such an investigation.

Following the commencement of an internal review of its accounting records and procedures and the investigation initiated by the Company's Audit Committee of the Board of Directors in connection with the restatement process (the "Audit Committee Investigation"), the Company initiated a significant restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. The Company intends to sell non-core business units and use the proceeds to reduce debt. These activities, while critical to the successful restructuring of the Company, complicate the Company's ability to assess the overall effectiveness of internal controls.

Since the inception of the restatement process and Audit Committee Investigation, the Company has made a number of significant changes that strengthened the internal controls over its financial accounting, reporting and disclosure procedures (the "Reporting and Disclosure Procedures"). These changes included, but were not necessarily limited to, (i) communicating clearly and consistently a tone from senior management regarding the proper conduct in these

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

matters, (ii) strengthening the North American financial management organizational reporting chain, (iii) requiring stricter account reconciliation standards, (iv) updating and expanding the distribution of the Company's business conduct questionnaire, (v) requiring quarterly as well as annual business units written representations, (vi) expanding the financial accounting procedures in the current year, (vii) temporarily supplementing the Company's existing staff with additional contractor-based support to collect and analyze the information necessary to prepare the Company's financial statements, related disclosures and other information requirements contained in the Company's SEC periodic reporting until the Company implements changes to the current organization and staffing, (viii) commencing a comprehensive, team-based process to further assess and enhance the efficiency and effectiveness of the Company's financial processes, including support efforts which better integrate current and evolving financial information system initiatives, and addressing any remaining weaknesses, and (ix) establishment of an internal audit function.

The Company will continue the process of identifying and implementing corrective actions where required to improve the effectiveness of its Reporting and Control Procedures. Significant supplemental resources will continue to be required to prepare the required financial and other information during this process, particularly in view of the Company's current stage of restructuring. The changes made to date as discussed above have enabled the Company to restate its previous filings where required, as well as subsequently prepare and file the remainder of the required periodic reports for fiscal 2004 on a current basis.

(b) Evaluation of Disclosure Controls and Procedures.

29

The Company's Chief Executive Officer and Chief Financial Officer (the "Senior Officers"), with the participation of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2003. Based on that evaluation, the Senior Officers have concluded that, as of June 30, 2003, the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no changes in internal controls that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to affect, the Company's internal controls.

30

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously reported, in January 2000, the Michigan Department of Environmental Quality ("MDEQ") issued an administrative decision which effectively limited the scope of MDEQ's 1995 approval of certain assessment methodologies utilized by Corrpro in determining whether certain underground storage tanks meet Michigan's regulatory requirements for upgrade by means of cathodic protection. The MDEQ decision also would have required us to conduct further assessments and provide certain information. The assessment methodologies at issue have been and remain recognized by the Environmental

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

Protection Agency ("EPA") and the other states in which we utilized such methodologies for virtually identical purposes. We believed that MDEQ's decision was in error and on January 24, 2000, filed a complaint and claim of appeal in the Circuit Court for the County of Ingham, Michigan seeking declaratory relief and appealing the decision on several grounds. In its November 14, 2000 ruling, the Ingham Circuit Court reversed MDEQ's decision that directed we take certain actions and provide certain information, however, the court also found that MDEQ had not approved the full use of the assessment methodologies we utilized in Michigan.

We believed that the circuit court's finding that MDEQ had not approved full use of the methodologies was not supported by the evidence, and was contradicted by evidence contained in the administrative record. On December 5, 2000, we filed, in the Michigan Court of Appeals, an application for leave to appeal the circuit court's finding that MDEQ did not approve the full use of the assessment methodologies we utilized in Michigan. By order dated February 14, 2001, the Michigan Court of Appeals denied our application for leave to appeal the circuit court's finding. On March 7, 2001, we filed an application for leave to appeal with the Supreme Court of the State of Michigan. On August 28, 2001, the Michigan Supreme Court denied our application for leave to appeal.

As a result of these proceedings, the MDEQ's administrative decision finding that certain of our assessment methodologies were not approved in full was upheld, but the MDEQ was found not to have jurisdiction to enforce its decision against us. In July 2002, the MDEQ sent certain underground storage tank owners and operators who may have relied on our method of assessment a notice informing them that certain of such owners and operators' tanks were improperly upgraded, that such owners and operators are to provide to MDEQ upon request evidence that they have conducted state required tank tightness testing, and certain of such tanks must be internally inspected. MDEQ also advised that internally inspected tanks that do not satisfy applicable criteria should be taken out-of-service and removed from the ground. There can be no assurance that the MDEQ will not take further action against underground storage tank owners or operators.

On July 25, 2002, a summons and complaint was issued from the Circuit Court for the County of Ingham, Michigan. The action was commenced by Blogett Oil Company, Inc. and other owners and operators of underground storage tanks systems on behalf of themselves and others similarly situated. The complaint relates to the MDEQ regulatory proceeding described immediately above and names both the Company and MDEQ. The plaintiffs seek an unspecified amount of damages in excess of \$25,000 from Corrpro. The plaintiffs also seek injunctive relief prohibiting the MDEQ from declaring that underground storage tanks upgraded by the Company do not meet the current requirement for corrosion protection set forth by law. On November 18, 2002, the court issued an order certifying the underlying class. The Michigan Court of Appeals denied the Company's application for leave to appeal the Circuit Court's order certifying the underlying class. By letter dated July 7, 2003, the MDEQ issued a notice to certain owners and operators of tanks upgraded based on the Company's assessment method that they

31

had until October 7, 2003 to comply with certain actions specified in the MDEQ's notice. The Company is unable at this time to make a determination as to whether an adverse outcome is likely and whether an adverse outcome would have a materially adverse affect on its operations or financial condition.

During fiscal 2001, the Company discovered that a former employee used an incorrect assessment standard in connection with the evaluation of whether certain underground storage tanks located at as many as 67 sites were eligible for upgrade using cathodic protection. Such evaluations were done using one of

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

the approved assessment methodologies. The tanks at these sites, which are located in five states, were subsequently upgraded using cathodic protection, which arrests corrosion. These tanks are also subject to ongoing leak detection requirements. Based on the Company's review of available information and governmental records, the Company believes that there have not been any releases from the affected tanks as a result of the actions of the former employee. The Company has contacted, and in October and November 2000 met with, officials from the EPA and officials from the corresponding environmental protection agencies of the five states involved to discuss this matter. It is the Company's understanding that none of the states nor the EPA intend to take any enforcement action as a result of the use of the inaccurate standard by the former employee. The Company is currently working with the states and the EPA to develop and implement field investigation procedures to assess the current status of the affected sites. Based on currently available information, the Company does not believe that the cost of field investigation procedures for this matter will have a material effect on the future operations, financial position or cash flows of the Company.

The Company is a defendant in a purported class action suit filed on June 24, 2002, in the United States District Court, Northern District of Ohio, Eastern Division. The complaint also names certain former and current officers and directors of the Company as defendants. The complaint was purportedly filed on behalf of all persons who purchased Corrpro Common Shares during the period April 1, 2000 through March 20, 2002 and alleges violations of the federal securities laws resulting in artificially inflated prices of the Company's Common Shares during the class period. The complaint relates to the Company's announcement that it had discovered accounting irregularities caused by apparent internal misconduct in its Australian subsidiary. The complaint seeks unspecified compensatory damages, fees and expenses on behalf of the putative class. On or about May 27, 2003, the District Court granted, with prejudice, the defendants motions to dismiss the amended and consolidated class action complaint. On June 24, 2003, the plaintiffs filed a notice of appeal to the United States Circuit Court of Appeals for the 6th Circuit from the order of dismissal. The Company is unable at this time to make a determination as to whether an adverse outcome is likely and whether an adverse outcome would have a materially adverse affect on its operations or financial condition.

Company management discovered accounting irregularities at the Australian subsidiary in early calendar 2002 and upon discovery immediately began an internal investigation, which has been conducted under the direction of the Audit Committee of its Board of Directors. The Australian Securities and Investments Commission has commenced an independent investigation of the accounting irregularities. Corrpro voluntarily disclosed this matter to the SEC, which has commenced a formal inquiry. Corrpro is cooperating with both commissions.

In January 2003, the Company received a Consolidated Compliance Order and Notice of Potential Penalty from the Louisiana Department of Environmental Quality pursuant to which the department alleges that the Company's foundry operations failed to submit required storm water monitoring information as required by law. The alleged failure relates to periods subsequent to the cessation of the Company's foundry operations. The Company has appealed the matter and the department has agreed to engage an informal resolution of the matter. Based on current available

information, the Company does not believe that this matter will have a material effect on the future operations, financial position or cash flows of the Company.

Edgar Filing: CORRPRO COMPANIES INC /OH/ - Form 10-Q

The Company is subject to other legal proceedings and claims which arise in the ordinary course of business.

33

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- A. See the Exhibit Index at the last page of this Form 10-Q.
- B. 8-K filed on April 15, 2003.

34

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORRPRO COMPANIES, INC.
(Registrant)

Date: August 14, 2003

/s/ Joseph W. Rog

Joseph W. Rog
Chairman of the Board, President
and Chief Executive Officer

/s/ Robert M. Mayer

Robert M. Mayer
Senior Vice President, Chief
Financial Officer

35

EXHIBIT INDEX

Exhibit No. -----	Exhibit -----
10.1	Ninth Amendment to Credit Agreement dated as of July 31, 2002 relating to the Amended and Restated Credit Agreement dated as of June 9, 2000 among the Company, CSI Coating Systems, Inc. and the Lenders party thereto.
10.2	Amendment dated as of July 31, 2002 between the Company and The Prudential Insurance Company of America relating to the Note Purchase Agreement dated as of January 21, 1998.
31.1	Rule 13a-14(a) Certification Chief Executive Officer
31.2	Rule 13a-14(a) Certification Chief Financial Officer
32.1	Section 1350 Certification Chief Executive Officer
32.2	Section 1350 Certification Chief Financial Officer