CORRPRO COMPANIES INC /OH/
Form 10-K/A
February 13, 2004

United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K/A

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2003**

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number 1-12282

CORRPRO COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Ohio	**34-1422570**
(State or other jurisdiction of incorporation or organization)	**(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

Securities registered pursuant to Section 12(b) of the Act:	**Securities registered pursuant to Section 12(g) of the Act:**
Common Shares without par value	**NONE**
(Title of Class)	**(Title of Class)**

American Stock Exchange
(Name of each exchange on which registered)

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

YES x **NO o**

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

YES o **NO x**

The aggregate market value of Common Shares held by nonaffiliates of the Registrant was approximately $5,297,214 at September 30, 2002. For purposes of this calculation, the Registrant deems the Common Shares held by its Directors, executive officers and holders of 10% or more of its Common Shares to be Common Shares held by affiliates.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

8,440,847
(Number of Common Shares outstanding as of June 23, 2003.)

DOCUMENTS INCORPORATED BY REFERENCE

Certain documents are incorporated from prior filings (see Part IV of this Annual Report on Form 10-K/A).

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

General

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

Recent Events

The Company has retained an investment banking firm to assist in its efforts to recapitalize its balance sheet and refinance its currently outstanding Senior Notes and Revolving Credit Facility. The refinancing process is ongoing and the Company is currently having discussions with various parties in order to effect a refinancing transaction. There can be no assurance, however, that the Company will be able to obtain other financing or as to the terms and conditions under which such financing may be available.

The Company is currently in default of certain financial ratios required to be maintained under it Senior Note and Revolving Credit Facility agreements. In addition, the Revolving Credit Facility is scheduled to expire on July 31, 2003 and the Company is required to make a $7.6 million principal payment on the Senior Notes by July 31, 2003. The Company is also, at the current time, not able to provide any assurances regarding its ability to make the $7.6 million Senior Note principal payment that is due on July 31, 2003. Further information about our Long-Term Debt is included in Note 3, Long-Term Debt, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

The Company has had preliminary discussions with its lenders regarding an amendment to the Revolving Credit Facility which would, among other things, extend the maturity date of the Revolving Credit Facility beyond July 31, 2003. The Company intends to continue its efforts to obtain such an amendment, however, there can be no assurances that the Company will be able to negotiate such an amendment at all or under terms and conditions acceptable to it.

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

Products and Services

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

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

In addition to cathodic protection, our corrosion control services include corrosion engineering, material selection, inspection services, advanced corrosion research and testing. We also sell a variety of materials and equipment including anodes, rectifiers and corrosion monitoring probes used in cathodic protection and corrosion monitoring systems. Corrosion control represented approximately 79%, 65% and 74% of our revenues in fiscal years 2003, 2002 and 2001, respectively.

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. Coatings represented approximately 16%, 30% and 21% of our revenues in fiscal years 2003, 2002 and 2001, respectively.

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. Pipeline integrity and risk assessment services represented approximately 5% of our revenues in fiscal years 2003, 2002 and 2001.

Dispositions

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

During fiscal 2003, four non-strategic business units were sold. These dispositions included Rohrback Cosasco Systems, Bass Trigon Software and two smaller international offices. The proceeds from these dispositions were used to pay down debt. For further information about our discontinued operations see Note 2, Assets and Liabilities Held for Sale, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

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

Table of Contents

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 required the Australian subsidiary to make unsecured payments to the Administrators for the Administrator s fees, certain employee 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 $1.1 million at March 31, 2003. This amount is classified as current portion of Long-Term Debt.

On October 1, 2002, the Australian subsidiary sold its business assets (excluding cash, accounts receivable and certain trademarks) for a purchase price of $0.6 million. The cash proceeds (except amounts held in escrow) from the business asset sale were remitted to the Administrator of the Australian subsidiary in accordance with the Deed of Company Arrangement. The remaining assets (primarily accounts receivable) are also being liquidated and those proceeds have been remitted to the Administrator. After satisfying the obligations under the Deed of Company Arrangement, the Administrator remitted back to the Australian subsidiary excess funds. The excess funds were used by the Australian subsidiary to pay post-petition creditors.

During fiscal 2003, the Administrator issued a payment to all unsecured creditors. The Company is an unsecured creditor for intercompany balances due from the Australian subsidiary. The Company received $0.6 million on February 7, 2003 from the Administrator.

Segments

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

Domestic Core Operations. Our Domestic Core Operations segment consists of operations that service the United States. Products and services include 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 the United States military. Finally, the Domestic Core Operations 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. Revenues relating to this segment totaled $85 million (or 82 % of consolidated revenues), $102 million (or 83% of consolidated revenues) and $96 million (or 80% of consolidated revenues) during fiscal 2003, 2002 and 2001, respectively.

Canadian Operations. Our Canadian Operations segment provides corrosion control, pipeline integrity and inspection services to customers in Canada which are primarily in the oil and gas industry. These customers include pipeline operators and petrochemical plants and refineries. The Canadian Operations segment also includes production facilities that assemble products such as anodes and rectifiers. Revenues relating to this segment totaled $19 million (or 18% of consolidated revenues), $21 million (or 17% of consolidated revenues) and $24 million (or 20% of consolidated revenues) during fiscal 2003, 2002 and 2001, respectively.

Table of Contents

Further information about our business segments is included in Note 9, Business Segments, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Sales and Marketing

We market our products and services in the United States and Canada primarily through our sales personnel. The technical nature of our products and services requires a highly trained, professional sales force, and, as a result, many of our sales personnel have engineering or technical expertise and experience. Due to the problem solving experience of our engineering staff, potential and existing customers regularly seek out advice from our technical personnel, which can result in business opportunities on an ongoing basis.

Sources and Availability of Raw Materials

We assemble certain components of cathodic protection systems, which include aluminum, zinc, magnesium and other metallic anodes. We do not believe that we are dependent upon any single outside vendor as a source of supply and we believe that sufficient alternative sources of supply for the same, similar or alternative products are available.

Patents and Licenses

We own patents, patent applications and licenses relating to certain of our products and processes. While our rights under the patents and licenses are of importance to individual components of our operations, our business as a whole is not materially dependent on any one patent or license or on the patents and licenses as a group.

Seasonal Trends

Our business is somewhat seasonal as winter weather can adversely impact our operations. Therefore, our revenues during the fourth quarter of our fiscal year (i.e., January through March) are typically lower than revenues during each of the other three fiscal quarters.

Foreign Operations

The Company s foreign operations are subject to the usual risks of operating in foreign jurisdictions. They include, but are not limited to, exchange controls, currency restrictions and fluctuations, changes in local economics and changes in political conditions. The realization of the Company s foreign net assets held for sale are also affected by currency restrictions and fluctuations.

Customers

Sales are made to a broad range of customers. During the fiscal year ended March 31, 2003, no one customer accounted for more than 10% of our sales. We do not believe that the loss of any one customer would have a materially adverse effect on our business.

We sell products and services to the U.S. government and agencies and municipalities thereof, including the U.S. Navy. Sales to these customers accounted for approximately 9%, 16% and 10% of our net sales in fiscal 2003, 2002 and 2001, respectively. Our contracts with the U.S. government contain standard provisions permitting the government to terminate these contracts without cause. In the event of termination, we are entitled to receive reimbursement on the basis of the work completed (cost plus a reasonable profit). These contracts are also subject to renegotiation of profits. In addition, government procurement programs are subject to budget cutbacks and policy changes that could impact the revenue for, or alter the demand for, our products or services. Accordingly, our future sales to the government are subject to these budgetary and policy changes.

Table of Contents

Backlog

Our backlog of unshipped orders was approximately $45 million, $44 million and $46 million as of March 31, 2003, 2002 and 2001, respectively. We estimate that a substantial portion of our backlog of orders at March 31, 2003 will be filled during fiscal 2004.

Competitive Conditions

Within the corrosion control market, we face competition from a large number of domestic and international companies, all of which we believe are considerably smaller than Corrpro. Only a few of these competitors offer a broad range of corrosion control engineering services, systems and products and we do not believe that any of our competitors offer the comprehensive range of products and services that we provide. In the service area, we compete principally on the basis of quality, technical expertise and capabilities and customer service, although price is a consideration, particularly when we are providing construction and installation services. In the product area, we typically compete on the basis of quality, service and price.

Research and Development

Our engineering and product development activities are primarily directed toward designing new products and services to meet customers specific requirements. Product development costs were minimal in fiscal 2003 and 2002 and amounted to approximately $0.7 million in fiscal 2001.

Government Regulations

We believe that our current operations and our current use of property, plant and equipment conform in all material respects to applicable laws and regulations. Other than as disclosed under Item 3 Legal Proceedings , we have not experienced, nor do we anticipate, any material claim or material capital expenditure in connection with environmental laws and other regulations impacting our operations.

Employees

As of March 31, 2003, we had 948 employees, 418 of whom were located outside the United States.

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

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

Our ability to obtain extensions, amendments and waivers under our debt agreements and availability of additional sources of financing and capital. The Company is currently in default of certain financial ratios required to be maintained under the current debt agreements which includes its net worth covenant and its operating income before depreciation and amortization financial covenant. During fiscal 2003, we had amended our Revolving Credit Facility and Senior Notes in September 2002 because we were not in compliance with the provisions, including certain financial covenants, of these agreements as a result of matters related to the accounting irregularities at our Australian subsidiary. As amended, the Revolving Credit Facility expires on July 31, 2003, and it will be necessary for us to amend this Revolving Credit Facility to extend the expiration date. If we are unable to negotiate a further amendment to the Revolving Credit Facility, which, among other things, extends the maturity of the Revolving Credit Facility beyond July 31, 2003, it will be necessary for us to refinance or repay this debt. We cannot assure that we will be able to accomplish such a transaction on terms acceptable to us or at all. Failure to do so would have a material adverse effect on our liquidity and financial condition and could result in our inability to operate as a going concern. If we are unable to operate as a going concern, we may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors. In addition, the Senior Notes, as amended, require a principal payment of $7.6 million by July 31, 2003 and monthly principal payments of $0.4 million commencing on August 15, 2003. We cannot assure that we will be able to make these payments when due, which will result in our being in default under the Senior Notes and, in that event, the Senior Notes lender may pursue its remedies against us for such a default, including acceleration of principal, which would have a material adverse effect on our liquidity and financial condition and could result in our inability to operate as a going concern. If we are unable to operate as a going concern, we may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors. We intend to seek other financing during fiscal 2004 to pay down the Senior Notes and the Revolving Credit Facility. There can be no assurance, however, that we will be able to obtain other financing or as to the terms and conditions under which such financing may be available.

The effectiveness of our business restructuring plan. In July 2002, our Board of Directors approved a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt. We intend to sell non-core business units and use the proceeds to reduce debt. To assist, we have engaged the firm of Carl Marks Consulting Group LLC and a managing director of Carl Marks has joined us in the role of Chief Restructuring Officer to manage the plan s implementation. While we expect that operating income improvements combined with debt reduction will result from the business restructuring plan in the long term, it is uncertain at this time to what extent such operating income improvements and debt reduction will be achieved as a result of the business restructuring plan and the terms and/or timing thereof. We cannot assure that the business restructuring plan will be successful in enhancing our ability to pursue financing alternatives acceptable to us. During fiscal 2003, four non-strategic business units were sold. These dispositions included Rohrback Cosasco Systems, Bass Trigon Software and two smaller international offices. The proceeds from these dispositions were used to pay down debt. For further information about our discontinued operations see Note 2, Assets and Liabilities Held for Sale, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Table of Contents

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

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

Adverse developments in pending litigation or regulatory matters. From time to time, we are involved in litigation and regulatory proceedings, including those disclosed in Legal Proceedings of this annual 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 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 and the amount of government contracts received also could adversely affect our revenues and profitability. In addition, it is the policy of the United States that certain small businesses and other concerns have the maximum practicable opportunity to participate in performing contracts let by any federal agency. To the extent that we do not meet applicable criteria for government jobs, we could be limited in our ability to participate directly in contracts being let by the United States and other governmental entities with similar requirements. Certain contracts with governmental entities contain provisions permitting the governmental entities to terminate the contract for convenience prior to completion of the contract. To the extent that any of our contracts with a government entity are so terminated, our revenues and profitability could be adversely impacted.

Our operations can be impacted by inclement weather. A large portion of our service work is performed in the field. Therefore, excessive amounts of rain, snow or cold, as well as other unusual weather conditions, including hurricanes and typhoons, can result in work stoppages. Also, working under inclement weather conditions can reduce our efficiencies, which can have a negative impact on our profitability.

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

The impact of changing global, political and economic conditions. Changing political and economic conditions regionally or worldwide can adversely impact our business. Deteriorating political and general economic conditions may result in customers delaying or canceling contracts and orders for our products and services, difficulties and inefficiencies in the performance of our services including work stoppages, and difficulties in collecting payment from our customers. As a result, such conditions can negatively impact our results of operations and our cash flows. Moreover, we have operations in the Middle East region with revenues totaling $11.6 million for fiscal 2003 and net assets of approximately $6.3 million at March 31, 2003. These operations can be negatively impacted by changing economic and political conditions. All of our international operations except Canada are a part of the Company s net assets held for sale.

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

Table of Contents

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.

Table of Contents

ITEM 2. PROPERTIES

As of March 31, 2003, our continuing operations utilized five locations and are owned by the Company as well as over forty locations were leased from unrelated third parties. Certain property locations may contain multiple operations, such as an office and warehouse facility. Owned and leased facilities with greater than 5,000 square feet are listed below.

Location	Segment	Description	Owned/Leased
Bakersfield, California	Domestic Core	Office and Warehouse Facility	Leased
Belle Chasse, Louisiana	Domestic Core	Office and Warehouse Facility	Leased
Brampton, Ontario	Canadian Ops.	Office and Warehouse Facility	Leased
Conyers, Georgia	Domestic Core	Office and Warehouse Facility	Leased
Dorval, Quebec	Canadian Ops.	Office and Warehouse Facility	Leased
Edmonton, Alberta	Canadian Ops.	Office, Production and Warehouse Facility	Owned
Nisku, Alberta	Domestic Core	Office and Warehouse Facility	Owned
Estevan, Saskatchewan	Canadian Ops.	Office and Warehouse Facility	Owned
Glendale, Arizona	Domestic Core	Office and Warehouse Facility	Leased
Houston, Texas	Domestic Core	Office and Warehouse Facility	Leased
Medina, Ohio	Corporate	Corporate Headquarters	Owned
Medina, Ohio	Domestic Core	Office and Warehouse Facility	Owned
Ocean City, New Jersey	Domestic Core	Office Facility	Leased
San Leandro, California	Domestic Core	Office, Production and Warehouse Facility	Leased
Sand Springs, Oklahoma	Domestic Core	Office, Production and Warehouse Facility	Leased
Santa Fe Springs, California	Domestic Core	Office and Warehouse Facility	Leased
Schaumburg, Illinois	Domestic Core	Office and Warehouse Facility	Leased
West Chester, Pennsylvania	Domestic Core	Office and Warehouse Facility	Leased

We consider the properties owned or leased by us to be generally sufficient to meet our requirements for office, production and warehouse space. We do not consider any one of our properties to be significant, since we believe that if it becomes necessary or desirable to relocate any of our office, production and warehouse facilities, other suitable properties could be found. Our owned properties are subject to mortgages or other security interests under our senior secured credit agreement and senior note facility and other bank credit arrangements.

Table of Contents

ITEM 3. 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 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 Blodgett Oil Company, Inc. and other owners and operators of underground storage tanks systems on behalf of themselves and others similarly situated. The complaint relates to the MDEQ regulatory proceeding described immediately above and names both the Company and MDEQ. The plaintiffs seek an unspecified amount of damages in excess of $25,000 from Corrpro. The plaintiffs also seek injunctive relief prohibiting the MDEQ from declaring that underground storage tanks upgraded by the Company do not meet the current requirement for corrosion protection set forth by law. On November 18, 2002, the court issued an order certifying the underlying class. The Michigan Court of Appeals denied the Company s application for leave to appeal the Circuit Court s order certifying the underlying class. The Company believes that it has meritorious defenses to the claims asserted, including that damages have not yet been incurred. Notwithstanding such defenses, under applicable law the Company believes that the class would not be entitled to certain of the damages alleged. The Company is unable at this time to make a determination as to whether a material adverse outcome is reasonably possible 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 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. In one of the states in which affected sites are located, the Company has completed field investigation procedures. The Company has been informed by one of the other states that, based on continuing monitoring and leak detection procedures already required to be performed by site owners and operators, no additional field work procedures will be required. The Company has commenced agreed upon field work procedures in a third state. There are no currently outstanding claims or demands that have been asserted by any of the affected owners and operators. Based on currently available information, including the Company s experience in the fieldwork conducted to date, the Company does not believe that it is reasonably possible that the cost of further field investigation procedures for this matter will have a material effect on the future operations, financial position or cash flows of the Company.

The Company is a defendant in a purported class action suit filed on June 24, 2002, in the United States District Court, Northern District of Ohio, Eastern Division. The complaint also names certain former and current officers and directors of the Company as defendants. The complaint was purportedly filed on behalf of all persons who purchased Corrpro Common Shares during the period April 1, 2000 through March 20, 2002 and alleges violations of the federal securities laws resulting in artificially inflated prices of the Company s Common Shares during the class period. The complaint relates to the Company s announcement that it had discovered accounting irregularities caused by apparent internal misconduct in its Australian subsidiary. The complaint seeks unspecified compensatory damages, fees and expenses on behalf of the putative class.

At least as early as October 2000, the then managing director and the financial controller of Corrpro Australia Pty., Ltd., a subsidiary of Company, were involved in knowingly misstating the financial results reported by the Australian subsidiary to corporate management of the Company to improve the reported results of the Australian business. Such individuals are no longer employed by the Company or its subsidiaries and are defendants in a complaint for permanent injunctive and other equitable relief filed by the SEC in the United States District Court for the Northern District of Ohio. The former Australian employees are also subject to an investigation and other proceedings commenced through the Australian Securities and Investments Commission.

The irregularities included erroneous journal entries to the Australian subsidiary s general ledger that increased profit and net assets. Among other things, the former Australian employees falsified invoices and credit notes and made erroneous entries to subledgers including accounts payables, accounts receivables, cost of goods sold and inventory. The former Australian employees further recorded fictitious invoices in the former Australian subsidiary s computerized accounting records, falsified credit notes from suppliers, and created two different versions of the accounts receivable subledger. The former Australian employees took steps to fabricate documents to be reviewed by the Company s independent auditors.

As a result of its discovery of the irregularities, the Company, by means of its Form 10-K/A for the fiscal year ended March 31, 2002 filed with the Securities and Exchange Commission on August 9, 2002, restated its previously issued audited financial statements for the fiscal year ended March 31, 2001. The effect of the restatement was to increase the Company s loss and basic and diluted loss per share, respectively, from $4.7 million and $0.61 to $8.3 million and $1.07 for the fiscal year ended March 31, 2001. Consolidated stockholders equity as of March 31, 2001 decreased by approximately $3.8 million from amounts previously reported. Unaudited quarterly financial information for the first three quarters of the fiscal year ended March 31, 2002 and all four quarters of its fiscal year ended March 31, 2001, were also restated by means of such filing. Information concerning the restated amounts applicable to each of the foregoing quarters is contained in Note 12, Restated Quarterly Financial Information (Unaudited), Notes to Consolidated Financial Statements included in Item 8 of the Company s Form 10-K/A for the fiscal year ended March 31, 2002 filed with the Securities and Exchange Commission on August 9, 2002.

On May 27, 2003, the District Court granted, with prejudice, the defendants motions to dismiss the amended and consolidated class action complaint. On June 24, 2003, the plaintiffs filed a notice of appeal to the United States Circuit Court of Appeals for the 6th Circuit from the order of dismissal. The Company is unable at this time to make a

Table of Contents

determination as to whether a material adverse outcome is reasonably possible and whether an adverse outcome would have a materially adverse affect on its operations or financial condition.

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

In January 2003, the Company received a Consolidated Compliance Order and Notice of Potential Penalty from the Louisiana Department of Environmental Quality pursuant to which the department alleges that the Company s foundry operations failed to submit required storm water monitoring information as required by law. The alleged failure relates to periods subsequent to the cessation of the Company s foundry operations. The Company has appealed the matter and the department has agreed to engage in informal resolution of the matter. Based on current available information, the Company does not believe that it is reasonably possible that this matter will have a material effect on the future operations, financial position or cash flows of the Company.

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

Table of Contents

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal 2003.

ITEM 4A. EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the names of all executive officers of the Company as of March 31, 2003 and certain other information relating to their position held with the Company and other business experience.

Executive Officer	Age	Recent Business Experience
Joseph W. Rog	63	Chairman of the Board of Directors since June 1993 and Chief Executive Officer since the Company s formation in 1984. President of the Company since June 1995 and from January 1984 to June 1993.
Michael K. Baach	48	Executive Vice President since April 1993 and Senior Vice President from 1992 until April 1993. Prior to that, Mr. Baach was Vice President of Sales and Marketing since the Company s formation in 1984.
George A. Gehring, Jr.	59	Executive Vice President since April 1993 and Senior Vice President from 1991 until April 1993. Prior to that, Mr. Gehring served as President of Ocean City Research Corporation, a wholly-owned subsidiary of the Company, since 1987.
David H. Kroon	53	Executive Vice President since April 1993 and Senior Vice President from the Company s formation in 1984 to April 1993.
Barry W. Schadeck	52	Executive Vice President since June 1995 and President of Corrpro Canada, Inc., a wholly-owned subsidiary of the Company, since its formation in May 1994. Prior to that, Mr. Schadeck served as President since April 1993 and Chief Financial Officer since 1979 of Commonwealth Seager Group, a wholly-owned subsidiary of the Company, since 1993.
Robert M. Mayer	40	Senior Vice President, Chief Financial Officer and Treasurer since November 2002. Prior to that, Mr. Mayer served as the Company s Vice President and Corporate Controller since August 2000, Assistant Treasurer since January 2002 and Assistant Corporate Controller from January 1998 until August 2000. Prior to that, Mr. Mayer was with Premier Farnell PLC, an industrial distributor of electronic components, most recently as Director of Finance. Mr. Mayer has prior experience with Ernst & Young, where he was an Audit Manager.
John D. Moran	45	General Counsel since December 1996, Secretary since January 2002, Senior Vice President since July 2000. Assistant Secretary from December 1996 to January 2002 and Vice President from October 1998 until July 2000. Prior to that, Mr. Moran was in-house counsel for Sealy Corporation, a bedding manufacturer, for 10 years and served as Secretary. Mr. Moran also has prior experience with Grant Thornton.

Table of Contents

PART II

ITEM 5. MARKET FOR COMPANY S COMMON EQUITY AND RELATED STOCK HOLDER MATTERS

Price Range of Common Shares

Our Common Shares are listed on the American Stock Exchange (AMEX) under the symbol CO. Prior to February 13, 2002, our Common Shares were listed on the New York Stock Exchange (NYSE) under the symbol CO.

The following table sets forth the high and low sale prices for the Common Shares on the AMEX and NYSE for the fiscal periods indicated.

	Fiscal 2003		Fiscal 2002	
	High	**Low**	**High**	**Low**
First Quarter	$1.80	$1.08	$3.95	$1.20
Second Quarter	1.15	0.58	2.90	1.80
Third Quarter	0.75	0.38	2.80	1.50
Fourth Quarter	0.80	0.30	3.15	1.01

We are required by the stock exchange to maintain certain listing standards and meet certain reporting requirements in order to continue trading and to remain listed on the exchange. The exchange does not use any precise mathematical formula to determine whether a security warrants continual trading on the exchange. Each case is considered on the basis of all relevant facts and circumstances. The exchange has adopted certain guidelines under which it will normally give consideration to suspending dealings in, or removing, a security from listing. The exchange will normally consider suspending dealings in, or removing from the list, securities of a company which does not meet such guidelines. As of March 31, 2003, we did not have a sufficient amount of shareholders equity to meet the guidelines. If we cannot demonstrate that we will be in compliance within a limited time frame, our Common Shares may not be allowed to trade in the stock exchange, although we would pursue an alternative national trading venue.

Holders of Record

On June 23, 2003, there were 195 holders of record of our Common Shares.

Dividends

We have not paid any cash dividends on our Common Shares. We currently anticipate that we will retain all future earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future. Provisions within our senior secured credit agreement and senior notes facility limit our ability to pay cash dividends.

Table of Contents

Equity Compensation Plan Information

The following table provides certain information with respect to all of the Company s equity compensation plans in effect as of March 31, 2003.

Equity Compensation Plan Information Table

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (1)
Equity compensation plans approved by shareholders	1,399,027	$ 3.1258	233,586
Equity compensation plans not approved by shareholders (2)			
Total	1,399,027	$ 3.1258	233,586

(1) Includes 46,875 Common Shares available for issuance under the Non-Employee Directors Stock Option Plan.

(2) Does not include the Company s 2001 Non-Employee Directors Stock Appreciation Rights Plan which has not been approved by its shareholders. Under this plan, non-employee directors received a one-time grant of vested stock appreciation rights as part of their compensation for serving as directors. The stock appreciation rights entitle each eligible director to be paid in cash, subject to the applicable terms and conditions of the grant, on or after May 17, 2006, the amount of appreciation in the fair market value of 10,000 Common Shares between May 17, 2001 and May 17, 2006. Currently, three such non-employee directors hold such stock appreciation rights. Moreover, this does not include shares authorized for payment of bonuses totaling 25,000 of which 22,500 are still available. Also, this does not include the Company s Employee Stock Purchase Plan, which has been suspended, with authorized shares totaling 375,000 of which 300,068 shares are still available.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The financial data presented below for each of the five years ended March 31 should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere in this Form 10-K.

	2003	2002	2001	2000	1999
			(In Thousands, Except Per Share Data)		
Statement of Operations Data:					
Revenues	$104,220	$123,058	$120,489	$119,133	$123,061
Operating income (loss) (1)	2,825	3,405	(371)	5,046	15,666
Interest expense	5,907	5,055	4,401	3,444	2,247
Income (loss) before income taxes from continuing operations	(3,082)	(1,650)	(4,772)	1,602	13,419
Income tax provision (benefit)(3)	(331)	10,669	(934)	943	4,813
Income (loss) from continuing operations	(2,751)	(12,319)	(3,838)	659	8,606
Net income (loss)(2)	$ (28,825)	$ (18,217)	$ (8,281)	$ (2,668)	$ 4,251
Earnings (loss) per share from Continuing operations-					
Basic	$ (0.33)	$ (1.52)	$ (0.50)	$ 0.09	$ 1.10
Diluted	(0.33)	(1.52)	(0.50)	0.08	1.05
Net income (loss)-					
Basic	$ (3.43)	$ (2.24)	$ (1.07)	$ (0.35)	$ 0.54
Diluted	(3.43)	(2.24)	(1.07)	(0.34)	0.52
Other Data:					
Total assets	$ 76,983	$109,963	$137,200	$140,864	$146,050
Working Capital, excluding net assets held for sale	(28,095)	(40,939)	28,501	28,639	35,569
Net Assets Held for Sale	7,364	35,783	38,439	43,226	47,631
Total debt	51,241	62,686	68,124	62,150	62,686
Shareholders equity	1,199	23,857	41,518	54,235	58,056

(1) Includes charges totaling $2,868 in fiscal 2001 and $2,000 in fiscal 2000. See Note 1, Summary of Significant Accounting Policies, Notes to Consolidated Financial Statements for further information.

(2) Includes a cumulative effect of change in accounting principle of $18,238 in fiscal 2003, related to our evaluation of goodwill. See Note 1, Summary of Significant Accounting Policies, Notes to Consolidated Financial Statements for further information.

(3) Includes a valuation allowance of $10,472 in fiscal 2002, related to our deferred tax asset. See Note 1, Summary of Significant Accounting Policies, Notes to Consolidated Financial Statements for further information.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following discussion and analysis contains certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. See Business Factors Influencing Future Results and Accuracy of Forward Looking Information.

Critical Accounting Policies

The Company s critical accounting policies, including the assumptions and judgments underlying them, are more fully described in Note 1 Summary of Significant Accounting Policies to the accompanying consolidated financial statements of this Form 10-K. Some of the Company s accounting policies require the application of significant judgment by management in the preparation of the Company s financial statements. In applying these policies, the Company s management uses its best judgment to determine the underlying assumptions that are used in calculating the estimates that affect the reported values on its financial statements. Management bases its estimates and assumptions on historical experience and other factors that the Company considers relevant. Corrpro s critical accounting policies include the following:

Revenue Recognition

The Company records income from construction and engineering contracts under the percentage-of- completion method, using costs incurred to date in relation to estimated total costs of the contracts, to measure the stage of completion. Original contract prices are adjusted for change orders and claims when the change order or claim has been approved by the customer. Cost budgets are revised, when necessary, in the amounts that are reasonably estimated based on the Project Leaders knowledge of the project as well as the Company s historical experience. The cumulative effects of changes in estimated total contract costs and revenues are recorded in the period in which the facts requiring such revisions become known, and are accounted for using the percentage-of-completion method. At the time it is determined that a contract is expected to result in a loss, the entire estimated loss is recorded. . The Company recognizes revenue from product sales upon shipment and transfer of ownership.

Accounts Receivable

The Company records estimated allowances for uncollectible accounts receivable based upon the number of days the accounts are past due, the current business environment, and specific information such as bankruptcy or liquidity issues of customers. Historically, losses for uncollectible accounts receivable have been within management s estimates. Corrosion control services and products are provided to a large number of customers with no substantial concentration in a particular industry or with an individual customer.

Inventories

Inventories are valued at the lower of cost or market with cost being determined on the first-in, first-out method.

Management periodically reviews inventories for excess and obsolete goods based upon a combination of historical and forecasted usage. Additionally, discrete provisions are made when facts and circumstances indicate that particular inventories will not be utilized. If future market conditions are different than those estimated, a change to the valuation of inventory may be required and would be reflected in the period the conditions change.

Asset Impairment

The Company periodically evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of any long-lived or intangible asset may warrant revision or that the remaining balance of the asset may not be recoverable. If factors indicate that the long-lived assets should be evaluated for possible impairment, the Company uses an estimate of the related asset s net undiscounted cash flows from operations over the remaining life to determine recoverability. The measurement of the impairment would be based on the amount by which the carrying value of the asset exceeds its fair value.

During fiscal 2003, the Company recorded an impairment charge relating to its Asia Pacific operations totaling $1.6 million based on current market value of these operations and additionally recorded impairment charges totaling $0.9 million based on market value analysis for its European and Middle East operations. The Asia Pacific, European and Middle East operations are all reported as discontinued operations.

In July 2001, Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141), and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), were issued by the Financial Accounting Standards Board. SFAS 141 eliminates the pooling-of-interests method for business combinations and requires the use of the purchase method. SFAS 142 changes the accounting for goodwill and indefinite life intangibles from an amortization approach to a non-amortization approach, and require periodic tests for impairment of these assets. Upon the Company s adoption of SFAS 142 on April 1, 2002, the provisions of SFAS 142 required the discontinuance of amortization of goodwill and indefinite life intangibles that had been recorded in connection with previous business combinations. The adoption of SFAS 142 reduced amortization expense approximately $1.7 million for the year ended March 31, 2003 as compared to the year ended March 31, 2002. The Company has completed its impairment testing under SFAS 142 and recorded an impairment loss, as of April 1, 2002, totaling $18.2 million of which $11.8 million related to discontinued operations and $6.4 million related to continuing operations. The loss is being recognized as the cumulative effect of a change in accounting principle. This impairment testing is also done annually in the fourth quarter and such testing resulted in no additional impairment as of March 31, 2003.

Income taxes

The Company uses the liability method whereby income taxes are recognized during the fiscal year in which transactions enter into the determination of financial statement income. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial statement and tax basis of assets and liabilities. The Company recorded a valuation allowance for its net domestic deferred tax assets carryforwards of $10.5 million in the fourth quarter of fiscal 2002. The Company maintained a valuation allowance at March 31, 2003 and intends to maintain a full valuation allowance for its net deferred tax assets and net operating loss carryforwards until sufficient positive evidence exists to support the reversal of the remaining reserve. Until such time, except for foreign tax provisions, the Company expects to have no reported tax provision, net of valuation allowance adjustments. In the event the Company was to determine, based on the existence of sufficient positive evidence, that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. See Note 5 of Notes to Consolidated Financial Statements of the Company for additional information regarding income taxes.

Results of Operations

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. At the request of our current lenders the Company intends to sell non-core business units (including all international offices), and use the proceeds to reduce debt. The Company has engaged outside professionals to assist in the disposition of the domestic and international non-core business units. Prior to the quarter ended September 30, 2002, the Company s non-core domestic and international units were reported as the Other Operations and International Operations reporting segments. Effective as of the quarter ended September 30, 2002, the Other Operations and the International Operations reporting segments have been eliminated and the non-core domestic and international units have been reported as discontinued operations. Prior-year financial statements have been reclassified to reflect these non-core units as discontinued operations, which are also referred to as

Table of Contents

assets and liabilities held for sale. The main reason for the divestiture of these business units is to generate cash to pay down outstanding debt. In addition, it will allow the Company to focus on growing its core business in North America.

Year Ended March 31, 2003 Compared to Year Ended March 31, 2002

Revenues

Revenues for fiscal 2003 totaled $104.2 million, compared with $123.1 million for fiscal 2002, a decrease of 15.3%.

Our Domestic Core Operations generated revenues of $85.0 million compared with $101.8 million, a decrease of 16.5%. This decrease is due to a number of factors. The most significant factor related to our Preservation Team contracts with the U.S. Navy. Since June 2000, we have been providing Preservation Team services to the U.S. Navy under a demonstration contract. In calendar 2002 these contracts were placed in the normal Navy procurement process and put out for competitive bid. A number of these contracts were designated as small business contracts and we did not qualify as a small business. Therefore, we were not able to compete for these contracts as a prime contractor, although we were eventually awarded a number of subcontracts for this work. The net result was a reduction in revenues of approximately $11.6 million in fiscal year 2003. In fiscal 2003 we also made the decision to close two offices in New Mexico and South America, resulting in lost revenues of approximately $1.9 million. The remaining decrease is primarily due to decreased material sales of $1.1 million and lower revenues generated by our commercial coatings offices of $1.3 million.

Revenues relating to our Canadian Operations segment totaled $19.3 million, compared to $21.3 million in fiscal 2002, a decrease of 9.4%. The decrease is due primarily to lower material and rectifier sales and the closure of our office in Taiwan. The Canadian Operations continue to experience weakness in the energy segment of its business.

Gross Profit

On a consolidated basis, gross profit margin (defined as revenues less cost of sales items) for fiscal 2003 totaled $32.6 million (31.3% of revenues) compared to $35.7 million (29.0% of revenues) for fiscal 2002, a decrease in gross profit dollars of $3.1 million or 8.7%. The higher gross profit as a percent to revenue (a 2.3% increase) can be attributed to informal restructuring plans and cost containment programs implemented in fiscal 2001 and 2002 as well as the Company s Board of Directors decision to approve a formal business restructuring plan in July 2002. The multi-year plan includes a series of initiatives to improve gross margins as well as operating income and reduce debt. The initiatives that impacted gross margins included the following:

Closure of under-performing offices. At the end of fiscal 2001, we closed five under-performing offices. Costs continued to be incurred in fiscal 2002 as we restructured our operations. Approximately $0.4 million in margin costs were incurred in fiscal 2002 while none were incurred in fiscal 2003. In fiscal 2002 we closed our office in Taiwan and realized gross margin improvement of $0.4 million in fiscal 2003.

Improved insurance programs. We moved certain insurance policies to deductible programs in fiscal 2003. These changes allowed us to reduce costs by approximately $0.7 million.

Improved material purchase program. Efficiencies were achieved in purchasing certain corrosion control materials that are sold to our customers. Gross Margin improvement in our Material Sales Center totaled $0.3 million in fiscal 2003.

Wage and salary freeze. We implemented a wage and salary freeze for all employees in fiscal 2003 in order to contain costs.

Table of Contents

Restrictions on travel and entertainment. Travel and entertainment was restricted to essential, revenue producing ventures.

Selling, General and Administrative Expenses

Selling, general and administrative (S,G&A) expenses for fiscal 2003 totaled $29.8 million (28.6% of revenues), compared with $32.3 million (26.3% of revenues) for fiscal 2002, a decrease of 7.7%. The fiscal 2003 amount of $29.8 million includes severance and consultant expenses totaling $3.4 million. The improvement in S,G&A was achieved in part by the implementation of informal cost containment programs and restructuring plans in fiscal 2001 and 2002 as well as in part because of the Board of Director s approval of a formal restructuring plan in July 2002. An activity based analysis was performed to eliminate non-value added costs throughout the Company. Savings were achieved through the following initiatives:

Reduced headcount in corporate overhead areas. Headcount was reduced in both fiscal 2002 and fiscal 2003. Savings of approximately $4.0 million was achieved by these headcount reductions in fiscal 2003.

Closed under performing offices. At the end of fiscal 2001, we closed five under performing offices. Costs continued to be incurred in fiscal 2002 as we restructured our operations. In addition, we closed our office in Taiwan in fiscal 2002. The total S,G&A expense reduction realized by these closures was approximately $0.4 million in fiscal 2003.

Restrictions on travel and entertainment as well as other discretionary overhead costs. Travel and entertainment was restricted to essential, revenue producing ventures. Purchase of advertising materials, catalogs, office supplies and other discretionary overhead items were also restricted. Total savings achieved in fiscal 2003 was approximately $0.4 million.

Wage and salary freeze. We implemented a wage and salary freeze for all employees in fiscal 2003 in order to contain costs. In addition, the management incentive plan was suspended in fiscal 2003. The savings achieved in fiscal 2003 from the suspension of the management incentive plan was approximately $0.4 million.

In addition to the initiatives above, we achieved a savings from reduced employee benefit costs. In fiscal 2003, the Company suspended its match feature in its 401K plan. In addition, the Company had a favorable claims experience in its health care costs. These items resulted in savings of approximately $0.9 million in fiscal 2003.

Operating Income (Loss)

Operating income for fiscal 2003 totaled $2.8 million, compared to $3.4 million for fiscal 2002, a decrease of $0.6 million. However, despite a reduction in revenue of $18.9 million from fiscal 2002, our efforts to restructure the Company and reduce our operating costs and expenses kept operating income as a percent to revenue even with fiscal 2002.

Interest Expense

Interest expense for fiscal 2003 totaled $5.9 million, compared to $5.1 million for fiscal 2002. The increase was related primarily to a provision for yield maintenance of $1.0 million in our Senior Notes. See Note 3, Long-Term Debt, Notes to Consolidated Financial Statements.

Table of Contents

Income Tax Provision

We recorded an income tax benefit of $0.3 million for fiscal 2003, compared to an income tax provision of $10.7 million in fiscal 2002. Our effective rate is based on the statutory rates in effect in the countries in which we operate. See Note 5, Income Taxes, Notes to Consolidated Financial Statements included in Item 8 for a reconciliation of our effective tax rates. Within the fiscal 2002 tax provision is an increase in valuation allowance for our domestic deferred tax asset of $10.5 million.

Loss from Continuing Operations

As a result of the foregoing, loss from continuing operations in fiscal 2003 totaled $2.8 million, compared with a loss from continuing operations of $12.3 million in fiscal 2002, a decrease of $9.5 million. The decrease is primarily attributable to the valuation allowance for our deferred tax assets taken in fiscal 2002 and lower operating costs and expenses.

Discontinued Operations

Loss from discontinued operations, net of income taxes totaled $9.9 million for fiscal 2003, compared with a loss from discontinued operations, net of income taxes, of $5.9 million for fiscal 2002. This incremental loss is mainly attributable to currency translation adjustments, pension liability and impairment charges.

In fiscal 2003 four non-strategic business units were sold for a gain, net of taxes of $2.1 million.

Cumulative Effect of a Change in Accounting Principle

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

Net Loss

The net loss for fiscal 2003 totaled $28.8 million, compared with a net loss of $18.2 million in fiscal 2002. The net loss increase reflects the impact of the change in accounting principle and increased losses from discontinued operations due to currency translation adjustments. Diluted loss per share increased to a loss of $3.43 in fiscal 2003 compared with a loss of $2.24 in fiscal 2002.

Year Ended March 31, 2002 Compared to Year Ended March 31, 2001

Revenues

Revenues for fiscal 2002 totaled $123.1 million, compared with $120.5 million for fiscal 2001, an increase of 2.2%.

Fiscal 2002 revenues relating to our Domestic Core Operations segment totaled $101.8 million, compared to $96.2 million in fiscal 2001, an increase of 5.8%. Revenues continued to increase for our coatings services business, which was partially offset by declines in our core cathodic protection business as a result of the sluggish energy-related markets. Revenues from government contract awards totaled approximately $10.0 million during fiscal 2002.

Revenues relating to our Canadian Operations segment totaled $21.3 million, compared to $24.3 million in fiscal 2002, a decrease of 12.3%. This decrease was primarily due to lower levels of construction and material revenues.

Table of Contents

Gross Profit

On a consolidated basis, gross profit (defined as revenues less cost of sales items) for fiscal 2002 totaled $35.7 million (29.0% of revenues) compared to $35.2 million (29.2% of revenues) for fiscal 2001, an increase in gross profit dollars of $0.5 million or 1.4%. Included in fiscal 2002 was $1.0 million of expenses for the cessation of certain Mexican foundry operations.

Selling, General and Administrative Expenses

Selling, general and administrative (S,G&A) expenses for fiscal 2002 totaled $32.3 million (26.3% of revenues), compared with $35.5 million (29.5% of revenues) for fiscal 2001, a decrease of 9.0%. In fiscal 2001 S,G&A expenses included $1.9 million for the disposition of a small non-core business unit, the consolidation of district offices, severance pay and other costs associated with the Company s cost reduction programs and expenses accrued in connection with state regulatory proceedings and anti-trust litigation involving the Company. See Item 3 Legal Proceedings for a discussion of the ongoing regulatory and litigation matters.

Operating Income (Loss)

Operating income for fiscal 2002 totaled $3.4 million, compared to an operating loss of $0.4 million during fiscal 2001, an increase of $3.8 million. The increase is the result of a number of cost reduction programs we implemented in the latter part of fiscal 2001 and our continuing efforts to reduce our S,G&A expenses.

Interest Expense

Interest expense for fiscal 2002 totaled $5.1 million compared to $4.4 million in fiscal 2001. The decrease in debt year-over-year was offset by increased interest rates in the latter fiscal year.

Income Tax Provision

We recorded an income tax provision of $10.7 million for fiscal 2002, compared to an income tax benefit of $0.9 million for fiscal 2001. Within the fiscal 2002 tax provision is an increase in valuation allowance for our domestic deferred tax asset of $10.5 million. Our effective rate is based on the statutory rates in effect in the countries in which we operate. See Note 5, Income Taxes, Notes to Consolidated Financial Statements included in Item 8 for a reconciliation of our effective tax rates.

Loss from Continuing Operations

As a result of the foregoing, loss from continuing operations in fiscal 2002 totaled $12.3 million, compared with a loss from continuing operations of $3.8 million in fiscal 2001, a decrease of $8.5 million. The decrease is primarily attributable to the valuation allowance for our deferred tax assets taken in fiscal 2002 which was partially offset by our reduction in S,G&A expense.

Discontinued Operations

Loss from discontinued operations, net of income taxes totaled $5.9 million for fiscal 2002, compared with a loss from discontinued operations of $4.4 million for fiscal 2001. The fiscal 2002 loss included a loss on investment in our Australian subsidiary of $2.5 million.

Net Loss

As a result of the foregoing, net loss for fiscal 2002 totaled $18.2 million, compared with a net loss of $8.3 million in fiscal 2001, an increase of $9.9 million. The increase is primarily attributable to the valuation allowance for our deferred tax assets taken in fiscal 2002 which was partially offset by our reduction in S,G&A. Diluted loss per share increased to a loss of $2.24 in fiscal 2002 compared with a loss of $1.07 in fiscal 2001.

Liquidity and Capital Resources

At March 31, 2003, we had a working capital deficit of $28.1 million, compared to a deficit of $40.9 million at March 31, 2002, an improvement of $12.8 million. This improvement in working capital is due to a number of factors. Accounts receivable decreased by $5.8 million due to lower revenue levels in fiscal 2003 and improved collections. On March 31, 2003 we sold a non-strategic business unit and recorded a $6.2 million note receivable, which increased working capital. Inventory levels decreased approximately $1.8 million due to improved inventory management. The current portion of long term debt decreased by $11.5 million. The reduction in debt is primarily the result of the use of cash generated by continuing and discontinued operations including $3.1 million in proceeds received from the sale of our Bass Trigon Software business. Accounts payable decreased $1.4 million due to lower activity levels in fiscal 2003.

During fiscal 2003, cash provided by operating activities totaled $0.2 million, compared to $9.4 million in fiscal 2002. The overall decrease in cash generated from operating activities is due to several factors. First, we recorded a note receivable of $6.2 million on March 31, 2003 for the sale of a non-strategic business unit. A cash payment of approximately $6.0 million of this note was received on April 2, 2003. This timing of the payment impacted the cash generated by operating activities by $6.0 million due to the note receivable being recorded on March 31, 2003. The second factor is that the Company experienced less favorable improvements in account receivables, inventory and prepaid expenses in fiscal 2003 compared to fiscal 2002.

In March 1999, the Company entered into an $80 million revolving credit facility that expires on July 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 September 23, 2002 (September 2002 Amendment) the size of the Revolving Credit Facility was reduced to $37.5 million. In addition, the September 2002 Amendment provides that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any net asset disposition payments to reduce the Revolving Credit Facility will result in a proportionate reduction in the lender s commitments in the Revolving Credit Facility. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The September 2002 Amendment provides for interest on borrowings at prime plus 5.00%. In addition, the September 2002 Amendment requires the Company to pay a facility fee of 1.00% on the commitment amount. The Company executed another amendment on November 1, 2002 (the Seventh Amendment) which contained additional provisions for the improvement period and also reset the net worth covenant. The Company also executed an amendment on February 10, 2003 (the Eighth Amendment) to modify certain terms and conditions under which facility letters of credit may be issued.

In connection with the September 2002 Amendment, the Revolving Credit Facility lender group received a warrant (Revolving Credit Facility Warrant) to purchase 467,000 of the Company s common shares at a purchase price of $0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Revolving Credit Facility Warrant can be reduced up to 50% if the Company partially pays the Revolving Credit Facility principal amount prior to July 31, 2003 or by up to 10% if targeted asset dispositions are completed and the proceeds are used to pay down the debt levels but this is highly unlikely to be fully utilized by July 31, 2003. Borrowings under the Revolving Credit Facility are secured by the Company s domestic accounts receivable, inventories, certain intangibles, machinery and equipment and owned real estate as well as certain assets in Canada. The Company also has pledged slightly less than two-thirds of the capital stock of two of its foreign subsidiaries. The Revolving Credit Facility, 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. The Company was not in compliance with its net worth covenant and its operating income before depreciation and amortization financial covenant of the Revolving Credit Facility as of March 31, 2003 and there can be no assurance that the Company will receive a waiver for these violations. At March 31, 2003, the Company had $22.2 million outstanding under the Revolving Credit Facility. Total availability under the Revolving Credit Facility at March 31, 2003 was approximately $1.6 million, after giving consideration to the borrowing base limitations under the Revolving Credit Facility but this availability can be revoked at any time due to the debt covenant violations.

Table of Contents

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

In January 1998, the Company issued, through a private placement, $30 million of Senior Notes due 2008 (the Senior Notes). The Senior Notes, as amended, bear interest at 11.35% until July 31, 2003 and 11.85% on and after July 31, 2003. In addition, the agreement relating to the Senior Notes, as amended, provides for an additional fee of 1.00% per annum on the outstanding principal amount of the Senior Notes. In connection with the September 2002 Amendment, the Senior Notes lender received a warrant (Senior Notes Warrant) to purchase 467,000 of the Company s Common Shares at a purchase price of $0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Senior Notes Warrant can be reduced up to 50% to the extent the Company partially pays the Revolving Credit Facility principal and the Senior Notes principal prior to July 31, 2003 or by up to 10% if targeted asset dispositions are completed and the proceeds are used to pay down the debt levels but this is highly unlikely to be fully utilized by July 31, 2003. The Senior Notes, as amended, require a principal payment of $7.6 million by July 31, 2003 and monthly principal payments of $0.4 million commencing on August 15, 2003 (Notes Principal Repayments) and are secured equally and ratably with debt under the Revolving Credit Facility. In addition, the Senior Notes provide that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any such additional payments used to reduce the Senior Notes will result in an equal reduction in the Notes Principal Repayments. The Company cannot assure that it will be able to make Notes Principal Repayments when due. Failure to do so would result in a default under the Senior Notes, in which case, the Senior Notes lender could pursue its remedies for default, including acceleration of principal, which would have a material adverse effect on the Company s liquidity and financial condition and could result in the Company s inability to operate as a going concern. If the Company is unable to operate as a going concern, it may file, or may have no alternative but to file, bankruptcy or insolvency proceedings or pursue a sale or sales of assets to satisfy creditors.

Within the Prudential Senior Notes Agreement is a yield maintenance amount provision which ensures that the lender is paid the entire interest amount of the note. The make-whole provision states that the Notes shall be subject to prepayment, in whole at any time or from time to time in part, at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the yield maintenance amount, if any, with respect to each Note. Any partial prepayment of the Notes which meets certain criteria shall be applied against the principal amount of the Notes scheduled to become due in the inverse order of maturity thereof. Fiscal 2003 results include an interest charge of approximately $1.0 million relating to the yield maintenance amount provisions of our Senior Notes agreement. The yield maintenance amount provisions apply to certain optional prepayments of principle under the Senior Notes. The Company does not agree with and is disputing the Note holder s interpretation that certain payments from the proceeds of sales of certain non-core and international business assets made during and after fiscal 2003 are subject to the yield maintenance amount provisions. Further information about the yield maintenance amount provisions is included in Note 3, Long-Term Debt, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

During fiscal 2003, four non-strategic business units were sold. These dispositions included Rohrback Cosasco Systems, Bass Trigon Software and two smaller international offices. The proceeds from these dispositions were used to pay down debt. For further information about our discontinued operations see Note 2, Assets and Liabilities Held for Sale, Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

The Company is required to maintain certain financial ratios under the Senior Notes. The Company was not in compliance with the financial covenants under the Senior Notes as of March 31, 2003 and there can be no assurance that the Company will receive a waiver for these violations.

Table of Contents

The Company is negotiating agreements with its lenders to amend the current Revolving Credit Facility and Senior Note agreements and to address existing violations. 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 2004 other financing to retire the Senior Notes and Revolving Credit Facility. There can be no assurance however that we will be able to amend the existing agreements or obtain other financing.

Effects of Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 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 (i.e. our fiscal year 2004). The adoption of SFAS No. 143 is not expected to have a material effect on the Company s results of operations or financial position.

In June 2002, the 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.

In December 2002, SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123 was issued. SFAS No. 148 amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the effects on reported net income of an entity s method of accounting for stock-based employee compensation. SFAS No. 148 is effective for the Company in its second fiscal quarter of 2003. The Company does not intend to effect a voluntary change in accounting to the fair value method, and accordingly, does not anticipate the adoption of SFAS No. 148 to have a significant impact on the Company s future results of operations or financial position. The Company has adopted the disclosure provisions of SFAS No. 148 as of March 31, 2003.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities, and in May 2003 SFAS No. 150 was issued, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. We have not yet determined the impact, if any, on our financial statements of SFAS No. 149 and SFAS No. 150, which are effective in our fiscal year 2004.

In November 2002, the FASB issued Interpretation No. 45 Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others. Interpretation 45 expands on the accounting guidance of Statements No. 5 Accounting for Contingencies, No. 57 Related Party Disclosures, and No. 107 Disclosures about Fair Value of Financial Instruments and incorporates without change the provisions of Interpretation No. 34 Disclosure in Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statement No. 5 which is being superceded. Interpretation 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time an entity issues a guarantee, the entity must recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of Interpretation 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002, regardless of an entity s year-end. The disclosure requirements of Interpretation 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. Accordingly, the

Company adopted the disclosure requirements of Interpretation 45 for the year ended March 31, 2003 and the interpretation in its entirety as of January 1, 2003. The adoption of Interpretation 45 did not have a material impact on the Company s results of operations or financial position.

ITEM 7A. 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 March 31, 2003 rates, and assuming no changes in debt from the March 31, 2003 levels, the additional annual interest expense would be approximately $1.0 million.

Foreign Operations and Foreign Currency Exchange Risk

Our foreign subsidiaries generally conduct business in local currencies. During fiscal 2003, the Company recorded a favorable foreign currency translation adjustment of $1.6 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. Our foreign operations are also subject to other customary risks of operating in a global environment, such as unstable political situations, the affect 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. We have international operations excluding those in Canada that are reported as net assets held for sale in the consolidated balance sheets and these assets can be effected by foreign currency exchange risk that could effect the selling price of these assets. Also during fiscal 2003, discontinued operations recorded charges to selling, general and administrative expenses totaling $3.7 million related to currency translation.

Table of Contents

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Accountants

The Board of Directors and Shareholders
Corrpro Companies, Inc.:

We have audited the accompanying consolidated balance sheets of Corrpro Companies, Inc. and subsidiaries (Company) as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the years in the three-year period ended March 31, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corrpro Companies, Inc. and subsidiaries as of March 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 3 to the consolidated financial statements, at March 31, 2003, the Company has suffered recurring losses from operations and was not in compliance with certain financial covenants contained in its banking agreements. These matters raises substantial doubt about the Company s ability to continue as a going concern. Management s plan in regard to these matters is also described in note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in note 1, to the accompanying consolidated financial statements, effective April 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

/s/ KPMG LLP

Cleveland, Ohio
June 20, 2003

Table of Contents

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2003 and 2002

(In Thousands)

ASSETS

	2003	2002
Current Assets:		
Cash and cash equivalents	$ 5,514	$ 3,959
Accounts receivable, less allowance for doubtful accounts of $531 and $1,779 at March 31, 2003 and 2002, respectively	16,809	22,575
Note receivable	6,232	
Inventories	7,066	8,469
Prepaid expenses and other	3,713	3,371
Assets held for sale	14,600	40,936
Total current assets	53,934	79,310
Property, Plant and Equipment:		
Land	443	592
Buildings and improvements	4,897	6,158
Equipment, furniture and fixtures	15,312	15,030
	20,652	21,780
Less accumulated depreciation	(13,969)	(13,389)
Property, plant and equipment, net	6,683	8,391
Other Assets:		
Goodwill, net	13,343	18,859
Deferred income taxes		
Other assets	3,023	3,403
Total other assets	16,366	22,262
	$ 76,983	$ 109,963

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

Table of Contents

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2003 and 2002

(In Thousands)

LIABILITIES AND SHAREHOLDERS EQUITY

	2003	2002
Current Liabilities:		
Short-term borrowings	$ 61	$
Current portion of long-term debt	50,415	61,668
Accounts payable	7,282	8,636
Accrued liabilities and other	9,671	9,009
Liabilities held for sale	7,236	5,153
Total current liabilities	74,665	84,466
Long-Term Debt, net of current portion	765	1,018
Deferred Income Taxes	354	622
Commitments and Contingencies		
Shareholders Equity:		
Serial Preferred Shares, voting, no par value; 1,000 shares authorized and unissued		
Common Shares, voting, no par value, at stated value; 40,000 shares authorized; 8,538 shares issued in 2003 and 2002; 8,439 and 8,288 shares outstanding in 2003 and 2002	2,276	2,276
Additional paid-in capital	46,560	46,993
Accumulated earnings (deficit)	(45,076)	(16,251)
Accumulated other comprehensive loss	(1,597)	(7,002)
Common Shares in treasury, at cost; 99 and 250 shares held in 2003 and 2002	(964)	(2,159)
Total shareholders equity	1,199	23,857
	$ 76,983	$ 109,963

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

32

Table of Contents

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended March 31, 2003, 2002 and 2001

(In Thousands, Except Per Share Data)

	2003	2002	2001
Revenues	$104,220	$123,058	$120,489
Operating costs and expenses:			
Cost of sales	71,607	87,326	85,325
Selling, general and administrative expenses	29,788	32,327	35,535
Operating income (loss)	2,825	3,405	(371)
Interest expense	5,907	5,055	4,401
Loss from continuing operations before Income taxes	(3,082)	(1,650)	(4,772)
Provision (benefit) for income taxes	(331)	10,669	(934)
Loss from continuing operations	(2,751)	(12,319)	(3,838)
Discontinued operations:			
Loss from operations, net of income taxes	(9,931)	(5,898)	(4,443)
Gain on disposals, net of income taxes	2,095		
Loss before Cumulative effect of change in accounting principle	(10,587)	(18,217)	(8,281)
Cumulative effect of change in accounting principle	(18,238)		
Net Loss	$ (28,825)	$ (18,217)	$ (8,281)
Loss per share Basic:			
Loss from continuing operations	$ (0.33)	$ (1.52)	$ (0.50)
Discontinued operations:			
Loss from operations, net of income taxes	(1.18)	(0.72)	(0.57)
Gain on disposal, net of income taxes	0.25		
Loss before Cumulative effect of change in accounting principle	(1.26)	(2.24)	(1.07)
Cumulative effect of change in accounting principle	(2.17)		
Net Loss	$ (3.43)	$ (2.24)	$ (1.07)
Weighted average shares outstanding Basic	8,387	8,119	7,736
Loss per share Diluted:			
Loss from continuing operations	$ (0.33)	$ (1.52)	$ (0.50)
Discontinued operations:			
Loss from operations, net of income taxes	(1.18)	(0.72)	(0.57)
Gain on disposal, net of income taxes	0.25		
Loss before Cumulative effect of change in accounting principle	(1.26)	(2.24)	(1.07)
Cumulative effect of change in accounting principle	(2.17)		

Net Loss	$ (3.43)	$ (2.24)	$ (1.07)
Weighted average shares outstanding Diluted	8,387	8,119	7,736

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

Table of Contents

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
For the Years Ended March 31, 2003, 2002 and 2001

(In Thousands)

	Serial Preferred Shares	Common Shares	Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Common Shares In Treasury	Total
March 31, 2000	$	$2,276	$51,486	$ 10,247	$(1,699)	$(8,075)	$ 54,235
Comprehensive Loss:							
Net loss				(8,281)			(8,281)
Minimum pension liability, net of tax of $142					(366)		(366)
Cumulative translation adjustment					(4,614)		(4,614)
Total Comprehensive Loss							(13,261)
Exercise of 2 stock options			4				4
Issuance of 208 Treasury Shares			(1,511)			2,051	540
March 31, 2001		2,276	49,979	1,966	(6,679)	(6,024)	41,518
Comprehensive Loss:							
Net loss				(18,217)			(18,217)
Minimum pension liability, net of tax of $74					(132)		(132)
Cumulative translation adjustment					(191)		(191)
Total Comprehensive Loss							(18,540)
Issuance of 391 Treasury Shares			(2,986)			3,865	879
March 31, 2002		2,276	46,993	(16,251)	(7,002)	(2,159)	23,857
Comprehensive Loss:							
Net loss				(28,825)			(28,825)
Write-off Translation adjustment related to Discontinued operations					3,301		3,301
Write-off of minimum pension liability related to Discontinued operations					498		498
Cumulative translation adjustment					1,606		1,606
Total Comprehensive Loss							(23,420)
Issuance of 934 Stock Warrants			626				626
			(1,059)			1,195	136

Issuance of 151 Treasury Shares							
March 31, 2003	$	$2,276	$46,560	$(45,076)	$(1,597)	$ (964)	$ 1,199

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

34

Table of Contents

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2003, 2002 and 2001

(In Thousands)

	2003	2002	2001
Cash flows from operating activities:			
Net loss	$(28,825)	$(18,217)	$(8,281)
Adjustments to reconcile net loss to net cash provided (used) by continuing operations:			
Loss on discontinued operations	7,836	5,898	4,443
Depreciation and amortization	3,027	4,142	4,201
401K matching contributions in Treasury shares	136	841	360
Deferred income taxes	(344)	6,737	(2,576)
Loss on sale of assets	(11)	(87)	(82)
Cumulative effect of change in accounting principle	18,238		
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts and notes receivable	176	4,898	(3,417)
Inventories	1,752	4,323	625
Prepaid expenses and other	(314)	2,821	2,153
Other assets	(698)	(1,174)	1,228
Accounts payable and accrued expenses	(744)	(832)	699
Total adjustments	29,054	27,567	7,634
Net cash provided (used) by continuing operations	229	9,350	(647)
Cash flows from investing activities:			
Additions to property, plant and equipment	(351)	(588)	(1,882)
Proceeds from disposal of property, plant and equipment	507	495	1,510
Net cash provided (used) by investing activities	156	(93)	(372)
Cash flows from financing activities:			
Net payment under revolving credit facility and lines of credit	(11,534)	(5,362)	6,588
Net proceeds from issuance of Common Shares		40	183
Net cash provided (used) by financing activities	(11,534)	(5,322)	6,771
Effect of changes in foreign currency exchange rates on cash	154	(5)	(11)
Cash provided by (used for) discontinued operations	12,550	(3,174)	(3,022)
Net increase in cash	1,555	756	2,719
Cash and cash equivalents at beginning of year	3,959	3,203	484
Cash and cash equivalents at end of year	$ 5,514	$ 3,959	$ 3,203

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

CORRPRO COMPANIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For The Years Ended March 31, 2003, 2002 and 2001

(In Thousands, Except Per Share Data)

1. Summary of Significant Accounting Policies:

Consolidation and basis of presentation

The consolidated financial statements include the accounts of Corrpro Companies, Inc. and its subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain fiscal 2002 and 2001 amounts have been reclassified to conform with the fiscal 2003 presentation.

The Company s operations provide corrosion control engineering and services, systems and equipment to the infrastructure, environmental and energy markets throughout the world.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with an original maturity of three months or less.

Accounts receivable

The Company records estimated allowances for uncollectible accounts receivable based upon the number of days the accounts are past due, the current business environment and specific information such as bankruptcy or liquidity issues of customers. Historically, losses for uncollectible accounts receivable have been within management s estimates. Corrosion control services and products are provided to a large number of customers with no substantial concentration in a particular industry or with an individual customer. The Company performs ongoing credit evaluations of its customers financial condition.

Accounts receivable are presented net of allowances for doubtful accounts of $531 and $1,779 at March 31, 2003 and 2002, respectively. Bad debt expense totaled $452, $532 and $813 in fiscal 2003, 2002 and 2001, respectively. Trade receivables written off, net of recoveries of prior years write-offs, totaled $1,700, $873 and $393 in fiscal 2003, 2002 and 2001, respectively.

Inventories

Inventories are valued at the lower of cost or market with cost being determined on the first-in, first-out method. Inventories consist of the following at March 31, 2003 and 2002:

	2003	2002
Component parts and raw materials	$5,005	$5,624
Finished goods	2,061	2,845
	$7,066	$8,469

Disposals of obsolete inventory, net of proceeds, totaled $149, $183 and $1,728 in fiscal 2003, 2002 and 2001, respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized, while maintenance and repairs are expensed when incurred. The cost and accumulated depreciation for property, plant and equipment sold, retired or otherwise disposed of are removed from the accounts and resulting gains or losses are reflected in income.

Substantially all of the Company s operations compute depreciation on the straight-line method. Depreciation for the Company s Canadian Operations segment is computed on the declining balance method. Estimated useful lives range from 25 to 40 years for buildings and from 4 to 10 years for equipment, furniture and fixtures. Leasehold improvements are depreciated over the term of the lease. For income tax reporting purposes, depreciation is computed principally using accelerated methods.

Depreciation expense totaled $1,937, $2,429 and $2,593 in fiscal 2003, 2002 and 2001, respectively.

Goodwill, patents and other intangibles

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

In July 2001, Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142), were issued by the Financial Accounting Standards Board. SFAS 142 changes the accounting for goodwill and indefinite life intangibles from an amortization approach to a non-amortization approach, and require periodic tests for impairment of these assets. Upon the Company s adoption of SFAS 142 on April 1, 2002, the provisions of SFAS 142 required the discontinuance of amortization of goodwill and indefinite life intangibles that had been recorded in connection with previous business combinations. The Company has completed its initial impairment testing as of April 1, 2002 under SFAS 142 and recorded an impairment loss totaling $18,238 of which $11,832 related to discontinued operations and $6,406 related to continuing operations. The loss is being recognized as the cumulative effect of a change in accounting principle. This impairment testing is also done annually in the fourth quarter and such testing indicated no additional impairment as of March 31, 2003.

The following table reflects the reconciliation of reported net loss and net loss per share to the amounts adjusted for the exclusion of goodwill amortization:

	2002	2001
Net Loss:		
Reported Net Loss	$(18,217)	$(8,281)
Add back Goodwill Amortization	1,723	1,668
Adjusted Net Loss	$(16,494)	$(6,613)
Income (loss) per share Basic & Diluted:		
As reported	$ (2.24)	$ (1.07)
Adjusted Net Loss	$ (2.03)	$ (0.85)

Goodwill balances as of March 31, 2003 totaled $13,343 compared to $18,859 at March 31, 2002. During fiscal 2003, the Company recorded an impairment on its goodwill of $11,832 for discontinued operations and $6,406 for its continuing operations which was offset by Canadian foreign currency translation adjustments.

In determining the fair value of the reporting units for SFAS 142, the Company uses the income approach, market approach and the allocation of market capitalization as its measures of valuation to periodically review the impairment of goodwill.

Included in other assets are amortizable assets consisting primarily of patents, trademarks and covenants not to compete. Such assets, with a net book value of $1,083 and $1,279 at March 31, 2003 and 2002, respectively, are amortized on the straight-line method over their estimated useful lives ranging from 4 to 20 years. Amortization expense for such assets totaled $217, $227 and $381 in fiscal 2003, 2002 and 2001, respectively. Amortization expense is anticipated to be approximately $217 for each of the next five fiscal years.

The Company uses an undiscounted cash flow method to periodically review the net realizable value of other intangible assets and believes that such assets are realizable.

Fair value of financial instruments

The recorded value of cash and cash equivalents, receivables, payables, accrued liabilities, short-term borrowings and assets and liabilities held for sale approximates fair value because of the short maturity of these instruments. The recorded value of the Company s long-term debt is considered to approximate fair value based on the borrowing rates currently available to the Company for loans with similar terms and maturities.

Revenue recognition

The Company records income from construction and engineering contracts under the percentage-of- completion method, using costs incurred to date in relation to estimated total costs of the contracts, to measure the stage of completion. Original contract prices are adjusted for change orders and claims when the change order or claim has been approved by the customer. Cost budgets are revised, when necessary, in the amounts that are reasonably estimated based on the Project Leaders knowledge of the project as well as the Company s historical experience. The cumulative effects of changes in estimated total contract costs and revenues are recorded in the period in which the facts requiring such revisions become known, and are accounted for using the percentage-of-completion method. At the time it is determined that a contract is expected to result in a loss, the entire estimated loss is recorded. Accounts receivable includes $1,218 and $1,059 at March 31, 2003 and 2002, respectively, of amounts billed but not paid by customers under retainage provisions of contracts. Prepaid expenses and other includes $1,987 and $2,286 at March 31, 2003 and 2002, respectively, of amounts related to costs and estimated earnings in excess of billings on uncompleted contracts. Accrued liabilities and other includes $477 and $343 at March 31, 2003 and 2002, respectively, of amounts related to billings in excess of costs and estimated earnings on uncompleted contracts. The Company recognizes revenue from product sales upon shipment and transfer of ownership.

Product development expenses

Expenditures for product development costs were minimal in fiscal 2003 and 2002 and amounted to approximately $700 in fiscal 2001.

Warranties

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

At March 31, 2003, warranty costs were not material to the consolidated financial statements.

Income taxes

The Company uses the liability method whereby income taxes are recognized during the fiscal year in which transactions enter into the determination of financial statement income. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between financial statement and tax basis of assets and liabilities. The Company recorded a valuation allowance for its net domestic deferred tax assets and net operating loss carryforwards of $10,472 in the fourth quarter of fiscal 2002. The Company intends to maintain a full valuation allowance for its net deferred tax assets until sufficient positive evidence exists to support the reversal of the remaining reserve. Until such time, except for foreign and state tax provisions, the Company will have no reported tax provision, net of changes in the valuation allowance. In the event the Company was to determine, based on the existence of sufficient positive evidence, that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the valuation allowance would increase income in the period such determination was made. See Note 5 of Notes to Consolidated Financial Statements of the Company for additional information regarding income taxes.

Earnings per share

Basic Earnings Per Share (EPS) is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted average number of common shares and potential shares outstanding for the period. Stock options and warrants are the only potential common shares and are considered in the Company s diluted EPS calculation. Potential common shares are computed using the treasury stock method. The effect of the 45 and 28 incremental shares stock options in fiscal 2003 and 2002, respectively, have been excluded from dilutive weighted average shares, as the net loss for the year would cause the incremental shares to be antidilutive. Moreover, the effect of the 477 weighted average incremental shares from the issuance of stock warrants in fiscal 2003, respectively, have been excluded from dilutive weighted average shares, as the net loss for the year would cause the incremental shares to be antidilutive.

Comprehensive income (loss)

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

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

	March 31, 2003	March 31, 2002
Translation adjustment	$(1,597)	$(6,504)
Pensions		(498)
Ending Balance	$(1,597)	$(7,002)

Table of Contents

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

	Twelve Months Ended March 31,	
	2003	2002
Net loss	$(28,825)	$(18,217)
Other Comprehensive income (loss):		
Translation adjustment	1,606	(191)
Pensions		(132)
Write-off translation adjustment related to discontinued operations	3,301	
Write-off pensions related to discontinued operations	498	
Total comprehensive loss	$(23,420)	$(18,540)

Foreign currency translation

The functional currency of each foreign subsidiary is the respective local currency. Assets and liabilities are translated at the year-end exchange rates and revenues and expenses are translated at average exchange rates for the period. Resulting translation adjustments are recorded as a component of shareholders equity in other comprehensive income (loss). The Company s foreign assets held for sale are effected by currency fluctuations. For discontinued operations, the effects of foreign currency translations have been reflected in the statement of operations.

Financial statement estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates.

Stock-based compensation

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation in that it requires additional disclosures about our stock-based compensation plans. SFAS No. 148 is effective for periods beginning after December 15, 2002. We account for our stock-based compensation plans using the intrinsic value method of recognition and measurement principles under APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. We adopted the disclosure-only provisions of SFAS No. 123. Assuming that we had accounted for our stock-based compensation programs using the fair value method promulgated by SFAS No. 123, proforma net loss and net loss per share would have been as follows (for the fiscal years ended):

	2003	2002	2001
Loss from continuing operations:			
As reported	$(2,751)	$(12,319)	$(3,838)
Pro forma	(3,007)	(12,498)	(4,245)
Loss from continuing operations per share Basic:			
As reported	$ (0.33)	$ (1.52)	$ (0.50)
Pro forma	(0.36)	(1.54)	(0.55)
Loss from continuing operations per share Diluted:			
As reported	$ (0.33)	$ (1.52)	$ (0.50)
Pro forma	(0.36)	(1.54)	(0.55)

All options were granted at an exercise price equal to the market price of the Company s common stock at the date of the grant. The weighted-average fair value price at the date of grant for options granted during fiscal 2003, 2002 and 2001 was $0.32, $3.70 and $3.75 per option, respectively. For purposes of this pro forma, the fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The significant assumptions used were risk-free interest rates ranging from 3.3% to 6.5%, expected volatility of 142.0% for 2003, 113.5% for 2002 and 46.5% for 2001, an expected life of 10 years and no expected dividends.

2. ASSETS AND LIABILITIES HELD FOR SALE

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

Assets and liabilities held for sale consisted of the following at March 31,

	2003	2002
Cash	$ 2,819	$ 1,796
Accounts Receivable	6,203	15,291
Inventory	2,348	6,097
Prepaid Expenses	2,135	365
Property, plant and equipment, net	58	1,851
Goodwill and Other Assets	1,037	15,536
Assets held for sale	$14,600	$40,936
Current Liabilities	$ 7,310	$ 5,151
Deferred Taxes & Minority Interest	(74)	2
Liabilities held for sale	$ 7,236	$ 5,153

Operating gains or losses may be experienced with the disposition of the non-core assets at the time of disposal during implementation of the restructuring plan. Statements of operations for the discontinued operations for the years ended March 31, 2003, 2002 and 2001 are shown below.

	For the Twelve Months Ended March 31,		
	2003	2002	2001
Revenues	$40,309	$49,133	$43,448
Operating cost and expenses:			
Cost of sales	26,817	34,708	31,409
Selling, general & administrative expenses	20,919	17,435	13,625
Operating loss	(7,427)	(3,010)	(1,586)
Gain on disposal	(2,095)		
Interest expense	2,455	2,298	2,354

Loss from discontinued operations before income taxes	(7,787)	(5,308)	(3,940)
Provision for income taxes	49	590	503
Loss from discontinued operations	$ (7,836)	$ (5,898)	$ (4,443)

Table of Contents

The Company allocated interest to discontinued operations of $2,455, $2,298 and $2,354 for fiscal 2003, 2002 and 2001, respectively, based on estimated proceeds from the discontinued operations dispositions that will be used to pay down the Revolving Credit Facility and Senior Notes (see Note 3 - Long-Term Debt). The interest rate used to calculate the interest expense allocated was the weighted average interest rate of the Revolving Credit Facility and Senior Notes.

During fiscal 2003, the Company disposed of four non-strategic business units. First, in March 2003, the Company sold its Bass Trigon Software division for $3,150 and recognized a gain of $194. Also, in March 2003, the Company recorded a note receivable for $6,232, of which the Company has collected $5,932 on April 2, 2003, for its Rohrback Cosasco Systems division and recognized a gain of $1,809. The Company also disposed of two smaller international offices with a net gain of $92 during fiscal 2003. The net proceeds from dispositions were used to pay down debt.

During fiscal 2003, the Company recorded an impairment charge relating to its Asia Pacific operations totaling $1,575 based on current market value of these operations and additionally recorded impairment charges totaling $900 based on market value analysis for its European operations and its Middle East operations. Also during fiscal 2003, discontinued operations recorded charges to selling, general and administrative expenses totaling $3,661 related to currency translation.

3. Long-Term Debt:

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	2003	2002
Senior Notes, due 2008	$26,824	$28,286
Revolving Credit Facility	22,192	32,045
Other	2,225	2,355
	51,241	62,686
Less: current portion	50,476	61,668
	$ 765	$ 1,018

In March 1999, the Company entered into an $80 million revolving credit facility that expires on July 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 September 23, 2002 (September 2002 Amendment), the size of the Revolving Credit Facility was reduced to $37.5 million. In addition, the September 2002 Amendment provides that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any net asset disposition payments to reduce the Revolving Credit Facility will result in a proportionate reduction in the lender s commitments in the Revolving Credit Facility. Borrowings under the Revolving Credit Facility are further limited to borrowing base amounts as defined. The September 2002 Amendment provides for interest on borrowings at prime plus 5.00%. In addition, the September 2002 Amendment requires the Company to pay a facility fee of 1.00% on the commitment amount. The Company executed another amendment on November 1, 2002 (the Seventh Amendment) which contained additional provisions for the improvement period and also reset the net worth covenant. The Company

Table of Contents

also executed an amendment on February 10, 2003 (the Eighth Amendment) to modify certain terms and conditions under which facility letters of credit may be issued.

In connection with the September 2002 Amendment, the Revolving Credit Facility lender group received a warrant (Revolving Credit Facility Warrant) to purchase 467 of the Company s common shares at a purchase price of $0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Revolving Credit Facility Warrant can be reduced up to 50% if the Company partially pays the Revolving Credit Facility principal amount prior to July 31, 2003 or by up to 10% if targeted asset dispositions are completed and the proceeds are used to pay down the debt levels but this is highly unlikely to be fully utilized by July 31, 2003. Borrowings under the Revolving Credit Facility are secured by the Company s domestic accounts receivable, inventories, certain intangibles, machinery and equipment and owned real estate as well as certain assets in Canada. The Company also has pledged slightly less than two-thirds of the capital stock of two of its foreign subsidiaries. The Revolving Credit Facility, 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. The Company was not in compliance with its net worth covenant and its operating income before depreciation and amortization financial covenant of the Revolving Credit Facility as of March 31, 2003 and there can be no assurance that the Company will receive a waiver for these violations. At March 31, 2003, the Company had $22,192 outstanding under the Revolving Credit Facility. Total availability under the Revolving Credit Facility at March 31, 2003 was approximately $1,552, after giving consideration to the borrowing base limitations, under the Revolving Credit Facility but this availability can be revoked at any time due to the debt covenant violations.

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

The weighted average interest rate on borrowings under the Revolving Credit Facility was 9.5%, 9.2% and 9.6% during fiscal 2003, 2002 and 2001, respectively.

In January 1998, the Company issued, through a private placement, $30 million of Senior Notes due 2008 (the Senior Notes). The Senior Notes, as amended, bear interest at 11.35% until July 31, 2003 and 11.85% on and after July 31, 2003. In addition, the agreement relating to the Senior Notes, as amended, provides for an additional fee of 1.00% per annum on the outstanding principal amount of the Senior Notes. In connection with the September 2002 Amendment, the Senior Notes lender received a warrant (Senior Notes Warrant) to purchase 467 of the Company s Common Shares at a purchase price of $0.01 per share exercisable at any time after July 31, 2003 until September 23, 2012. The Senior Notes Warrant can be reduced up to 50% to the extent the Company partially pays the Revolving Credit Facility principal and the Senior Notes principal prior to July 31, 2003 or by up to 10% if targeted asset dispositions are completed and the proceeds are used to pay down the debt levels but this is highly unlikely to be fully utilized by July 31, 2003. The Senior Notes, as amended, require a principal payment of $7,561 by July 31, 2003 and monthly principal payments of $384 commencing on August 15, 2003 (Notes Principal Repayments) and are secured equally and ratably with debt under the Revolving Credit Facility. In addition, the Senior Notes provide that any cash proceeds from the disposition of targeted Company assets will be used to reduce the Revolving Credit Facility and the Senior Notes in a ratio of 56% and 44%, respectively. Any such additional payments used to reduce the Senior Notes will result in an equal reduction in the Notes Principal Repayments. The Company cannot assure that it will be able to make Notes Principal Repayments when due. Failure to do so would result in a default under the Senior Notes, in which case, the Senior Notes lender could pursue its remedies for default, including acceleration of principal, which would have a material adverse effect on the Company s liquidity and 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.

Table of Contents

Within the Prudential Senior Notes Agreement is a yield maintenance amount provision which ensures that the lender is paid the entire interest amount of the note. The make-whole provision states that the Notes shall be subject to prepayment, in whole at any time or from time to time in part, at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the yield maintenance amount, if any, with respect to each Note. Any partial prepayment of the Notes which meets certain criteria shall be applied against the principal amount of the Notes scheduled to become due in the inverse order of maturity thereof. Fiscal 2003 results include an interest charge of approximately $1,045 relating to the yield maintenance amount provisions of our Senior Notes agreement. The yield maintenance amount provisions apply to certain optional prepayments of principle under the Senior Notes. The Company does not agree with and is disputing the Note holder s interpretation that certain payments from the proceeds of sales of certain non-core and international business assets made during and after fiscal 2003 are subject to the yield maintenance amount provisions.

The Company is required to maintain certain financial ratios under the Senior Notes. The Company was not in compliance with the financial covenants under the Senior Notes as of March 31, 2003 and there can be no assurance that the Company will receive a waiver for these violations.

The Company intends to seek, prior to July 31, 2003, other financing to retire the Senior Notes and the Revolving Credit Facility or will seek to get an extension. There can be no assurance, however, that the Company will be able to obtain other financing or if obtained, what the terms and conditions would be.

The weighted average interest rate on borrowings under the Senior Notes was 11.35%, 9.1% and 9.1% during fiscal 2003, 2002 and 2001, respectively.

Other long-term debt bears interest at various rates, which was 6.2% at March 31, 2003 and March 31, 2002. The obligations mature at various intervals between 2003 and 2007.

The Company s long-term debt excluding the Revolving Credit Facility and the Senior Notes, matures as follows: $340 in 2005, $340 in 2006 and $85 in 2007.

The Company also maintains available lines of credit from various foreign banks which are secured by the assets of certain foreign subsidiaries. Short-term borrowings amounted to $61 and $0 at March 31, 2003 and 2002, respectively, under these lines of credit. The interest rate on such borrowings at March 31, 2003 was 5.0%.

Cash paid for interest totaled $6,090, $6,633 and $5,687 for fiscal year 2003, 2002 and 2001, respectively. Fiscal 2003 cash paid for interest included facility commitments fees of $336.

In July 2002, with the assistance of strategic financial advisors, the Company developed a formal business restructuring plan. The multi-year plan includes a series of initiatives to improve operating income and reduce debt through restructuring, consolidation and divestiture of non-core businesses. 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 reductions are expected to result. Implementation efforts are currently underway. As appropriate, the Company will report future quarterly and annual results separately for continuing operations and for discontinued operations.

The Company has retained an investment banking firm to assist in its efforts to recapitalize its balance sheet and refinance its currently outstanding Senior Notes and Revolving Credit Facility. The refinancing process is ongoing and the Company is currently having discussions with various parties in order to effect a refinancing transaction. There can be no assurance, however, that the Company will be able to obtain other financing or as to the terms and conditions under which such financing may be available.

The Company is currently in default of certain financial ratios required to be maintained under it Senior Note and Revolving Credit Facility agreements. In addition, the Revolving Credit Facility is scheduled to expire on July 31, 2003

Table of Contents

and the Company is required to make a $7.6 million principal payment on the Senior Notes by July 31, 2003. The Company is also, at the current time, not able to provide any assurances regarding its ability to make the $7.6 million Senior Note principal payment that is due on July 31, 2003. Further information about Long-Term Debt is included in Note 3, Long-Term Debt, Notes to Consolidated Financial Statements included in item 8 of this Form 10-K.

The Company has had preliminary discussions with its lenders regarding an amendment to the Revolving Credit Facility which would, among other things, extend the maturity date of the Revolving Credit Facility beyond July 31, 2003. The Company intends to continue its efforts to obtain such an amendment, however, there can be no assurances that the Company will be able to negotiate such an amendment at all or under terms and conditions acceptable to it.

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

4. Leases:

The Company leases certain office and warehouse space and equipment under operating leases which expire at various dates through 2012. Future minimum rental payments under long-term lease agreements are as follows: $2,291 in 2004, $1,703 in 2005, $1,139 in 2006, $629 in 2007, $375 in 2008 and $575 after 2009 with a cumulative total of $6,712. In addition, the Company rents other properties on a month-to-month basis.

Total rental expense was $4,685, $3,819 and $3,393 for fiscal 2003, 2002 and 2001, respectively.

5. Income Taxes:

Components of income (loss) from continuing operations before income taxes as follows:

	2003	2002	2001
United States	$(4,633)	$(3,294)	$(7,542)
Foreign	1,551	1,644	2,770
	$(3,082)	$(1,650)	$(4,772)

Components of the provision for income taxes for continuing operations by jurisdiction follow:

		2003	2002	2001
Current	Federal	$	$	$ 333
	State and local	120		11
	Foreign	79	1,132	1,225
		199	1,132	1,569
Deferred	Federal		9,351	(2,502)
	State and local		(56)	(508)
	Foreign	(530)	242	507
		(530)	9,537	(2,503)

	$ (331)	$ 10,669	$ (934)

Table of Contents

Differences between the statutory United States federal income tax rate (34%) and the effective income tax rate for continuing operations are as follows:

	2003	2002	2001
Federal income tax provision (benefit) at statutory rate	$(1,048)	$ (561)	$(1,622)
State income taxes, net	78	(36)	(323)
Foreign tax rate differential	146	725	698
Meals and entertainment	169	178	195
Valuation allowance	364	10,472	
Other	(40)	(109)	118
Effective income tax	$ (331)	$10,669	$ (934)

Temporary differences and carryforwards which give rise to deferred tax assets and liabilities were comprised of the following at March 31, 2003 and 2002:

	2003	2002
Deferred Tax Assets		
Bad debts	$ 208	$ 550
Other accruals	860	1,118
Uniform cost capitalization	9	27
Accrued expenses	473	648
Pension and other benefit accruals	428	654
Minimum tax credit	557	557
Federal net operating loss carryforward	7,060	6,665
State net operating loss carryforwards	772	772
Other	835	468
Total deferred tax assets	11,202	11,459

	2003	2002
Deferred Tax Liabilities		
Property, plant and equipment	(353)	(680)
Other	(367)	(929)
Total deferred tax liabilities	(720)	(1,609)
Valuation allowance	(10,836)	(10,472)
Total net deferred taxes	$ (354)	$ (622)

In fiscal 2002, the Company recorded a $10,472 charge to establish a valuation allowance for its net deferred tax assets. The valuation allowance was calculated in accordance with the provisions of SFAS 109. The Company intends to maintain a full valuation allowance on its net deferred tax assets until sufficient positive evidence exists to support reversal of the remaining reserve. Until such time, except for foreign and state tax provisions, the Company expects to have no reported tax provision, net of changes in the valuation allowance.

No income tax provision for United States income tax on approximately $7,722 of undistributed losses of foreign subsidiaries at March 31, 2003 has been made. Determination of the amount of the unrecognized deferred tax liabilities for temporary differences related to investments in foreign subsidiaries is not practicable.

The Company had state net operating loss carryforwards of approximately $14,622 at March 31, 2003. At March 31, 2003, the Company had federal net operating loss carryforwards of $20,550, which expire through 2022. The Company also has federal credit carryforwards of $557 at March 31, 2003 relating to non-expiring alternative minimum tax credits.

Table of Contents

Cash paid for income taxes totaled $371, $1,897 and $2,471 for fiscal 2003, 2002 and 2001, respectively.

6. Employee Benefit Plans:

One of the Company s discontinued operations has a contributory defined benefit pension plan. Employees of such foreign subsidiary no longer accrue benefits under the plan, however, the Company continues to be obligated to fund prior period benefits. The Company funds the plan in accordance with recommendations from independent actuaries. Pension benefits generally depend on length of service and job grade.

The following table sets forth the change in benefit obligation, change in plan assets, funded status, Consolidated Balance Sheets presentation, net periodic pension benefit cost and the relevant assumptions for the Company s defined benefit pension plan at March 31:

	2003	2002
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 3,816	$3,651
Service cost		
Interest cost	249	218
Assumption change	771	
Effects of currency translation	398	6
Benefits paid	(66)	(59)
Benefit obligation at end of year	$ 5,168	$3,816
Change in plan assets		
Fair value of plan assets at beginning of year	$ 3,034	$2,933
Employer contributions	193	137
Benefits paid	(66)	(59)
Effects of currency translation	319	6
Investment return	(449)	17
Fair value of plan assets at end of year	$ 3,031	$3,034
Funded status	$(2,137)	$ (782)
Amounts recognized in Consolidated Balance Sheets		
Accrued benefit liability (recorded in Discontinued Operations)	$(2,137)	$ (782)

	2003	2002	2001
Net periodic pension benefit cost Service cost	$	$	$
Interest cost	247	218	211
Expected return on assets	(274)	(239)	(256)
Net amortization and deferral	38	17	
Net periodic pension cost	$ 11	$ (4)	$ (45)
Weighted-average assumptions as of March 31 Discount rate	5.0%	6.0%	6.5%
Long-term rate of return on plan assets	8.0%	8.0%	8.5%
Rate of increase in compensation level	N/A	N/A	N/A

The Company also maintains the Corrpro Companies, Inc. 401(k) Savings Plan for all 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 plan permits matching contributions. Effective October 1, 2000, the Company began matching employee contributions with treasury shares. For fiscal year 2003 and 2002, the Company issued 121 and 375 treasury shares for the Company s matching portion. Total matching contributions in cash and treasury shares totaled $199, $977 and $973 in fiscal 2003, 2002 and 2001, respectively. Effective April 6, 2002, the Company suspended the Company match.

Table of Contents

The Company has entered into an agreement with one of its executives which provides, among other things, that such employee shall be eligible to receive retirement income, with a lifetime survivor benefit, in an amount equal to 50% of base salary. The Company is providing for this deferred compensation benefit over the term of the agreement.

7. Shareholders Equity:

Shareholder Rights Plan

On July 23, 1997, the Company adopted a Shareholder Rights Plan and declared a dividend of one Right on each outstanding common share of the Company. Each Right would entitle shareholders to buy, upon certain triggering events, one one-hundredth of a newly created Series A Junior Participating Preferred Share at an exercise price of $75 (subject to certain adjustments). The record date for the distribution was August 7, 1997.

Subject to certain exceptions, Rights will become exercisable only after a person or group acquires 20% or more of the Company s common shares or announces a tender offer for 20% or more of the Company s common shares. The Company s Board of Directors can redeem the Rights at $0.01 per Right at any time before a person acquires 20% or more of the Company s common shares. If a person or group acquires 20% or more of the Company s common shares, each Right will entitle holders, other than the acquiring party, to purchase common shares of the Company having a market value of twice the exercise price of the Right. If, after the Rights have become exercisable, the Company merges or otherwise combines with another entity, each Right then outstanding will entitle its holder to purchase a number of the acquiring party s common shares having a market value of twice the exercise price of the Right. The Plan also contains other customary provisions and is similar to plans adopted by many other companies. The Rights will expire in July 2007.

Warrants

During the quarter ended September 30, 2002, the Company issued warrants to the lenders (see Note 3 Long-Term Debt) under its Revolving Credit Facility and Senior Notes. The warrant issued to the Revolving Credit Facility lender permits the lender to purchase 467 shares at a purchase price of $0.01 per share, and the warrant issued to the Senior Notes lender permits the lender to purchase 467 shares at a purchase price of $0.01 per share. For purposes of financial reporting, the warrants were valued at $313 each and the aggregate amount of $626 increased paid-in-capital and reduced short-term and long-term debt. The $313 discount per facility will be fully amortized by the Revolving Credit Facility termination date of July 2003, and by the Senior Notes termination date of January 15, 2008. Warrants have been amortized over the life of the debt and current amortization expense for fiscal 2003 totaled $217 and is included in the interest expense in the accompanying consolidated statement of operations.

8. Stock Plans:

In June 1999, the Company adopted an Employee Stock Purchase Plan under which employees have a systematic long-term investment opportunity to own Company shares. Shareholder approval for such adoption was obtained on July 22, 1999. The Employee Stock Purchase Plan has been suspended.

The Company has options outstanding under various option plans including the 1997 Long-Term Incentive Plan (the 1997 Option Plan) and the 1997 Non-Employee Directors Stock Option Plan (the 1997 Directors Plan). The Company s 1994 Corrpro Stock Option Plan (the 1994 Plan) and the 1994 Corrpro Outside Directors Stock Option Plan (the Directors Plan) were terminated upon adoption of the 1997 Option Plan and the 1997 Directors Plan. In addition, prior to its initial public offering in September 1993, the Company issued stock options under various arrangements.

The 1997 Option Plan was adopted on April 28, 1997, subject to shareholder approval, which was obtained on July 23, 1997. The 1997 Option Plan, as amended, provides for the granting of up to 469 non-qualified stock options, stock appreciation rights, restricted stock awards or stock bonus awards to officers, key employees and consultants of the

Table of Contents

Company. In addition, the 1997 Option Plan provides that shares exercised, forfeited or otherwise terminated under previously granted stock awards, other than awards under the 1994 Directors Plan, will also be available for grant under the new plan. The option price per share will generally be the fair market value of the Company s common shares on the date of grant and the term of the options will not exceed 10 years. The 1997 Option Plan will terminate on April 28, 2007. On April 30, 1998, the Company adopted an amendment to the 1997 Option Plan increasing the number of shares available for issuance by 300.

The 1997 Directors Plan was also adopted on April 28, 1997. The 1997 Directors Plan provides for the granting of up to 63 non-qualified stock options to current and future non-employee directors of the Company. Under this plan, each non-employee director will annually be granted options to purchase 3 common shares. The option price per share will be the fair market value of the Company s common shares on the date of grant and the term of the options will be 10 years. The 1997 Directors Plan will terminate on April 28, 2007.

In fiscal 2001, the Company adopted a plan whereby holders of stock options covered under 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. Accordingly, options for 654 shares with exercise prices ranging from $5.25 to $14.96 were surrendered during December 2000. Subsequently, in June 2001, the Company reissued options for 648 shares with a price of $2.55, the market price.

Shares for issuance under equity compensation plans does not include the Company s 2001 Non-Employee Directors Stock Appreciation Rights Plan which has not been approved by its shareholders. Under this plan, non-employee directors received a one-time grant of vested stock appreciation rights as part of their compensation for serving as directors. The stock appreciation rights entitle each eligible director to be paid in cash, subject to the applicable terms and conditions of the grant, on or after May 17, 2006, the amount of appreciation in the fair market value of 10,000 Common Shares between May 17, 2001 and May 17, 2006. Currently, three such non-employee directors hold such stock appreciation rights.

Stock option activity for the Company during fiscal 2003, 2002 and 2001 was as follows:

Number of Shares	2003	2002	2001
Options outstanding, beginning of year	1,303	757	1,107
Granted	270	676	425
Exercised			(2)
Expired, canceled or surrendered	(174)	(130)	(773)