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CORRPRO COMPANIES INC /OH/  
Form 10-Q  
August 14, 2002

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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  
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NO  
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As of August 13, 2002, 8,408,276 Common Shares, without par value, were  
outstanding.

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CORRPRO COMPANIES, INC.  
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2002
	-----
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 6,404
Accounts receivable, net	35,106
Inventories	14,987
Prepaid expenses and other	4,811

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Total current assets	61,308
Property, plant and equipment, net	9,912
Other Assets:	
Goodwill	33,493
Other assets	3,974
Total other assets	37,467
	\$ 108,687
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Short-term borrowings and current portion of long-term debt	\$ 61,962
Accounts payable	10,415
Accrued liabilities and other	9,920
Total current liabilities	82,297
	-----
Long-term debt, net of current portion	989
Deferred income taxes	417
Commitments and contingencies	--
Minority interest	56
Shareholders' Equity:	
Serial preferred shares	--
Common shares	2,276
Additional paid-in capital	46,435
Accumulated earnings	(18,698)
Accumulated other comprehensive loss	(3,554)
Common shares in treasury, at cost	(1,531)
Total shareholders' equity	24,928
	-----
	\$ 108,687
	=====

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

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For the Three Months Ended  
June 30,

	2002	As Restated 2001
	-----	-----
Revenues	\$ 35,931	\$ 44,071
Operating costs and expenses:		
Cost of sales	24,236	30,951
Selling, general and administrative expenses	10,086	11,233
Loss on investment of subsidiary	2,000	--
	-----	-----
Operating income (loss)	(391)	1,887
Interest expense	1,686	1,833
	-----	-----
Income (loss) before income taxes	(2,077)	54
Provision for income taxes	370	320
	-----	-----
Net loss	\$ (2,447)	\$ (266)
	=====	=====
Loss per share:		
Basic	\$ (0.29)	\$ (0.03)
Diluted	\$ (0.29)	\$ (0.03)
Weighted average shares:		
Basic	8,350	7,960
Diluted	8,350	7,960

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

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CORRPRO COMPANIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(IN THOUSANDS)

	Three Months En June 30,	Re
	2002	-----
Cash flows from operating activities:		
Net loss	\$ (2,447)	\$
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		

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Depreciation and amortization	889	
401(k) matching contribution in Treasury shares	70	
Deferred income taxes	(7)	
Loss on Investment in Subsidiary	1,590	
Loss (gain) on sale of assets	(9)	
Minority interest	(10)	
Changes in operating assets and liabilities:		
Accounts receivable	2,876	
Inventories	17	
Prepaid expenses and other	(1,361)	
Other assets	606	
Accounts payable and accrued expenses	(1,464)	
	-----	
Total adjustments	3,197	
	-----	
Net cash provided (used) by operating activities	750	
	-----	
Cash flows from investing activities:		
Additions to property, plant and equipment	(119)	
Proceeds from disposal of property, plant and equipment	81	
	-----	
Net cash provided (used) by investing activities	(38)	
	-----	
Cash flows from financing activities:		
Net borrowings under revolving credit facility and lines of credit	--	
Net payments under other long-term debt	(101)	
	-----	
Net cash provided (used) by financing activities	(101)	
	-----	
Effects of changes in foreign currency exchange rates on cash	39	
	-----	
Net increase (decrease) in cash and cash equivalents	650	
Cash and cash equivalents at beginning of period	5,754	
	-----	
Cash and cash equivalents at end of period	\$ 6,404	\$
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Income taxes	\$ 127	\$
Interest	\$ 1,394	\$

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

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(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. However, 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, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2003 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, 2002.

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, 2002 ----	March 31, 2002 ----
Inventories consist of the following:		
Component parts and raw material	\$ 8,559	\$ 8,021
Work in process	824	751
Finished goods	7,012	7,209
	-----	-----
	16,395	15,981
Inventory reserve	(1,408)	(1,414)
	-----	-----
	\$ 14,987	\$ 14,567
	=====	=====

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## NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

	June 30, 2002 ----	March 31, 2002 ----
Property, plant and equipment consists of the following:		
Land	\$ 604	\$ 592

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Buildings and improvements	6,710	6,612
Equipment, furniture and fixtures	19,364	19,138
	-----	-----
	26,678	26,342
Less: Accumulated depreciation	(16,766)	(16,100)
	-----	-----
	\$ 9,912	\$ 10,242
	=====	=====

### NOTE 4 - EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income for the period by the weighted average number of common shares outstanding for the period, which was 8,350 and 7,960 for the three months ended June 30, 2002 and 2001, 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 8,350 and 7,960 for the three months ended June 30, 2002 and 2001, respectively. Stock options are the only potential common shares and none were included in the Company's diluted EPS calculations as the effect would be antidilutive. Potential common shares are computed using the treasury stock method.

### NOTE 5 - STOCK PLANS

In fiscal 2001, the Company adopted a plan whereby holders of stock options covered under the 1997 Long-Term Incentive Plan of Corrpro Companies, Inc. (the "1997 Option Plan") could surrender options previously granted with the understanding that a like number of options would be granted no sooner than six months after surrender at the fair market value of the common shares at that time. During the three months ended June 30, 2002, the Company did not grant any options under this program. This program was completed in June 2001.

The Company granted options to purchase 20 common shares at an exercise price of \$1.15 per share under the 1997 Option Plan during the three months ended June 30, 2002. In addition, options previously granted to purchase 23 common shares at exercise prices ranging from \$1.52 to \$6.50 were terminated during the three months ended June 30, 2002.

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### NOTE 6 - SHAREHOLDERS' EQUITY

The Company maintains the Corrpro Companies, Inc. 401(k) Savings Plan for eligible employees in the United States under Section 401(k) of the Internal Revenue Code. The Company may, at its discretion, make contributions to the plan. In addition, the Company may match a portion of employees' contributions. Effective October 1, 2000, the Company began matching employee contributions with treasury shares. For the three months ended June 30, 2002, the Company issued 63 treasury shares for the Company's matching contribution related to the February 2002 employer match. Effective April 2002, the Company has suspended the Company match.

### NOTE 7 - COMPREHENSIVE INCOME

Comprehensive income (loss) includes net income (loss) and other revenues, expenses, gains and losses that are excluded from net income (loss) but included as a component of total shareholders' equity. Comprehensive income

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(loss) was \$(589) and \$217 for the three months ended June 30, 2002 and 2001, respectively. These amounts are comprised of the effect of foreign currency translation adjustments in accordance with SFAS No. 52, "Foreign Currency Translation" totaling \$1,858 and \$483 for the three months ended June 30, 2002 and 2001, respectively, and there was no minimum pension liability recorded for the three months ended June 30, 2002 and 2001, respectively. The accumulated balance of foreign currency translation adjustments and a minimum pension liability excluded from net loss at June 30, 2002 and March 31, 2002 is \$(3,554) and \$(7,002), respectively, and is presented in the Consolidated Balance Sheets and Statements of Shareholders' Equity as "Accumulated other comprehensive income (loss)."

### NOTE 8 - BUSINESS SEGMENTS

The Company's 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 and Central and South America, 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.

**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.

**International Operations.** The International Operations segment consists of the Company's operations in Europe, the Middle East and Asia, which provide corrosion control products and services to customers in the petroleum, utility, industrial, marine and offshore markets, as well as to governmental entities in

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connection with their infrastructure assets. This segment included the operations of the Australian subsidiary that became subject to voluntary administration on March 21, 2002.

**Other Operations.** The Other Operations segment includes the Company's corrosion monitoring equipment business, which assembles and sells products including probes, instruments and access fittings to customers in the oil and gas and chemical industries. In addition, this segment also includes the Company's risk assessment and analysis software business, which sells or licenses products to customers primarily in the oil and gas industry.

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



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	JUNE 30,	
	-----	
	AS RESTATED	
	-----	-----
	2002	2001
	----	----
Revenue:		
Domestic Core Operations	\$ 22,296	\$ 27,497
Canadian Operations	4,381	5,453
International Operations	6,501	8,728
Other Operations	2,753	2,393
	-----	-----
	\$ 35,931	\$ 44,071
	=====	=====
Operating Income (Loss):		
Domestic Core Operations	\$ 3,679	\$ 4,776
Canadian Operations	742	726
International Operations	(896)	(135)
Other Operations	274	(15)
Corporate Related Costs and Other	(4,190)	(3,465)
	-----	-----
	\$ (391)	\$ 1,887
	=====	=====

NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141 "Business Combinations" (SFAS 141) and No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001, as well as all purchase method combinations completed after June 30, 2001. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. The Company was required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 on April 1, 2002, the first day of its 2003 fiscal year. The adoption of SFAS 141 has not impacted the Company's financial condition or results of operations. In accordance with SFAS 142, existing goodwill was amortized through fiscal 2002. Upon adoption of SFAS 142, the Company stopped amortizing existing goodwill. The Company is currently in the process of performing the first step of the prescribed transitional goodwill impairment test with respect to existing goodwill. The first step of the transitional goodwill impairment test involves a comparison of the fair value of a reporting unit, as defined under SFAS 142, with its carrying amount. If the carrying amount exceeds the fair value of any reporting unit, the Company will perform the second and final step of the transitional goodwill impairment test, which will be used to measure the amount of any impairment loss. The Company has not yet determined what the effect of these tests will be on its financial position or results of operations. As of June 30, 2002, the Company has recognized no impairment of goodwill.

The completion of the transitional goodwill impairment test is required to be completed for the quarter ended September 30, 2002. There can be no assurance that future goodwill impairments will not occur. The pro forma effect of

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applying SFAS 142 to the quarter ended June 30, 2001 would have been to decrease amortization expense by approximately \$699 and would result in an increase in earnings per share of \$0.08.

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." Statement No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the remaining useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. Statement No. 143 is effective for fiscal years beginning after June 15, 2002. Management is evaluating the effect of this statement on the Company's results of operations and financial position.

In April 2000, the Financial Accounting Standards Board issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provisions of this Statement related to the rescission of Statement No. 4 are applicable in fiscal years beginning after May 15, 2002. The provisions of this Statement related to Statement No. 13 are effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002, with early application encouraged. Management is evaluating the effect of this statement on the Company's results of operations and financial position.

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. It is currently the Company's policy to recognize restructuring costs in accordance with EITF Issue No. 94-3.

### NOTE 10 - LONG TERM DEBT

In March 1999, the Company entered into an \$80 million revolving credit facility that expires on January 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 February 11, 2002 ("February 2002 Amendment"), the size of the

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Revolving Credit Facility was reduced to \$40 million. In addition, the February 2002 Amendment also provides that any payments made under the Senior Notes (see below) will result in a proportionate reduction in the lenders' commitments under the Revolving Credit Agreement. At June 30, 2002, lenders' commitments under the Revolving Credit Facility were limited to \$37.7 million. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The February 2002 Amendment provides for interest on borrowings at prime plus 2.50%. In addition, the February 2002 Amendment requires the Company to pay a facility fee of 0.75% on the commitment amount. 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 has also 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, 2002, the Company was in violation of several financial covenants. These violations permit the lenders to cause the Revolving Credit Facility to become due prior to its stated maturity. As a result of the maturity, the Company has classified all of its outstanding indebtedness under the Revolving Credit Facility at June 30, 2002 and March 31, 2002 as current. This event of default also restricts the Company from borrowing any additional funds under the Revolving Credit Facility and increases the interest rate on borrowings to prime plus 5.50%. The Company is continuing to make all required interest payments. The Company is currently negotiating with its lenders to amend this Revolving Credit Facility to address the Company's violations and 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. 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.

In January 1998, the Company issued, through private placement, \$30 million of Senior Notes due 2008 (the "Senior Notes"). The Senior Notes, as amended, bear interest at 10.6% effective April 15, 2001. In addition, the agreement relating to the Senior Notes, as amended, provides for an additional fee of 0.75% per annum on the outstanding principal amount of the Senior Notes for any quarter during which the ratio of debt to EBITDA (earning before interest, taxes, depreciation and amortization) equals or exceeds 4.00 to 1.00. The Senior Notes require monthly principal payments commencing in February 2002 and are secured equally and ratably with debt under the Revolving Credit Facility.

The Company is required to maintain certain financial ratios under the Senior Notes. At June 30, 2002, the Company was in violation of several of these financial covenants. These violations permit the lender to cause the Senior Notes to become due prior to their stated maturity. As a result, the Company has classified all of its outstanding indebtedness under the Senior Notes at June 30, 2002 and March 31, 2002 as current. The Company is continuing to make all required interest payments. The Company made its required principal payments through March 2002, but has not made the required monthly payments after March 2002. The Company is currently negotiating with its lender to amend the Senior Notes to eliminate the Company's violations and to amend the schedule of principal payments required. If the Company is unable to negotiate an amendment to the Senior Notes, it will be necessary for the Company to refinance or repay

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this debt. The Company cannot assure that it will be able to accomplish such a

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transaction on terms acceptable to the Company. 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.

Based on the events of default which prevent the Company from accessing its Revolving Credit Facility, the Company can only obtain funds from its operating cash flow and under its foreign credit facilities, subject to applicable terms and conditions. Total availability under the foreign credit facilities at June 30, 2002, was approximately \$5,034.

The Company is negotiating agreements with its lenders to amend the current Revolving Credit Facility and Senior Note agreements and to address existing violations. Among other things, the Company seeks to revise principal amortization of the Senior Notes and obtain ongoing borrowing capacity under the Revolving Credit Facility, subject to applicable borrowing base and other provisions. In addition to other terms and conditions, the Company expects to incur interest rates on borrowings under the Revolving Credit Facility at a higher applicable margin than under its existing provisions when not under Events of Default. The Company also intends to seek during fiscal 2003 other financing to retire the Senior Notes and the Revolving Credit Facility. There can be no assurance, however, that we will be able to amend the existing agreements or obtain other financing. See "Note 13-Subsequent Event" for further details.

### NOTE 11 - RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On March 20, 2002, the Company announced that it had discovered accounting irregularities caused by apparent internal misconduct in its Australian subsidiary. The accounting irregularities involved the overstatement of revenues and understatement of expenses by the Australian subsidiary. The irregularities were discovered by Corpro management in connection with an internal review of the subsidiary's working capital management practices and cash flow problems inconsistent with the subsidiary's reported results. Upon discovering the irregularities, the Company immediately began an internal investigation conducted under the direction of the Audit Committee of its Board of Directors. The Audit Committee subsequently retained special counsel in connection with the investigation and retained the forensic investigation unit of the accounting firm, Deloitte Touche Tohmatsu.

The Company also announced in March 2002 that its Australian subsidiary was in the process of appointing an administrator and commencing voluntary administration proceedings, a process under Australian law providing relief from creditors of Australian companies. Following the appointment, the Company recorded a charge to earnings in the fiscal fourth quarter ended March 31, 2002 for its loss on investment related to the subsidiary. The Company also stated that, to the extent that the accounting irregularities materially affect previously filed financial statements, the Company expected that it would have to restate its audited financial statements for its fiscal year which ended March 31, 2001 as well as unaudited financial information for the first nine months through December 31, 2001 of its fiscal year ended March 31, 2002, as previously released. Accordingly, the financial statements for the affected

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periods have been restated in the Company's Form 10-K/A filed on August 9, 2002.

In addition to the Audit Committee investigation, the Company conducted a review of the accounting records for fiscal 2001 and the first nine months through December 31, 2001 of fiscal 2002 and contracted KPMG LLP to audit the Company's restated consolidated financial statements for fiscal 2001. The cumulative restatement of the Company's fiscal 2001 consolidated financial statements

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decreased consolidated stockholders' equity as of March 31, 2001 by approximately \$3,805 from amounts previously reported and increased the loss by \$3,575. The cumulative restatement of the Company's first three months of fiscal 2002 consolidated financial statements decreased consolidated stockholders' equity as of June 30, 2001 by approximately \$4,473 from amounts previously reported and increased the loss by \$491.

Following are the primary categories of restatement adjustments to the Company's previously reported financial results as of and for the three months ended June 30, 2001:

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### CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	As of June 30
	----- As Previously Reported -----
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 3,279
Accounts receivable, less allowance for doubtful accounts	47,106
Inventories	20,499
Prepaid expenses and other	6,837
Deferred income taxes	2,697
Total current assets	----- 80,418 -----
Property, plant and equipment	12,632
Other Assets:	
Goodwill, net	37,250
Other assets	11,077

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Total other assets	48,327
	-----
	\$ 141,377
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities:	
Short-term borrowings and current portion of long-term debt	
Current portion of long-term debt	\$ 5,881
Accounts payable	15,206
Accrued liabilities and other	8,651
	-----
Total current liabilities	29,738
	-----
Long-term debt, net of current portion	65,126
Commitments and contingencies	--
Minority interest	90
Shareholders' Equity:	
Serial preferred shares	--
Common shares	2,276
Additional paid-in capital	49,047
Accumulated earnings	5,766
Accumulated other comprehensive loss	(5,789)
Common shares in treasury	(4,877)
	-----
Total shareholders' equity	46,423
	-----
	\$ 141,377
	=====

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CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30, 2001	
	As Previously Reported	As Restated
	-----	-----
Revenues	\$ 44,377	\$ 44,071
Cost of sales	30,967	30,951
Selling, general and administrative expenses	11,202	11,233
	-----	-----
Operating income	2,208	1,887

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Interest expense	1,820	1,833
	-----	-----
Income before income taxes	388	54
Provision for income taxes	163	320
	-----	-----
Net income (loss)	\$ 225	\$ (266)
	=====	=====
Earnings (loss) per share-		
Basic	\$ 0.03	\$ (0.03)
Diluted	\$ 0.03	\$ (0.03)
Weighted average shares outstanding-		
Basic	7,960	7,960
Diluted	7,978	7,960

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	Three Months June 30	R
	As Previously Reported	R
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ 225	\$
Adjustments to reconcile net income (loss) to net cash used for operations:		
Depreciation and amortization	1,354	
Asset impairment	--	
401K matching contribution in Treasury shares	215	
Deferred income taxes	(9)	
Loss on sale of assets	8	
Minority interest	(1)	
Changes in operating assets and liabilities:		
Accounts receivable	(3,609)	
Inventories	1,965	
Prepaid expenses and other	(2,156)	
Other assets	(572)	
Accounts payable and accrued expenses	(369)	
	-----	-----
Total adjustments	(3,174)	
	-----	-----
Net cash used by operating activities	(2,949)	

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Cash flows from investing activities:	
Additions to property, plant and equipment	(317)
Proceeds from disposal of property, plant and equipment	377
	-----
Net cash used by investing activities	60
	-----
Cash flows from financing activities:	
Long-term debt, net	2,419
Repayment of other debt	(138)
	-----
Net cash provided by financing activities	2,281
	-----
Effect of changes in foreign currency exchange rates on cash	(13)
	-----
Net decrease in cash	(621)
Cash and cash equivalents at beginning of period	3,900
	-----
Cash and cash equivalents at end of period	\$ 3,279
	=====

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NOTE 12 - CORRPRO COMPANIES AUSTRALIA

On March 20, 2002, the Company announced that it had discovered accounting irregularities caused by apparent internal misconduct in its Australian subsidiary. The accounting irregularities involved the overstatement of revenues and understatement of expenses by the Australian companies. The irregularities were discovered by Corrpro management in connection with an internal review of the subsidiary's working capital management practices and cash flow problems inconsistent with the subsidiary's reported results. Upon discovering the irregularities, the Company immediately began an internal investigation conducted under the direction of the Audit Committee of its Board of Directors. The Audit Committee subsequently retained special counsel in connection with the investigation and retained the forensic investigation unit of the accounting firm, Deloitte Touche Tohmatsu.

The Australian subsidiary appointed an administrator and commenced voluntary administration proceedings, a process under Australian law providing relief from creditors of Australian companies. As a result of the appointment, the Company no longer controlled the Australian subsidiary and the Company recorded a charge to earnings in the fiscal fourth quarter ended March 31, 2002 for its loss on investment related to the subsidiary.

On April 24, 2002, the creditors of the Australian subsidiary resolved that the Administrators of the Australian subsidiary should enter into a Deed of Company Arrangement. The Deed of Company Arrangement became effective May 1, 2002. The arrangement requires the Australian subsidiary to make unsecured payments to the Administrators for the Administrator's fees, certain employee



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benefit programs and unsecured creditors. The Company is not required to fund any of these unsecured payments. The Company did guarantee payment of the Australian subsidiary's bank debt, which totaled \$1,014 at June 30, 2002. The arrangement also returns the day-to-day management of the Australian subsidiary to the director of the subsidiary subject to the oversight of the Administrator who will retain control of, and be entitled to realize and deal with in accordance with the Deed of Company Arrangement, the claims against the Australian subsidiary.

Due to the commencement of the voluntary administration proceedings, and the resulting loss of control over the Australian subsidiary, the Company believes its investment in the subsidiary has been fully impaired. The assets and liabilities of the subsidiary are not included in the consolidated balance sheet of the Company as of June 30, 2002, and except for the existing obligation of \$1,014 under the guarantee of the subsidiary's bank debt, the Company will no longer provide any financial support to the subsidiary. The Company is currently seeking to sell the Australian subsidiary.

In connection with the Company's and Audit Committee's investigation, the Company incurred additional legal and professional fees of approximately \$410 in the first quarter of fiscal 2003 related to this matter. In addition, as a result of the Company's decision to sell the subsidiary subsequent to year end, a loss of \$1,590 related to the cumulative currency translation adjustment of the subsidiary was recognized in the first quarter of fiscal year 2003.

### NOTE 13 - SUBSEQUENT EVENT

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. To assist, the Company has engaged the firm of Carl Marks Consulting Group LLC. A managing

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director of Carl Marks, has joined the Company in the role of Chief Restructuring Officer to manage the plan's implementation. The Company will report future quarterly and annual results separately for continuing operations and for discontinued operations. Potential operating gains or losses may be experienced with the disposition of assets at the time of disposal during the implementation of the restructuring plan. Operating income improvements combined with debt reduction targets are expected to result.

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

### GENERAL

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Corrpro Companies, Inc. was founded in 1984 and is organized under the

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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 and corrosion monitoring (including remote monitoring). Remote monitoring is a technology we acquired in September 1999. In order for cathodic protection to be most effective, the system must run continuously. To ensure that this is happening, the cathodic protection systems need to be monitored on a regular basis. Remote monitoring allows customers to reduce the cost of monitoring and maintaining their cathodic protection systems by eliminating the need to have personnel travel to various sites in order to collect data from the cathodic protection system. Equally significant is the continuous flow (and more frequent updates) of data that remote monitoring can provide. This information allows problems to be identified immediately

rather than waiting for the on-site inspection interval. We also sell a variety of materials and equipment including anodes, rectifiers and corrosion monitoring probes used in cathodic protection and corrosion monitoring systems.

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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.

### RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

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The Company had determined that its audited financial statements for the fiscal year ended March 31, 2001 and its unaudited financial statements for the first nine months through December 31, 2001 of its fiscal year ended March 31, 2002 and all four quarters of its fiscal year ended March 31, 2001, were inaccurate and required restatement. These inaccuracies and required restatements are discussed in Note 11 - Restatement of Consolidated Financial Statements, Notes to the Consolidated Financial Statements above and Part II, Item 5 - Other Information below. This Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal 2003 first quarter and fiscal 2002 first quarter reflects the restatement of the Company's previously reported financial statements for the fiscal 2002 first quarter.

### AUSTRALIAN SUBSIDIARY

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The Australian subsidiary appointed an administrator and commenced voluntary administration proceedings on March 21, 2002, a process under Australian law providing relief from creditors of Australian companies. Following the appointment, the Company no longer controlled the Australian subsidiary and recorded a charge to earnings of approximately \$2.5 million in the fiscal fourth quarter ended March 31, 2002 for its loss on investment related to the subsidiary. The results of operations of the subsidiary were included in the Company's Consolidated Statements of Operations through March 31, 2002. The assets and liabilities of the subsidiary are not included in the Consolidated Balance Sheet of the Company as of June 30, 2002, as the Company has written off its investment in the subsidiary. Thereafter, results from the subsidiary will not be included in the Company's consolidated financial statements in fiscal 2003. Moreover, the Company incurred additional legal and professional fees of approximately \$0.4 million in the first quarter of fiscal 2003 related to this matter. In addition, as a result of the Company's decision to sell the subsidiary subsequent to year end, a loss of \$1.6 million related to the cumulative currency translation adjustment of the subsidiary was recognized in the first quarter of fiscal year 2003.

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MONTHS ENDED JUNE 30, 2001

### REVENUES

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Revenues for the fiscal 2003 first quarter totaled \$35.9 million compared to \$44.1 million in the fiscal 2002 first quarter, a decrease of \$8.2 million or 18.5%.

Fiscal 2003 first quarter revenues relating to our Domestic Core Operations segment totaled \$22.3 million compared to \$27.5 million in the fiscal 2002 first quarter, a decrease of \$5.2 million or 18.9%. This revenue decrease relates primarily to the decreased activity levels in our coatings services business compared to the year-earlier period. The coatings service business did not receive as many government contract awards as expected and anticipates lower year-over-year revenue levels.

Our Canadian Operations segment revenues for the first quarter of fiscal 2003 totaled \$4.4 million compared to \$5.5 million in the prior year first quarter, a decrease of \$1.1 million or 19.7%. The decrease is due to lower material and rectifier sales. The Canadian Operations continue to experience weakness in the energy segment of its business.

Fiscal 2003 first quarter revenues relating to the International Operations segment totaled \$6.5 million compared to \$8.7 million in the fiscal 2002 first quarter, a decrease of \$2.2 million or 25.5%. The decreased revenue levels are attributable to the Australian subsidiary which had revenues of \$2.0 million for the three months ended June 30, 2001 compared to no revenue for the three months ended June 30, 2002. The investment in the Australian subsidiary was written off at March 31, 2002 and accordingly, the revenues from our Australian subsidiary are not included in the first quarter of fiscal 2003.

Revenues relating to the Other Operations segment totaled \$2.8 million in the fiscal 2003 first quarter compared to \$2.4 million in the fiscal 2001 first quarter, an increase of \$0.4 million or 15.0%. The Other Operations segment experienced revenue growth in its risk assessment and analysis software business and in its corrosion monitoring equipment business over the year earlier period.

### GROSS PROFIT

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Gross profit margins were 32.5% in the first quarter of fiscal 2003 compared with 29.8% in the prior-year first quarter. Gross profit margins were impacted in the prior year by cost incurred to close under-performing offices as well as lower than standard margins achieved in Australia.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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Operating expenses totaled \$10.1 million in the first quarter of fiscal 2003 compared to \$11.2 million in the year-earlier period, a decrease of \$1.1 million or 10.2%. The decrease in operating expenses was achieved even though the Company incurred \$0.7 million in professional fees associated with its lender negotiations during the first three months of fiscal 2003. Offsetting this increase in operating expenses was a decrease in amortization expense related to goodwill amortization of \$0.7 million.

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### LOSS ON INVESTMENT IN SUBSIDIARY

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Loss on investment in subsidiary totaled \$2.0 million in the first quarter of fiscal 2003 which was primarily comprised of professional fees totaling \$0.4 million and the write-off of currency translation totaling \$1.6 million.

### OPERATING INCOME (LOSS)

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Operating income (loss) totaled \$(0.4) million in the first quarter of fiscal 2003 compared to \$1.9 million in the year-earlier period, a decrease of \$2.3 million. This decrease is primarily the result of the loss on investment in subsidiary and the lower revenue levels.

### INTEREST EXPENSE

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Interest expense totaled \$1.7 million in the first quarter of fiscal 2003 compared to \$1.8 million in the first quarter of fiscal 2002. Interest expense for the quarter decreased over the prior-year period as a result of lower debt levels.

### INCOME TAX PROVISION

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We recorded a provision for income taxes of \$0.4 million and \$0.3 million for the first quarters of fiscal 2003 and 2002, respectively. 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 increase in our effective tax rate is the result of changes in the income we generated in the various countries in which we operate. During the first quarter of fiscal 2003, we increased our valuation allowance for our deferred tax assets by \$0.5 million. The Company intends to maintain a full valuation allowance on its domestic net deferred tax assets and net operating loss carryforwards until sufficient evidence exists to support the reversal of the remaining reserve.

### NET LOSS

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Net loss totaled \$2.4 million in the first quarter of fiscal 2003 compared to \$0.3 million in the prior-year period, an increase of \$2.1 million. Loss per share totaled \$0.29 compared to \$0.03 in the prior-year period.

For the first quarter of fiscal 2002, net income included goodwill amortization of \$0.7 million. Had SFAS 142 been in effect as of April 1, 2001, goodwill would not have been amortized and basic earnings per share in the first quarter of fiscal 2001 would have increased by \$0.08 per share.

### B. LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2002, we had working capital of \$(21.0) million, compared to \$(21.7) million at March 31, 2002, an increase of \$0.7 million. This increase in working capital is due to the decrease in accounts payable and accrued liabilities.

During the first three months of fiscal 2003, cash provided by operating activities totaled \$0.8 million compared to cash used by operating activities of \$3.2 million in the year-earlier period. This

increase in cash provided by operating activities is primarily the result of our continuing efforts to control asset management. Cash used by investing activities totaled approximately less than \$0.1 million during the first quarter of fiscal 2003, which included \$0.1 million for capital expenditures offset by \$0.1 million of proceeds from the disposal of capital assets compared to cash provided by investing activities totaling \$0.2 million during the first three months of fiscal 2002, which included \$0.2 million for capital expenditures offset by \$0.4 million of proceeds from the disposal of capital assets. Cash used for financing activities totaled \$0.1 million which was used to pay down debt during the first quarter of fiscal 2003 compared to cash provided by financing activities of \$2.3 million that was provided by borrowings in fiscal 2002.

In March 1999, the Company entered into an \$80 million revolving credit facility that expires on January 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 February 11, 2002 ("February 2002 Amendment"), the size of the Revolving Credit Facility was reduced to \$40 million. In addition, the February 2002 Amendment also provides that any payments made under the Senior Notes (see below) will result in a proportionate reduction in the lenders' commitments under the Revolving Credit Agreement. At June 30, 2002, lenders' commitments under the Revolving Credit Facility were limited to \$37.7 million. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The February 2002 Amendment provides for interest on borrowings at prime plus 2.50%. In addition, the February 2002 Amendment requires the Company to pay a facility fee of 0.75% on the commitment amount. 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 has also 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, 2002, the Company was in violation of several financial covenants. These violations permit the lenders to cause the Revolving Credit Facility to become due prior to its stated maturity. As a result of the maturity, the Company has classified all of its outstanding indebtedness under the Revolving Credit Facility at June 30, 2002 as current. This event of default also restricts the Company from borrowing any additional funds under the Revolving Credit Facility and increases the interest rate on borrowings to prime plus 5.50%. The Company is continuing to make all required interest payments. The Company is currently negotiating with its lenders to amend this Revolving Credit Facility to eliminate the Company's violations and 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. 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.

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In January 1998, the Company issued, through private placement, \$30 million of Senior Notes due 2008 (the "Senior Notes"). The Senior Notes, as amended, bear interest at 10.6% effective April 15, 2001. In addition, the agreement relating to the Senior Notes, as amended, provides for an additional fee of 0.75% per annum on the outstanding principal amount of the Senior Notes for any quarter during which the ratio of debt to EBITDA (earning before interest, taxes, depreciation and amortization) equals

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or exceeds 4.00 to 1.00. The Senior Notes require monthly principal payments commencing in February 2002 and are secured equally and ratably with debt under the Revolving Credit Facility.

The Company is required to maintain certain financial ratios under the Senior Notes. At June 30, 2002, the Company was in violation of several of these financial covenants. These violations permit the lender to cause the Senior Notes to become due prior to their stated maturity. As a result, the Company has classified all of its outstanding indebtedness under the Senior Notes at June 30, 2002 as current. The Company is continuing to make all required interest payments. The Company made its required principal payments through March 2002, but has not made the required monthly payments after March 2002. The Company is currently negotiating with its lender to amend the Senior Notes to eliminate the Company's violations and to amend the schedule of principal payments required. If the Company is unable to negotiate an amendment to the Senior Notes, 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. 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.

Because of uncertainty related to the Company's ability to amend or refinance its debt, and the timing thereof, certain vendors may no longer do business with the Company on favorable credit terms, and the Company could experience cash flow problems or the inability to obtain materials and services when required. In addition, vendors may require cash in advance or deposits. All of these developments could materially increase the Company's operating expenses and further reduce its liquidity.

The Company has incurred substantial costs in fiscal 2002, and will continue to incur substantial costs in fiscal 2003, in connection with the engagement of financial advisors and consultants, the investigation of accounting matters and the preparation and review of its financial statements and other reports. The Company also anticipates that it will continue to incur significant legal and other expenses in connection with the ongoing litigation and investigations described in Part II, Item 1 - Legal Proceedings.

Based on the events of default which prevent the Company from accessing its Revolving Credit Facility, the Company can only obtain funds from its operating cash flow and under its foreign credit facilities, subject to applicable terms and conditions. Total availability under the foreign credit facilities at June 30, 2002, was approximately \$5.0 million.

The Company is negotiating agreements with its lenders to amend the

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current Revolving Credit Facility and Senior Note agreements and to address existing violations. Among other things, we seek to revise principal amortization of the Senior Notes and obtain ongoing borrowing capacity under the Revolving Credit Facility, subject to applicable borrowing base and other provisions. In addition to other terms and conditions, we expect to incur interest rates on borrowings under the Revolving Credit Facility at a higher applicable margin than under its existing provisions. We also intend to seek during fiscal 2003 other financing to retire the Senior Notes and the Revolving Credit Facility. There can be no assurance however that we will be able to amend the existing agreements or obtain other financing.

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 units and use the proceeds to reduce debt. To assist, the Company has engaged the firm of Carl Marks Consulting Group L.L.C. A managing director of Carl Marks, has joined the Company in the role of Chief Restructuring Officer to manage the plan's implementation. The Company will report future quarterly and annual results separately for continuing operations and for discontinued operations. Potential operating gains or losses may be experienced with the disposition of assets at the time of disposal during the implementation of the restructuring plan. Operating income improvements combined with debt reduction targets are expected to result.

The Company currently operates in a decentralized and geographically dispersed environment. This environment poses challenges, not found in centralized environments, for ensuring the integrity of internal controls. Management has reviewed existing controls and will continue to implement changes as

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needed to preserve and strengthen the Company's internal controls. We anticipate that the consolidation and divestiture initiatives contained in the restructuring plan will reduce the internal control risks inherent in a decentralized environment.

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### 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 results expressed or implied by forward-looking statements: the ultimate outcome



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of the Audit Committee's investigation of accounting irregularities; the ultimate outcome of the SEC's inquiry 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 Company's ability to extend, amend or refinance its existing debt, including the availability to the Company of external sources of financing and capital (the failure to receive such financing would have a material adverse effect on the Company's results of operations and financial condition and ability to operate as a going concern) and the terms and timing thereof; the Company's 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 the Company's operations; the impact of energy prices on the Company's and its customers' businesses; adverse developments in pending litigation or regulatory matters; the impact of existing, new or changed regulatory initiatives; the Company's ability to satisfy the listing and trading requirements of the AMEX (which, if not satisfied, could result in the suspension of trading or delisting of the Company's shares from the exchange) or any other national exchange on which its shares are or will be listed or otherwise provide a trading venue for its 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:

OUR ABILITY TO OBTAIN EXTENSIONS, AMENDMENTS AND WAIVERS UNDER OUR DEBT AGREEMENTS AND AVAILABILITY OF ADDITIONAL SOURCES OF FINANCING AND CAPITAL. We had earlier announced that, as a result of matters related to the accounting irregularities discussed above, we are not in compliance with the provisions, including certain financial covenants, of our existing senior secured credit agreement and senior note facility. This noncompliance of our senior secured credit agreement restricts the Company from borrowing any additional funds under our senior secured credit agreement. The remedies available to these lenders upon default by us, including acceleration of principal, would have a material adverse impact on our liquidity, our financial position or our ability to operate as a going concern. We have continued to make scheduled interest payments on such senior debt; however, we have not made scheduled monthly principal payments that were due since April 2002 on the senior note facility. We are continuing to hold discussions with our bank group and the holder of our senior notes concerning our

non-compliance and our plans for operational changes and debt reduction. If we are unable to satisfactorily resolve these lender negotiations and/or access other sources of capital on a timely basis (as to which we can provide no assurance), it would have a material adverse effect on our liquidity and financial condition since we have substantially negative working capital and could result in our inability to operate as a going concern. If we are unable to

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operate as a going concern, we may file, or be forced to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

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 expected that we would have to restate 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 has been filed against us and certain of our current and former directors and officers, asserting claims under the federal securities laws. In addition to significant expenditures we may have to make to defend ourselves in these actions and the related significant financial penalties that might be imposed on us if the plaintiffs prevail in these actions, 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.

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 this quarterly report and in our other periodic reports filed with the Securities and Exchange Commission. There are always significant uncertainties involved in litigation and regulatory proceedings. As to current matters in litigation, we believe that our positions and defenses are meritorious. However, the litigation process involves unpredictability 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 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.

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 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 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. If we fail to meet the required listing standards and reporting requirements and cannot within a limited time frame thereafter demonstrate compliance, our Common Shares may not be allowed to trade on the stock exchange, although we would pursue an alternative national trading venue. If this occurs, 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 recently been suspended from trading on the American Stock Exchange until August 12, 2002, because, among other reasons, the late filing of our Form 10-K/A. There can be no assurances that trading will not be suspended again and if so, that trading would be permitted to resume.

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 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

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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 on a regional or worldwide basis 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.

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.

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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 amended fiscal 2002 Annual Report on Form 10-K, filed on August 9, 2002, 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

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in areas such as revenue recognition for construction and engineering contracts, determining the allowance for uncollectible accounts and inventory valuation reserves, asset impairment and deferred tax assets.

### D. CHANGES IN ACCOUNTING STANDARDS

In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." Statement No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated over the remaining useful life of the related asset. Upon settlement of the liability, the entity either settles the obligation for the amount recorded or incurs a gain or loss. Statement No. 143 is effective for fiscal years

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beginning after June 15, 2002. Management is evaluating the effect of this statement on the Company's results of operations and financial position.

In April 2000, the Financial Accounting Standards Board issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt", and FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements". This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers". This Statement amends FASB Statement No. 13, "Accounting for Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The provision of this Statement related to the rescission of Statement No. 4 are applicable in fiscal years beginning after May 15, 2002. Early application is encouraged. The provisions of this Statement related to Statement No. 13 are effective for transactions occurring after May 15, 2002, with early application encouraged. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002, with early application encouraged. Management is evaluating the effect of this statement on the Company's results of operations and financial position.

In June 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. It is currently the Company's policy to recognize restructuring costs in accordance with EITF Issue No. 94-3.

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.

INTEREST RATE RISK

Our primary interest rate risk exposure results from our 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 June 30, 2002 rates, and assuming no changes in debt from the June 30, 2002 levels, the additional annual expense would be approximately \$1.3 million on a pre-tax basis.

FOREIGN OPERATIONS AND FOREIGN CURRENCY EXCHANGE RISK

Our foreign subsidiaries generally conduct business in local currencies. During the first quarter of fiscal 2003, the Company recorded a favorable foreign currency translation adjustment of \$1.9 million in equity 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 and British pound. 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. In addition, as a result of the Company's decision to sell the Australian subsidiary subsequent to year end, a loss of \$1,590 related to the cumulative currency translation adjustment of the subsidiary was recognized in the first quarter of fiscal year 2003.

PART II. OTHER INFORMATION

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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 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

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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. 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 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

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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 by Russell J. Stambaugh. The complaint also names certain former and current officers and a director of the Company. 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 plaintiff seeks a declaration of the action as a proper class action and certifying plaintiff as class representative. The plaintiff also seeks unspecified compensatory damages, fees and expenses. 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.

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

### ITEM 3. DEFAULT UPON SENIOR SECURITIES

In March 1999, the Company entered into an \$80 million revolving credit facility that expires on January 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 February 11, 2002 ("February 2002 Amendment"), the size of the Revolving Credit Facility was reduced to \$40 million. In addition, the February 2002 Amendment also provides that any payments made under the Senior Notes (see below) will result in a proportionate reduction in the lenders' commitments under the Revolving Credit Agreement. At June 30, 2002, lenders' commitments under the Revolving Credit Facility were limited to \$37.7 million. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The February 2002 Amendment provides for interest on borrowings at prime plus 2.50%. In addition, the February 2002 Amendment requires the Company to pay a facility fee of 0.75% on the commitment amount.



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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 has also 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, 2002, the Company was in violation of several financial covenants. These violations permit the lenders to cause the Revolving Credit Facility to become due prior to its stated maturity. As a result of the maturity, the Company has classified all of its outstanding indebtedness under the Revolving Credit Facility at June 30, 2002 as current. This event of default also restricts the Company from borrowing any additional funds under the Revolving Credit Facility and increases the interest rate on borrowings to prime plus 5.50%. The Company is continuing to make all required interest payments. The Company is currently negotiating with its lenders to amend this Revolving Credit Facility to eliminate the Company's violations and 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. 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.

In January 1998, the Company issued, through private placement, \$30 million of Senior Notes due 2008 (the "Senior Notes"). The Senior Notes, as amended, bear interest at 10.6% effective April 15, 2001. In addition, the agreement relating to the Senior Notes, as amended, provides for an additional fee of 0.75% per annum on the outstanding principal amount of the Senior Notes for any quarter during which the ratio of debt to EBITDA (earning before interest, taxes, depreciation and amortization) equals or exceeds 4.00 to 1.00. The Senior Notes require monthly principal payments commencing in February 2002 and are secured equally and ratably with debt under the Revolving Credit Facility.

The Company is required to maintain certain financial ratios under the Senior Notes. At June 30, 2002, the Company was in violation of several of these financial covenants. These violations permit the lender to cause the Senior Notes to become due prior to their stated maturity. As a result, the Company has classified all of its outstanding indebtedness under the Senior Notes at June 30, 2002 as current. The

Company is continuing to make all required interest payments. The Company made its required principal payments through March 2002, but has not made the required monthly payments after March 2002. The Company is currently negotiating with its lender to amend the Senior Notes to eliminate the Company's violations and to amend the schedule of principal payments required. If the Company is unable to negotiate an amendment to the Senior Notes, 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. Failure to do so would have a material adverse effect on the Company's

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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.

Because of uncertainty related to the Company's ability to amend or refinance its debt, and the timing thereof, certain vendors may no longer do business with the Company on favorable credit terms, and the Company could experience cash flow problems or the inability to obtain materials and services when required. In addition, vendors may require cash in advance or deposits. All of these developments could materially increase the Company's operating expenses and further reduce its liquidity.

The Company has incurred substantial costs in fiscal 2002, and will continue to incur substantial costs in fiscal 2003, in connection with the engagement of financial advisors and consultants, the investigation of accounting matters and the preparation and review of its financial statements and other reports. The Company also anticipates that it will continue to incur significant legal and other expenses in connection with the ongoing litigation and investigations described in Part II, Item 1 - Legal Proceedings.

Based on the events of default which prevent the Company from accessing its Revolving Credit Facility, the Company can only obtain funds from its operating cash flow and under its foreign credit facilities, subject to applicable terms and conditions. Total availability under the foreign credit facilities at June 30, 2002, was approximately \$5.0 million.

The Company is negotiating agreements with its lenders to amend the current Revolving Credit Facility and Senior Note agreements and to address existing violations. Among other things, we seek to revise principal amortization of the Senior Notes and obtain ongoing borrowing capacity under the Revolving Credit Facility, subject to applicable borrowing base and other provisions. In addition to other terms and conditions, we expect to incur interest rates on borrowings under the Revolving Credit Facility at a higher applicable margin than under its existing provisions. We also intend to seek during fiscal 2003 other financing to retire the Senior Notes and the Revolving Credit Facility. There can be no assurance however that we will be able to amend the existing agreements or obtain other financing.

The Company currently operates in a decentralized and geographically dispersed environment. This environment poses challenges, not found in centralized environments, for ensuring the integrity of internal controls. Management has reviewed existing controls and will continue to implement changes as needed to preserve and strengthen the Company's internal controls. We anticipate that the consolidation and divestiture initiatives contained in the restructuring plan will reduce the internal control risks inherent in a decentralized environment.

### ITEM 5. OTHER INFORMATION

#### SUBSEQUENT EVENT

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. To assist, the

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Company has engaged the firm of Carl Marks Consulting Group LLC. A managing director of Carl Marks, has joined the Company in the role of Chief Restructuring Officer to manage the plan's implementation. The Company will report future quarterly and annual results separately for continuing operations and for discontinued operations. Potential operating gains or losses may be experienced with the disposition of assets at the time of disposal during the implementation of the restructuring plan. Operating income improvements combined with debt reduction targets are expected to result.

### ACCOUNTING IRREGULARITIES IN AUSTRALIAN SUBSIDIARY

On March 20, 2002, the Company announced that it had discovered accounting irregularities caused by apparent internal misconduct in its Australian subsidiary. The accounting irregularities involved the overstatement of revenues and understatement of expenses by the Australian subsidiary. The irregularities were discovered by Corrpro management in connection with an internal review of the subsidiary's working capital management practices and cash flow problems inconsistent with the subsidiary's reported results. Upon discovering the irregularities, the Company immediately began an internal investigation conducted under the direction of the Audit Committee of its Board of Directors. The Audit Committee subsequently retained special counsel in connection with the investigation and retained the forensic investigation unit of the accounting firm, Deloitte Touche Tohmatsu.

The Company also announced in March 2002 that its Australian subsidiary was in the process of appointing an administrator and commencing voluntary administration proceedings, a process under Australian law providing relief from creditors of Australian companies. Following the appointment, the Company recorded a charge to earnings in the fiscal fourth quarter ended March 31, 2002 for its loss on investment related to the subsidiary. The Company also stated that, to the extent that the accounting irregularities materially affect previously filed financial statements, the Company expected that it would have to restate its audited financial statements for its fiscal year which ended March 31, 2001 as well as unaudited financial information for the first nine months through December 31, 2001 of its fiscal year ended March 31, 2002, as previously released. Accordingly, the financial statements for the affected periods have been restated in the Company's Form 10-K/A filed on August 9, 2002.

On June 13, 2002, the Company announced that the Australian Securities and Investments Commission ("ASIC") had commenced an independent investigation of the accounting irregularities. The Company also had voluntarily disclosed this matter to the United States Securities and Exchange Commission ("SEC"), which commenced an informal inquiry. The ASIC investigation and the SEC inquiry, which is now a formal inquiry, both continue to be ongoing and the Company has been and intends to continue cooperating with both commissions. See "Part II - Other Information - Legal Proceedings." The Company also announced that the creditors of the Australian subsidiary effective in May 2002 had approved an arrangement under voluntary administration proceedings.

The Company also has announced that, as a result of the matters discussed above, the Company

is not in compliance with the provisions, including certain financial covenants, of its existing senior secured credit agreement and its senior note facility. The remedies available to these lenders upon default by the Company, including acceleration of principal, would have a material adverse impact on the Company's

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liquidity, its financial position and its ability to operate as a going concern. The Company has continued to make scheduled monthly interest payments on such senior debt; however, it has not made scheduled principal payments that were due since April 2002 on the senior note facility. The Company is continuing to hold discussions with its bank group and the holder of its senior notes concerning the Company's non-compliance, operational changes and debt reduction. If the Company is unable to satisfactorily resolve these lender negotiations and/or access other sources of capital on a timely basis, it 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 have no alternative but to file bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

Subsequent to the announcement of the investigation of the accounting irregularities at the Australian subsidiary, a purported class action lawsuit has been filed against the Company and certain of its current and former directors and officers. See "Part II - Other Information - Legal Proceedings."

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- A. There were no Exhibits filed with this Form 10-Q.
- B. There were no reports on Form 8-K filed during the quarter.

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SIGNATURES

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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, 2002

/s/ Joseph W. Rog

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

/s/ Robert M. Sloan

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Robert M. Sloan  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial and  
Accounting Officer)