

# **BNS Holding, Inc. and Subsidiaries**

Consolidated Financial Report  
10.31.09



## Contents

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Report of Independent Registered Public Accounting Firm	1
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Consolidated Financial Statements	
Consolidated Statements of Operations	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Shareholders' Investment	5
Notes to Consolidated Financial Statements	6

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**BNS Holding, Inc. and Subsidiaries**

**Consolidated Statements of Operations  
For the Years Ended October 31, 2009 and 2008**

	2009	2008
Sales	\$ 269,768,096	\$ 296,199,398
Cost of sales	235,095,769	261,752,375
<b>Gross profit</b>	<b>34,672,327</b>	34,447,023
Selling, general and administrative expenses	19,452,214	21,705,324
Research and development expenses	102,418	111,076
Storm damage insurance gain (Note 12)	(305,170)	-
Plant closure expenses (Note 11)	-	462,857
<b>Income from operations</b>	<b>19,249,462</b>	22,279,257
	<b>15,422,865</b>	12,167,766
Other income (expense) (Note 10):		
Interest, net	(8,178,115)	(10,297,179)
Other, net	(896,344)	(685,577)
	<b>(9,074,459)</b>	(10,982,756)
Income before income taxes and minority interest	<b>6,348,406</b>	1,185,010
Provision for income taxes (Note 5)	(2,411,498)	(583,874)
Income before minority interest	<b>3,936,908</b>	601,136
Minority interest	(1,486,991)	(761,412)
<b>Net income (loss)</b>	<b>\$ 2,449,917</b>	\$ (160,276)
Earnings (loss) per share, basic and diluted	<b>\$ 0.82</b>	\$ (0.05)
Weighted average common and common equivalent shares outstanding, basic and diluted	<b>2,999,932</b>	2,983,133

The accompanying notes are an integral part of these consolidated financial statements.

**BNS Holding, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
**October 31, 2009 and 2008**

ASSETS (Note 3)	2009	2008
Current assets:		
Cash and cash equivalents	\$ 2,019,382	\$ 2,298,608
Accounts Receivable, less allowance for uncollectible accounts of \$85,289 in 2009 and \$75,688 in 2008	12,126,396	11,820,991
Inventories	41,811,080	38,504,118
Income taxes receivable	5,505	607,946
Deferred income taxes (Note 5)	1,688,367	1,113,234
Prepaid expenses and other current assets	805,551	1,036,152
<b>Total current assets</b>	<b>58,456,281</b>	<b>55,381,049</b>
Restricted cash	243,341	243,341
Property and equipment (Note 1)	36,603,722	36,606,663
Less accumulated depreciation	7,522,838	5,203,852
Net property and equipment	29,080,884	31,402,811
Deferred income taxes (Note 5)	477,584	2,616,942
Deferred financing costs net of accumulated amortization of \$1,938,713 in 2009 and \$1,309,376 in 2008	1,304,384	1,929,311
Goodwill (Note 2)	17,318,893	17,318,893
Intangible assets (Note 4)	22,316,840	23,717,560
Other assets	665,835	724,327
<b>Total assets</b>	<b>\$ 129,864,042</b>	<b>\$ 133,334,234</b>
LIABILITIES & SHAREHOLDERS' INVESTMENT		
Current liabilities:		
Current maturities of long-term debt (Note 3)	\$ 2,653,751	\$ 2,288,000
Controlled disbursements	2,299,927	2,072,507
Accounts payable	13,713,089	16,363,832
Accrued expenses and other current liabilities	10,879,468	9,754,435
<b>Total current liabilities</b>	<b>29,546,235</b>	<b>30,478,774</b>
Long-term debt, less current maturities (Note 3)	73,256,159	80,069,354
Commitments and contingencies (Note 9)		
Minority interest (Note 8)	6,192,199	4,695,208
Shareholders' investment (Note 6):		
Class A common stock: 2009 3,085,652 issued, 2008 - 3,064,652 issued	30,857	30,647
Paid in capital	87,535,725	87,398,455
Treasury stock: 2009 - 74,319 shares at cost, 2008 - 74,319 shares at cost	(1,731,674)	(1,731,674)
Retained earnings (deficit)	(64,727,522)	(67,177,439)
Accumulated other comprehensive (loss)	(237,937)	(429,091)
<b>Total shareholders' investment</b>	<b>20,869,449</b>	<b>18,090,898</b>
<b>Total liabilities and shareholders' investment</b>	<b>\$ 129,864,042</b>	<b>\$ 133,334,234</b>

The accompanying notes are an integral part of these consolidated financial statements.

**BNS Holding, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows  
For the Years Ended October 31, 2009 and 2008**

	2009	2008
Cash flows from operating activities:		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$ 2,449,917	\$ (160,276)
Depreciation and amortization	5,073,827	5,048,552
Minority interest	1,486,991	801,412
Deferred income taxes	1,564,225	604,824
(Gain) loss on sale/disposal of property and equipment	-	(19,895)
(Gain) on storm damage insurance	(305,170)	-
Changes in assets and liabilities:		
Decrease in receivables	320,133	1,424,658
Decrease (increase) in inventories	(3,244,868)	5,942,983
Decrease in prepaid expenses	160,997	173,316
Increase in controlled disbursements	227,420	316,968
Decrease in accounts payable	(2,701,266)	(488,203)
Increase (decrease) in accrued expenses	1,167,892	(2,331,399)
<b>Net cash provided by operating activities</b>	<b>6,200,098</b>	<b>11,312,940</b>
Cash flows from investing activities:		
Purchases of property and equipment	(1,911,589)	(4,106,215)
Proceeds from sale of property and equipment	-	2,110,392
Proceeds from storm damage insurance claim	1,798,028	-
Payments for other assets	(65,990)	(73,701)
<b>Cash used in investing activities</b>	<b>(179,551)</b>	<b>(2,069,524)</b>
Cash flows from financing activities:		
Additions to long-term debt	2,982,937	2,580,925
Net (payments) on revolver	(5,976,477)	(8,682,226)
Principal payments on long-term debt	(4,308,070)	(4,296,821)
Net proceeds from capital lease	854,166	-
Proceeds from common stock and other capital transactions	137,480	210,407
<b>Cash used in financing activities</b>	<b>(6,309,964)</b>	<b>(10,187,715)</b>
<b>Effect of foreign currency exchange rate changes on cash and cash equivalents</b>	<b>10,191</b>	<b>(144,336)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(279,226)</b>	<b>(1,088,635)</b>
Cash and cash equivalents at beginning of year	2,298,608	3,387,243
Cash and cash equivalents at end of year	<b>\$ 2,019,382</b>	<b>\$ 2,298,608</b>
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 4,863,828	\$ 7,197,488
Income taxes (paid) refunds received net of estimates paid	294,979	(658,889)

The accompanying notes are an integral part of these consolidated financial statements.

**BNS Holding, Inc. and Subsidiaries**

**Consolidated Statements of Shareholders' Investment  
Years Ended October 31, 2009 and 2008**

	Common Stock	Paid-in Capital	Comprehensive Income	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
October 31, 2007	\$ 30,436	\$ 87,188,259		\$ (67,017,163)	\$ 205,450	\$ (1,731,674)	\$ 18,675,308
Comprehensive income:							
Net loss	-	-	\$ (160,276)	(160,276)	-	-	(160,276)
Foreign currency translation adjustment	-	-	(634,541)	-	(634,541)	-	(634,541)
Other comprehensive income (loss)	-	-	<u>(794,817)</u>	-	-	-	-
Issuance of restricted stock	211	210,196					210,407
October 31, 2008	\$ 30,647	\$ 87,398,455		\$ (67,177,439)	\$ (429,091)	\$ (1,731,674)	\$ 18,090,898
Comprehensive income:							
Net income	-	-	\$ 2,449,917	2,449,917	-	-	2,449,917
Foreign currency translation adjustment	-	-	191,154	-	191,154	-	191,154
Other comprehensive income	-	-	<u>2,641,071</u>	-	-	-	-
Issuance of restricted stock	210	137,270					137,480
October 31, 2009	\$ 30,857	\$ 87,535,725		\$ (64,727,522)	\$ (237,937)	\$ (1,731,674)	\$ 20,869,449

The accompanying notes are an integral part of these consolidated financial statements.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies

Prior to December 14, 2004, BNS Co. was a publicly traded company (formerly known as Brown & Sharpe Manufacturing Company). Effective December 14, 2004, BNS Co. completed a reorganization (“the Holding Company Reorganization”) with BNS Holding, Inc., a newly formed Delaware corporation (“BNS” or “the Company”). By virtue of the Holding Company Reorganization, BNS Co. became a direct, wholly owned subsidiary of BNS. Except for some technical changes, the provisions of the certificate of incorporation of BNS after the effective time of the Holding Company Reorganization and BNS Co. prior to the effective time of the Holding Company Reorganization are identical. The authorized capital stock of BNS after the effective time of the Holding Company Reorganization and the designation, rights, powers and preferences of such capital stock, and its qualifications, limitations and restrictions, are identical to those of BNS Co. prior to the effective time of the Holding Company Reorganization. Stockholders of BNS Co. received securities of the same class showing the same proportional interests in BNS, having the same designations, rights, powers and preferences, and having the same qualifications, limitations and restrictions, as those held in BNS Co.

BNS Co., now a subsidiary of the Company, was founded in 1833 and was engaged in the Metrology Business and the design, manufacture and sale of precision measurement tools and instruments and manual and computer controlled measurement machines. BNS Co. sold its Metrology Business in 2001, its interest in its development stage measurement software subsidiary, Xygent Inc., in 2002, its North Kingstown, Rhode Island property (“the Rhode Island Property”) in 2003, and its U.K. subsidiary on June 16, 2004.

(a) *Merger Agreement* – On September 26, 2006, Steel Partners II, L.P (“Steel”) entered into a Merger Agreement (“the Merger Agreement”), with CS Acquisition Corp., a Missouri corporation and a wholly owned subsidiary of Steel (“CS Acquisition”), and Collins Industries Inc (“Collins”). The Merger Agreement provided that CS Acquisition would merge with and into Collins (“the Business Combination”) and Collins would become an 80% owned subsidiary of Steel and the shareholders of Collins would receive \$12.50 per share in cash.

On September 27, 2006, the Company entered into the Memorandum of Understanding with Steel, CS Acquisition, American Industrial Partners (“AIP”), and Collins I Holding Corporation (“Holding”). The Memorandum of Understanding reflected the intent of Steel to assign its rights under the Merger Agreement to Holding, which would be the holding company for Collins after giving effect to the proposed Business Combination, and BNS would acquire an 80% interest in Holding. AIP and Collins management would own the remaining 20% of Holding. Consequently, immediately prior to the closing of the Business Combination, Steel assigned its rights and obligations pursuant to the Merger Agreement and Memorandum of Understanding to Holding and transferred all of the outstanding capital stock of CS Acquisition to Holding. Accordingly, upon the consummation of the transactions contemplated by the Merger Agreement and Memorandum of Understanding on October 31, 2006, BNS now owns 80% of Collins, through its ownership interest of Holding, which owns 100% of Collins.

(b) *General Development of Business* – Collins was founded in 1971 as a manufacturer of small school buses and ambulances. Collins’ initial product was the first “Type A” school bus, designed to carry 14 to 20 passengers. Today, Collins manufactures specialty vehicles and accessories for various basic service niches of the transportation industry. Collins products include ambulances, small school buses, shuttle buses, terminal trucks, road construction equipment, and industrial rental sweepers. From its inception, Collins’ goal has been to become one of the largest manufacturers of specialty vehicles in the United States. Collins has grown primarily through the internal development of new products and the acquisition of complementary product lines.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

In the United States, Collins is a leading manufacturer of ambulances, the second largest manufacturer of terminal trucks, the leading manufacturer of small school buses and a leading manufacturer of sweepers used in the road construction industry. Collins sells its products under several well-known trade names, including Wheeled Coach® (ambulances), Collins Bus® and Mid Bus® (small school buses), Capacity® (terminal trucks), and Lay-Mor® (industrial rental sweeper equipment).

Most Collins products are built to customer specifications from a wide range of options offered by Collins. Collins sells to niche markets which demand manufacturing processes too sophisticated for small job shop assemblers but do not require the highly automated assembly line operations of mass production vehicle manufacturers. Collins emphasizes specialty engineering and product innovation, and it has introduced new products and product improvements, which include the Moduvan® ambulance, the first ambulance of its size with advanced life-support system capability, and the Dura-Ride® suspension system, the first frame-isolating suspension system for terminal trucks.

(c) *Description of Business* – Collins principally manufactures and markets specialty vehicles. It has three reportable segments: ambulances, buses and terminal trucks/road construction equipment.

*Ambulances.* Collins manufactures both modular and van-type ambulances at its Orlando, Florida plant. Modular ambulances are produced by attaching an all-aluminum, box-type, patient compartment to a dual rear-wheel cab chassis (“Type I”) ambulance or to a dual rear-wheel, van-type, cutaway chassis (“Type III”) ambulance or to a single rear-wheel cutaway chassis (“Moduvan”) ambulance. A cutaway chassis consists of only the front portion of the driver’s compartment, engine, drive train, frame, axle and wheels. Van (“Type II”) ambulances are cargo vans modified to include a patient compartment and a raised fiberglass roof. Type II ambulances are smaller and less expensive than modular ambulances.

Collins also produces medical support vans designed to transport medical and life-support equipment. Medical support vans are modified commercial vehicles which do not have a patient compartment for advanced life support systems.

*Buses.* Collins manufactures small school and activity buses, and certain other shuttle buses at its South Hutchinson, Kansas plant (see Notes 11 and 12).

*School and Activity Buses.* Collins manufactures small Type A school and activity buses which carry from 14 to 24 passengers. The majority of Type A school buses currently built by Collins are produced by fabricating the body and mounting it on a vendor-supplied, dual rear-wheel or single rear-wheel, cutaway chassis. Collins was the first manufacturer to produce a Type A school bus on this type of chassis, which permits greater seating capacity than a van chassis. School and activity buses are produced in compliance with federal, state and local laws regarding school and activity bus vehicles. In recent years, Collins has sold an increasing number of small activity buses used by day care, church and other non-profit organizations.

*Shuttle Buses.* Collins produces a limited number of shuttle buses for churches, transit authorities, hotels and resorts, retirement centers, nursing homes and similar users. These buses are built to customer specifications and are designed to transport 14 to 30 passengers over short distances.

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

*Terminal Trucks/Road Construction Equipment.* Collins produces two basic models of terminal trucks at its Longview, Texas plant, the Trailer Jockey® and the Yardmaster®. Terminal trucks are designed and built to withstand heavy-duty use by moving trailers and containers at warehouses, rail yards, rail terminals and shipping ports. Most terminal trucks manufactured by Collins are built to customer specifications. Collins manufactures the entire truck except for major drive-train components, which are purchased from outside suppliers.

The road construction equipment produced by Collins includes three and four wheel sweepers. These products are principally sold in both commercial and rental markets through direct sales and distributors throughout the United States (see Note 11).

(d) *Use of Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) *Principles of Consolidation* – The consolidated financial statements include the accounts of BNS and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

(f) *Cash and Cash Equivalents* – Cash includes checking accounts, funds invested in overnight and other short-term, interest-bearing accounts of three months or less. There is a significant concentration of cash due to cash balances that are in excess of federally insured amounts. Collins does not anticipate any losses due to this concentration.

(g) *Controlled Disbursements* – Collins maintains controlled disbursement accounts with its bank under an agreement whereby all cash receipts and checks are centralized and presented to the bank daily. All deposits are applied directly against Collins' revolving credit line and all checks presented for payment in the controlled disbursement accounts are funded through daily borrowings under Collins' revolving credit facility. Accordingly, controlled disbursements represent Collins' liability for outstanding checks drawn but not yet presented for payment to the bank.

(h) *Fair Value of Financial Instruments* – The Company's financial instruments consist primarily of cash and cash equivalents, income taxes receivable, trade receivables and payables/accrued liabilities, and short and long-term debt and capital leases. Fair value estimates have been determined by the Company, using available market information and appropriate valuation methodologies. The carrying value of cash and cash equivalents, income tax receivable, trade receivables and payables/accrued liabilities is considered to be representative of their fair value, due to the short-term nature of these instruments. The carrying amount of Collins' short-term and long-term debt does not differ materially from fair value based on current market rates available to Collins.

(i) *Receivables* – Accounts receivables are carried at original amounts due less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual accounts receivable and considering a customer's financial condition, credit history, and current economic conditions. Collins charges interest on certain past due accounts, determined at the discretion of management. Collins continues to accrue interest on past due accounts until such time as specific arrangements are made with the customer, or the account is deemed uncollectible and written off. Receivables are

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Accounts receivable are considered past due after the contractual payment date has passed. Bad debt expense for the years ended October 31, 2009 and 2008 was \$99,858 and \$83,346, respectively.

(j) *Inventories* – Inventories are stated at the lower of cost (first-in, first-out) or market. Major classes of inventories, which include material, labor, and manufacturing overhead required in production of Company products, consisted of the following:

	2009	2008
Chassis	\$ 11,272,542	\$ 7,128,712
Raw materials and components	10,937,973	12,964,210
Work-in-process	7,504,046	9,332,725
Finished goods	12,581,225	9,500,994
Inventory reserves	(484,706)	(422,523)
	<u>\$ 41,811,080</u>	<u>\$ 38,504,118</u>

(k) *Property and Equipment* – As a result of the acquisition at October 31, 2006, all property and equipment were adjusted to their fair market value, thus resetting accumulated depreciation to \$0 at the date of the Business Combination. See Note 2 for further discussion on the Business Combination. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Depreciation commences when the specific asset is complete, installed and ready for normal use. The estimated useful lives of property are as follows:

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Land improvements	10 to 20 years
Buildings and improvements	10 to 40 years
Machinery and equipment	3 to 15 years
Office furniture and fixtures	3 to 10 years

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Detailed fixed assets as of October 31, 2009 and 2008 were as follows:

	2009		2008			
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land & Land Improvements	\$ 4,925,470			\$ 4,891,218		
Buildings & Improvements	13,815,631			14,724,617		
Capital Lease Equipment	1,114,738			-		
Machinery	13,610,739			14,254,704		
Office Furniture & Fixtures	1,632,266			1,461,794		
Construction in Process	1,504,878			1,274,330		
Total Accumulated Depreciation		\$ (7,522,838)			\$ (5,203,852)	
	<u>\$ 36,603,722</u>	<u>\$ (7,522,838)</u>	<u>\$ 29,080,884</u>	<u>\$ 36,606,663</u>	<u>\$ (5,203,852)</u>	<u>\$ 31,402,811</u>

Depreciation expense for the years ended October 31, 2009 and 2008 was \$2,843,230 and \$2,791,892, respectively. D

Maintenance and repairs are charged to expense as incurred. The cost of additions and betterments are capitalized. The cost and related depreciation of property retired or sold are removed from the applicable accounts and any gain or loss is taken into income. Amortization expense on leased assets is included with depreciation expense.

Property and equipment related to Collins' Bluffton, Ohio and Fairview, Oklahoma operations were removed from production during the year ending October 31, 2007 and held pending disposition and were carried at the lower of depreciated cost or fair value less estimated costs to sell. These properties were sold during the year ended October 31, 2008.

(l) *Impairment of Long-Lived Assets* – Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(m) *Goodwill and Intangibles* – In June 2001, the Financial Accounting Standards Board (FASB) issued ASC 350, *Intangibles-Goodwill and Others*. ASC 350 was effective for fiscal years beginning after December 15, 2001. Accordingly, after October 31, 2002, goodwill is no longer amortized over future periods, but is assessed for impairment at least annually using a fair value test. Collins adopted this new standard on November 1, 2002. Intangibles were tested for impairment as of October 31, 2009 and it was determined no impairment existed.

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

The Business Combination that occurred on October 31, 2006 was accounted for under the purchase method, in accordance with ASC 805, *Business Combinations*. In accordance with the pushdown basis of accounting, the purchase price was allocated to the net assets acquired based on their fair values at the date of the acquisition. The consideration paid, including capital contribution and debt issued and assumed, exceeded the fair value of Collins' net assets acquired, with the excess amount initially recorded as Goodwill as of October 31, 2006. Goodwill is initially measured as the excess of the cost of an acquired business over the fair value of the identifiable net assets acquired. The Company does not amortize goodwill, but rather reviews its carrying value for impairment annually (October 31), and whenever an impairment indicator is identified. The Company performs its annual impairment test at year-end. The goodwill impairment test involves a two-step approach. The first step is to identify if potential impairment of goodwill exists. If impairment of goodwill is determined to exist, the second step of the goodwill impairment test measures the amount of the impairment using a fair value-based approach. The Company has concluded that no impairment existed as of October 31, 2009 or 2008. Collins will continue to conduct the required annual tests and record any impairment losses.

Collins has intangible assets of trade names and customer relationships. Such intangibles are amortized on a straight-line basis over their estimated useful life, which are generally 5-11 years. Certain trade names have been deemed to have an indefinite useful life. The Company performs its annual impairment test at year-end. The intangibles impairment test involves a two-step approach. The first step is to identify if potential impairment of value exists. If impairment of intangibles is determined to exist, the second step of the intangibles impairment test measures the amount of the impairment using a fair value-based approach. The Company has concluded that no impairment existed as of October 31, 2009 or 2008. Collins will continue to conduct the required annual tests and record any impairment losses.

(n) *Deferred Financing Costs* – The third-party costs incurred in order to secure debt financing are capitalized and recorded as an asset and shown in the balance sheet as deferred financing costs. These costs include bank commitment fees, legal costs, appraisals, title surveys, etc. The costs are amortized to income over the term of the debt.

(o) *Revenue Recognition* – Collins records vehicle sales, and passes title to the customer, at the earlier of completion of the vehicle and receipt of full payment or shipment or delivery to the customer as specified by the customer purchase order. Customer deposits for partial payment of vehicles are deferred and treated as current liabilities until the vehicle is completed and recognized as revenue.

In certain instances, Collins will recognize revenue when physical delivery has not occurred, when the following criteria are met:

- Risk of ownership has passed to the customer;
- The customer has made a fixed commitment to purchase the unit;
- The customer has requested the transaction be on a collect and hold basis, has fully paid for the units in question and has a substantial business purpose for ordering the unit on a collect and hold basis;
- There is a fixed schedule for delivery of the unit (normally within the next 30 days);
- Collins does not retain any specific performance obligations, such that the earnings process is not complete;
- The unit is segregated from Collins' inventory and is not subject to being used to fill other orders; and
- The unit is complete and ready for shipment.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Collins recognized approximately \$5.8 million of revenue as of October 31, 2009 and \$5.3 million of revenue as of October 31, 2008 under collect and hold agreements. Collins had collected the entire amount of this revenue and had no outstanding accounts receivable for these units as of October 31, 2009 and 2008.

(p) *Major Customers and Risk Concentrations* – The Company grants credit on a limited basis, generally without collateral, to certain qualified customers. Management believes that its order acceptance, billing, and collection policies are adequate to minimize potential credit risk.

For the year ended October 31, 2009 and 2008, one customer (dealer) in the Bus segment accounted for 5.5% and 12.8% of consolidated revenues, respectively. The customer's (dealer's) accounts receivable balance at October 31, 2009 and 2008 accounted for 0% and 0% of total accounts receivable, respectively. A second customer (dealer) in the Bus segment accounted for 12.9% and 0.8% of consolidated revenues, respectively. This customer's (dealer's) accounts receivable balance at October 31, 2009 and 2008 accounted for 22% and 0% of total accounts receivable, respectively.

For the year ended October 31, 2009 and 2008, consolidated sales to foreign domiciled entities accounted for 16.5% and 7.5% of consolidated revenues, respectively. The foreign domiciled entities' accounts receivable balance at October 31, 2009 and 2008 accounted for 21.0% and 6.6% of total accounts receivable, respectively.

(q) *Stock Option Plan* – In December 2004, the FASB revised ASC 718, *Compensation-Stock Compensation*. ASC 718 requires all companies to measure and recognize compensation expense for all stock-based payments at fair value.

On January 22, 2007, the Board of Directors of Holding adopted the Holding's Incentive Plan ("the Plan"). The Plan is intended to retain, provide incentive to, and reward key employees. The Plan has reserved 3,300 shares of Holding's common stock for issuance. In January 2007, Holding granted to employees 3,000 options to purchase shares of Holding's common stock with an exercise price of \$1,000 per share. These options vest over a five-year period provided that Holding meets certain financial goals and that the recipient continues as an employee of Collins. All options expire 10 years from the grant date. Due to the fact that the stock options contain performance conditions, and are triggered by a change of control, no compensation was recognized in the October 31, 2009 and 2008 fiscal years.

Holding also issued 38,304 common stock warrants to the Company and 589 common stock warrants to certain key executives of Collins. All of the warrants are exercisable at \$0.001 per share and have a term of 10 years. The warrants are only exercisable if certain internal rates of return targets are not achieved and upon a triggering event as defined in the warrant agreement. No compensation cost was recognized related to the warrants in the October 31, 2009 and 2008 fiscal years.

(r) *Environmental Remediation Costs* – BNS accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information develops or circumstances change

(s) *New Accounting Pronouncements* – In September 2006, the Financial Accounting Standards Board issued ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. ASC 820 also emphasizes that fair value is a market-

**Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)**

based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under ASC 820, fair value measurements are disclosed by level within that hierarchy. The Company adopted ASC 820 for the fiscal year beginning November 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. Under the elected deferral, the following are assets and liabilities recognized or disclosed at fair value for which the Company has not yet applied the provisions of ASC 820; reporting units measured at fair value in goodwill testing, indefinite lived intangibles measured at fair value for impairment testing and long lived assets measured at fair value for impairment.

The FASB issued ASC 810, *Consolidation*. This statement requires that noncontrolling or minority interests in subsidiaries be presented in the consolidated statement of financial position within equity, but separate from the parents' equity, and that the amount of the consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. ASC 810 is effective for the fiscal years beginning on or after December 15, 2008.

The potential impact from a consolidated balance sheet standpoint would result in minority interests of \$6,192,199 at October 31, 2009 being referred to as noncontrolling interests in a subsidiary and presented within the equity section of the balance sheet. The potential impact from a statement of operations standpoint would change the presentation of minority interest as a reduction in consolidated net income \$1,486,991 for the year ended October 31, 2009 to an allocation of net income between controlling interests and noncontrolling interest.

The FASB issued ASC 815, *Derivatives and Hedging*. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial condition, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. ASC 815 will impact disclosures only and will not have an impact on the Company's consolidated financial condition, results of operations or cash flows.

The FASB issued ASC 350, *Intangibles-Goodwill and Other*. The FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350 *Intangibles-Goodwill and Other*. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC 805, *Business Combinations*, and other U.S. generally accepted accounting principles. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and early adoption is prohibited. The Company is currently evaluating the impact the adoption of this Statement will have on its financial position and results of operations.

ASC 855- Management has evaluated and disclosed events up to and including January 26, 2010, which is the date the financial statements were issued.

(t) *Foreign Currency Translation* - In accordance with ASC 830, *Foreign Currency Matters*, the financial statements of the Company's foreign subsidiaries are translated into United States dollars for purposes of consolidation at rates prevailing during the year for sales, costs, and expenses and at end-of-year rates for all assets and liabilities. The effect of these translations resulted in net unrealized gains/(losses) amounting to (\$237,937) and (\$429,091) at October 31, 2009 and 2008, respectively, which have been included in accumulated and other comprehensive income in the accompanying consolidated statements of shareholders' investment.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

(u) *Income Taxes* – Deferred income taxes are provided using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment. The Company's policy is to record estimated interest and penalties related to the underpayment of income taxes as income tax expense in the statements of operations. There has been no interest or penalties recognized in the accompanying financial statements. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

(v) *Earnings (loss) per share* – Basic earnings (loss) per common share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share shall be computed by including contingently issuable shares with the weighted average shares outstanding during the period. When inclusion of the contingently issuable shares would have an anti-dilutive effect upon earnings per share, no diluted earnings (loss) per share shall be presented.

#### Note 2. Business Combination

The goodwill balance is summarized below:

Goodwill as of Business Combination	\$ 28,559,408
Value identified with trade names and customer relationships	(26,519,000)
Increased goodwill from Collins Canada acquisition	2,891,277
Purchase price adjustments since the Business Combination	2,724,142
Adjustment to deferred taxes in connection with the reclassification to trade name and customer relationships	9,663,066
Goodwill balance as of October 31, 2009 and October 31, 2008	<u>\$ 17,318,893</u>

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Long-Term Debt and Pledged Assets

Long-term debt at October 31, 2009 and 2008 consisted of the following:

	2009	2008
GMAC CF, borrowings under revolving credit facility (A)	\$ 2,810,590	\$ 8,787,067
GMAC CF, borrowings under term credit facility (A)	5,460,195	9,768,265
ORIX, borrowings under second lien credit facility (B)	45,000,000	45,000,000
Wells Fargo Capital Lease (C)	854,166	-
Steel Partners II, LP (D)	21,784,959	18,802,022
	<u>75,909,910</u>	<u>82,357,354</u>
Less current maturities	2,653,751	2,288,000
	<u>\$ 73,256,159</u>	<u>\$ 80,069,354</u>

(A) On October 31, 2006, CS Acquisition entered into a Loan and Security Agreement, or the GMAC CF loan agreement, with GMAC CF, as a lender and as agent there under, which, effective upon the Business Combination, was assumed by Collins and all of its subsidiaries. The GMAC CF loan agreement provides for a \$40.0 million revolving loan facility and a \$16.0 million term loan. The revolving loan facility includes a \$10.0 million letter of credit sub facility in each case the drawings under which reduce the amount available under the revolving loan facility. Borrowings under the GMAC CF loan agreement were used by Collins to retire existing indebtedness and to pay costs and expenses in connection with the Business Combination.

Borrowings under the GMAC CF loan agreement bear interest at annual floating rates equal, at Collins' option, to either the (1) current base rate as determined under the terms of the GMAC CF loan agreement or (2) the London interbank offered rate, or LIBOR, plus, in either case, an applicable margin. For LIBOR loans, the applicable margin will vary from 2.75% in the case of revolving loans to 3.25% in the case of term loans, and, for base rate loans, the applicable margin will vary from 0.75% in the case of revolving loans to 1.25% in the case of term loans. At October 31, 2009 and 2008, the base rates, excluding the applicable margin, for the revolving and term loans were 3.25% and 4.00% respectively, and for LIBOR loans were between 0.24% and 1.61% in 2009 and between 2.81% and 3.14% in 2008, depending on the term.

In order to secure the obligations under the GMAC CF loan agreement and as a condition of the lenders agreeing to enter into the GMAC CF loan agreement and make extensions of credit there under, Collins and its subsidiaries granted GMAC CF as agent a security interest, lien and mortgage, as the case may be, in all of Collins' and its subsidiaries' present and future assets.

Availability under the GMAC CF revolving loan facility is subject to various conditions precedent typical of asset-based loans, including the requirement that no default or event of default under the GMAC CF loan agreement shall have occurred and be continuing. Collins is subject to maintaining various financial covenants, including, but not limited to, minimum fixed charge coverage ratios, minimum EBITDA, maximum ratio of senior debt to EBITDA, maximum ratio of total debt to EBITDA, and maximum annual capital expenditures. There are standard negative covenants restricting Collins' ability in certain situations to pay dividends, dispose of fixed assets, etc.

**Note 3. Long-Term Debt and Pledged Assets (Continued)**

Commitments under the GMAC CF loan agreement terminate on the earlier of (a) October 31, 2011 and (b) ninety (90) days prior to the termination date under the ORIX second lien loan agreement described below. Collins may prepay the term loan or terminate the revolving loan commitment, provided, however, the revolving loan commitment may not be terminated until all the obligations are paid in full. There are 7 equal scheduled quarterly repayments of the term loan after October 2009 in the amount of \$572,000, and a final payment of \$1,456,195 is due at maturity.

(B) On October 31, 2006, CS Acquisition also entered into a Loan and Security Agreement, or the ORIX second lien loan agreement, with ORIX, as a lender and as agent there under, which, effective upon the Business Combination, was assumed by Collins and all of its subsidiaries. The ORIX second lien loan agreement provides for a \$45.0 million term loan and was used by Collins to fund the Business Combination.

The ORIX term loan bears interest at annual floating rates equal, at Collins' option, to either the (1) current base rate as determined under the terms of the ORIX second lien loan agreement or (2) the London interbank offered rate, or LIBOR, plus, in either case, an applicable margin of 4.25% for base rate loans and 6.25% for LIBOR loans.

In order to secure the obligations under the ORIX second lien loan agreement and as a condition of the lenders agreeing to enter into the ORIX second lien loan agreement and make the term loan, Collins and its subsidiaries granted ORIX as agent a second lien security interest, lien and mortgage, as the case may be, in all of Collins' and its subsidiaries' present and future assets, subordinate to the rights of the lenders under the GMAC CF loan agreement.

Availability under the ORIX term loan facility is subject to various conditions including the requirement that no default or event of default under the ORIX loan agreement shall have occurred and be continuing. Collins is subject to maintaining various financial covenants, including, but not limited to, minimum fixed charge coverage ratios, minimum EBITDA, maximum ratio of senior debt to EBITDA, maximum ratio of total debt to EBITDA, and maximum annual capital expenditures. There are standard negative covenants restricting Collins' ability in certain situations to pay dividends, dispose of fixed assets, etc.

Commitments under the ORIX second lien loan agreement terminate October 31, 2011. Collins may prepay the ORIX term loan subject to the terms of the subordination to the GMAC CF loan agreement. The ORIX term loan principal amount is payable in full on the termination date.

(C) On January 15, 2009 Collins Industries, Inc. entered into a Capital Lease for \$1.1 million with Wells Fargo Equipment Finance, Inc. for equipment previously purchased at the Collins Bus and Capacity of Texas facilities. The lease is for 36 months at which time Collins Industries, Inc. will purchase the equipment for \$1.00.

(D) The loan from Steel Partners consists of a \$14.0 million Term Loan Agreement with Steel Partners II, L.P. ("the Steel Term Loan"). The Steel Term Loan incurs interest at a rate of 15% per annum and matures on August 31, 2011. Interest is payable quarterly and may be paid in kind. As collateral for the Steel Term Loan, BNS granted Steel a continuing first-priority security interest in any interest or right in any kind of property or asset, whether real, personal, or mixed, owned or leased, tangible or intangible, and whether now held or hereafter acquired by BNS. In addition, Steel shall also receive a first priority pledge of all outstanding capital stock or other beneficial interest in Holding. Since October 31, 2006, \$7,784,959 of accrued interest has been added to the principal balance.

**BNS Holding, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 3. Long-Term Debt and Pledged Assets (Continued)**

The carrying amount of the Company's long-term obligations does not differ materially from fair value, based on current market rates available to the Company.

The aggregate maturities of long-term debt for the years subsequent to October 31, 2009 are as follows:

2010	\$ 2,653,751
2011	73,155,590
2012	100,569
Total	<u>\$ 75,909,910</u>

**Note 4. Intangible Assets**

Intangibles as of October 2009 and 2008 consist of the following:

	October 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net
<b>Subject to amortization:</b>			
Customer relationships	\$ 12,665,000	\$ (3,973,560)	\$ 8,691,440
Trade name	381,000	(228,600)	152,400
	<u>13,046,000</u>	<u>\$ (4,202,160)</u>	<u>\$ 8,843,840</u>
<b>Not subject to amortization:</b>			
Trade names	<u>13,473,000</u>		<u>13,473,000</u>
	<u>\$ 26,519,000</u>		<u>\$ 22,316,840</u>
	October 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net
<b>Subject to amortization:</b>			
Customer relationships	\$ 12,665,000	\$ (2,649,040)	\$ 10,015,960
Trade name	381,000	(152,400)	228,600
	<u>13,046,000</u>	<u>\$ (2,801,440)</u>	<u>\$ 10,244,560</u>
<b>Not subject to amortization:</b>			
Trade names	<u>13,473,000</u>		<u>13,473,000</u>
	<u>\$ 26,519,000</u>		<u>\$ 23,717,560</u>

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 4. Intangible Assets (Continued)

Amortization expense recognized on all amortizable intangibles totaled \$1,400,720 and \$1,400,720 for the years ended October 31, 2009 and 2008, respectively. The weighted average amortization period is five years for the trade names and ten years for the customer relationships.

Estimated aggregate amortization expense for each of the next five years is as follows:

Year ending October 31,	
2010	\$ 1,400,721
2011	1,400,721
2012	1,324,521
2013	1,324,521
2014	1,324,521

#### Note 5. Income Taxes

The provision for income taxes consisted of the following:

	2009	2008
Current	\$ 847,273	\$ (20,950)
Deferred	1,564,225	604,824
Total	<u>\$ 2,411,498</u>	<u>\$ 583,874</u>

**BNS Holding, Inc. and Subsidiaries****Notes to Consolidated Financial Statements**

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**Note 5. Income Taxes (Continued)**

Net deferred tax assets consist of the following components as of October 31, 2009 and 2008:

	2009	2008
Deferred tax assets:		
BNS net operating loss carryforward	\$ 14,659,455	\$ 17,130,164
Accrued warranty	590,828	344,289
Self-insurance reserves	279,815	227,050
Inventory reserves	399,086	368,544
Accrued vacation	335,703	263,495
Accrued wages	68,400	-
Allowance for doubtful accounts	32,410	28,761
AMT credit	235,144	94,578
Other	137,521	117,567
	<u>16,738,362</u>	<u>18,574,448</u>
Deferred tax liabilities:		
Amortization	(8,174,663)	(8,337,229)
Property and equipment	(6,397,748)	(6,507,043)
	<u>(14,572,411)</u>	<u>(14,844,272)</u>
Net deferred tax assets	<u>\$ 2,165,951</u>	<u>\$ 3,730,176</u>

The components giving rise to the net deferred tax assets described above have been included in the accompanying consolidated balance sheets as of October 31, 2009 and 2008, as follows:

	2009	2008
Current assets	\$ 1,688,367	\$ 1,113,234
Long-term assets	477,584	2,616,942
Total	<u>\$ 2,165,951</u>	<u>\$ 3,730,176</u>

The amount of deferred income tax asset booked as of October 31, 2006 resulted mainly from the fair value accounting of the net operating tax losses of Collins' ultimate parent, BNS. These net operating tax losses were tax affected at the tax rates expected to be in effect when the differences reverse. No valuation allowance against deferred tax assets was provided at October 31, 2009 and 2008, as management considers it more likely than not that the recorded tax assets will be realized.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Income Taxes (Continued)

As of October 31, 2009, loss carryforwards for tax purposes expire as follows:

Expiration Dates	Amount
2020	\$ -
2021	34,940,800
2022	2,383,838
2023	-
2024	1,664,295
2025	1,591,097
2026	670,199
2027	1,865,814
Total	<u>\$ 43,116,043</u>

A reconciliation between the statutory federal income tax rate (34%) and the effective rate of income tax expense for each of the two years ended October 31, 2009 and 2008 follows:

	2009	2008
Statutory federal income tax rate	34%	34%
Increase in taxes		
Resulting from:		
State tax, net of federal benefit	4	4
Non-deductible expenses & tax exempt income	1	8
Other	(1)	3
Effective tax rate	<u>38%</u>	<u>49%</u>

The Company's federal and state income tax returns for jurisdictions in which the Company has filed are closed by relevant statute for all tax years prior to October 31, 2005.

#### Note 6. Capital Stock

BNS has two types of share capital:

Class A common shares, par value, \$0.01/share; authorized - 5,000,000 shares; Issued – 3,085,652

Preferred shares, par value, \$1.00/share; authorized - 1,000,000; Issued - 0

Since September 14, 2007, BNS' Class A common stock has traded on the OTC Bulletin Board under the symbol "BNSSA.PK."

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 6. Capital Stock(Continued)

Stock-Based Compensation Plans – In June 2009, February 2009, March 2008 and January 2008, the Company granted restricted stock awards covering 15,000, 6,000, 15,000 and 6,000 shares of common stock, respectively, to directors of the Company and Collins I Holding as a means of retaining and paying directors' retainer fees, thereby rewarding them for long-term performance and to increase their ownership in the Company. Shares awarded under the plan entitle the shareowners to all rights of common stock ownership except that the shares may not be sold, transferred, pledged, assigned, or otherwise encumbered or disposed of during the restriction period. The shares granted on January 29, 2008 vested on January 30, 2009 except for 1,000 shares which were forfeited when one director resigned on May 1, 2008. The shares granted on March 19, 2008 vested on March 18, 2009. The shares granted in February 2009 will vest on February 11, 2010. The shares granted in June 2009 will vest on June 3, 2010. The shares were recorded at the fair market value on the date of issuance as deferred compensation and the related amount is being amortized to operations over the vesting period.

#### Note 7. Tax Deferred Savings Plan and Trust

Collins provides to all eligible employees with over 90 days of employment the opportunity to participate in a 401(k) Tax Deferred Savings Plan. Employees may make pre-tax elective contributions to their retirement plan. Collins will provide a match on the employees' contribution up to a maximum of 4% of their gross pay. All employee and Company contributions are vested immediately. Collins' contributions to this plan were \$707,468 and \$729,720 for the years ended October 31, 2009 and 2008, respectively.

#### Note 8. Minority Interest

As described in Note 1, a Business Combination occurred on October 31, 2006. As a result, Collins is now owned 100% by Holding, which, in turn, is owned 80% by the Company. The consolidated balance sheet represented in these consolidated financial statements is the consolidated balance sheet of BNS. As a result, the minority interest was set up for the 20% of the \$33.0 million investment in Holding and Collins that the Company does not own. AIP paid \$2.8 million for its interest in Holding and BNS paid \$29.7 million for its 80% interest. Management contributed their \$0.5 million investment in late January 2007.

#### Note 9. Commitments and Contingencies

Letters of Credit – The Company has approximately \$0.4 million in letters of credit outstanding as of October 31, 2009.

Repurchase Agreements – It is customary practice for companies in the specialty vehicle industry to enter into repurchase agreements with financing institutions to provide floor plan financing for dealers. In the event of a dealer default, these agreements generally require the repurchase of products at the original invoice price net of certain adjustments. The risk of loss under the agreements is limited to the risk that market prices for these products may decline between the time of delivery to the dealer and the time of repurchase by Collins. The risk is spread over numerous dealers and Collins has not incurred significant losses under these agreements. In the opinion of management, any future losses under these agreements will not have a material adverse effect on Collins' financial position or results of operations. Collins' repurchase obligation under these agreements is limited to vehicles which are in new condition and to which the dealer still holds title. Collins' contingent obligation under such agreements was \$1.9 million and \$3.2 million at October 31, 2009 and October 31, 2008, respectively.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Commitments and Contingencies (Continued)

Operating Leases – Collins has operating leases principally for certain equipment. Operating lease expense was \$463,728 and \$319,296 year ended October 31, 2009 and 2008, respectively. It is expected that, in the ordinary course of business, these leases will be renewed or replaced as they expire.

The following schedule details the Company's operating lease commitments for the years subsequent to October 31, 2009:

2010	\$ 402,633
2011	324,148
2012	141,416
2013	59,560
2014	9,373
Thereafter	-
	<u>\$ 937,130</u>

Litigation – The Company is a defendant in a variety of legal claims that arise in the normal course of business. Since 1994, the Company's BNS Co. subsidiary has been served notice that it has been named as a defendant in a total of 933 known asbestos-related toxic-tort claims (as of October 31, 2009). In many cases, these claims involve more than 100 other defendants. Fifty-four of those claims were filed prior to December 31, 2001. Additional claims were filed in subsequent years as follows: in 2002, 98 claims; in 2003, 194 claims; in 2004, 178 claims; in 2005, 76 claims; in 2006, 64 claims; in 2007, 110 claims; and in 2008, 143 claims. As of October 31, 2009, there were 16 additional claims filed.

In 2001, one claim was dismissed and one claim was granted Summary Judgment and closed. In 2002, 42 claims were settled for an aggregate of approximately \$30,000, exclusive of attorney's fees. In 2003, three claims were granted Summary Judgment, and one claim was dismissed and closed. In 2004, eight claims were granted Summary Judgment and were closed, 145 claims were dismissed, and six claims were settled for \$500 each.

In 2005, six claims were granted Summary Judgment and were closed, 125 claims were dismissed, and six were settled for \$500 each. In October 2005, the Company and its insurers settled two claims for an aggregate of \$150,000. In 2006, 12 claims were granted Summary Judgment and were closed, 124 claims were dismissed, and 10 claims were settled for an aggregate of \$8,000. In 2007, an additional nine claims were granted Summary Judgment and were closed, 40 claims were dismissed, and 12 claims were settled for an aggregate of \$6,500. In 2008 an additional one claim was granted Summary Judgment and was closed, and eight claims were dismissed. In 2009 an additional five claims were granted Summary Judgment and were closed, and 31 claims were dismissed, and four were settled for an aggregate of \$2,750. There were 331 known claims open and active as of October 31, 2009. However, under certain circumstances, some of the settled claims may be reopened. Also, there may be a significant delay in receipt of notification by the Company of the entry of a dismissal or settlement of a claim or the filing of a new claim.

**Note 9. Commitments and Contingencies (Continued)**

The Company believes it has significant defenses to any liability for toxic-tort claims on the merits. It should be noted that, to date, none of these toxic-tort claims has gone to trial and, therefore, there can be no assurance that these defenses will prevail. In addition, there can be no assurance that the number of future claims and the related costs of defense, settlements or judgments will be consistent with the experience to date of existing claims.

In the late 1980s, insurance companies began issuing policies with specific exclusions for claims relating to asbestos. BNS Co. has identified continuous insurance coverage (on an "occurrence" basis) from 1974 through 1988 that does not include such exclusions, with estimated aggregate coverage limits of approximately \$158 million for these policy years. The Company estimates that the aggregate remaining self-insured retention (deductible) relating to these policy years is approximately \$2.7 million. Additionally, the Company has identified secondary evidence (such as past billings) indicating that BNS Co. had additional insurance coverage from 1970 through 1973 that does not include such exclusions. There can be no assurance that the insurers involved will recognize this secondary information as evidence that the policies were in place. Although there are no indications that the aforementioned insurance coverage has eroded from past claims, there is no assurance of this, due to incomplete Company insurance records. Policies issued for BNS Co. beginning in 1989 contained exclusions relating to asbestos. BNS Co.'s insurance records for the periods prior to 1970 are incomplete and do not indicate what insurance coverage is available. The limits noted above relate to a number of insurance carriers. In general, these carriers have acknowledged the evidence of coverage but have declined to verify the limits of coverage until such time as the limits apply. There can be no assurance that, even if BNS Co. has insurance coverage for asbestos and other product liability claims under its policies, it will be able to recover from its insurers in the event that such insurance companies are no longer solvent, have ceased operations, or choose to dispute the coverage or limits of the policies identified by the Company.

BNS Co. annually receives retroactive billings or credits from its insurance carriers for any increase or decrease in claims reserves as claims are filed, settled or dismissed, or as estimates of the ultimate settlement and defense costs for the then-existing claims are revised. In addition, the Company has recorded a liability of \$ 0.561 million and \$0.535 million on the consolidated balance sheet relating to the open and active claims against BNS Co. as of October 31, 2009 and 2008, respectively. This liability represents an estimate of the likely costs to defend against or settle these claims by BNS Co. beyond the amounts reserved by the insurance carriers and previously funded, through the retroactive billings, by BNS Co. However, there can be no assurance that the Company will not need to take additional charges in connection with the defense, settlement or judgment of these existing claims. There can be no assurance that the costs of future claims and the related costs of defense, settlements or judgments will be consistent with the experience to date relating to existing claims.

To date, one toxic tort or asbestos claim has been filed and dismissed against BNS individually and as a successor-in-interest to BNS Co., formerly known as Brown & Sharpe Manufacturing Company, which came into existence in December 2004 and has never conducted any active business operations. There can be no assurance, however, that monies received by BNS Holding for its wholly owned subsidiary by way of reimbursement for "public company reporting costs" that were formerly the responsibility of BNS Co., or by way of dividends or otherwise, might not under some circumstances be subject to claims against BNS Co.

It has become apparent that the possibility that additional toxic-tort claims will be asserted in the future, and the impact of this possibility on the valuation of the Company, has had and will continue to have, at least for the short term, some adverse effects on the Company's ability to determine future distributions to shareholders or other change-in-control transaction with a third party.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Commitments and Contingencies (Continued)

At October 31, 2009 Collins has litigation pending which arose in the ordinary course of business. Litigation is subject to many uncertainties and the outcome of the individual matters is not presently determinable. It is management's opinion that this litigation will not result in liabilities that would have a material adverse effect on Collins' financial position or results of operations.

Self-insurance Reserves – Collins has historically self-insured for workers' compensation, health insurance, general liability and product liability claims, subject to specific retention and reinsurance levels.

Effective July 1, 2005, Collins purchased guaranteed cost workers' compensation insurance for the states in which it had previously self-insured. Collins continues to be self-insured in certain states for workers' compensation claims incurred prior to July 1, 2005.

Effective January 1, 2009 Collins' health insurance is fully insured. All prior-period incurred claims will run out under the policies in effect at the time of the incurrence of the claim.

Chassis Contingent Liabilities – Collins obtains certain vehicle chassis principally from two automotive manufacturers under agreements that do not transfer the vehicle's certificate of origin to Collins and, accordingly, Collins accounts for the chassis as consigned inventory. Chassis are typically converted and delivered to customers within 90 days of receipt from the chassis supplier. Collins' contingent liability under such agreements was approximately \$29.6 million and \$21.1 million at October 31, 2009 and 2008, respectively.

Indemnification for Former Directors – As a condition of the Merger Agreement, Collins purchased \$1 million run off insurance, expiring October 31, 2012, indemnifying the former Directors of Collins for action taken prior to the Business Combination.

Accrued Compensation – Collins accrues liabilities for employee compensation for services performed and vacation allowed. The accrued compensation was \$3.7 million and \$2.2 million at October 31, 2009 and 2008, respectively.

Warranties – Collins' products generally carry explicit product warranties that extend from several months to more than a year, based on terms that are generally accepted in the marketplace. Certain components included in Collins' end products (such as chassis, engines, axles, transmissions, tires, etc.) may include warranties from original equipment manufacturers ("OEM"). These OEM warranties are generally passed on to the end customer of Collins' products and the customer generally deals directly with the applicable component manufacturer. Collins records provisions for estimated warranty and other related costs at the time of sale based on historical warranty loss experience and periodically adjusts these provisions to reflect actual experience. Certain warranty and other related claims involve matters of dispute that ultimately are resolved by negotiation, arbitration or litigation. Infrequently, a material warranty issue may arise that is beyond the scope of Collins' historical experience. Collins provides for any such warranty issues as they become known and estimable. It is reasonably possible that from time to time additional warranty and other related claims could arise from disputes or other matters beyond the scope of Collins' historical experience. The following table provides the changes for the years ended October 31, 2009 and 2008, respectively, in Collins' product warranties.

## BNS Holding, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Commitments and Contingencies (Continued)

	2009	2008
Accrued warranties at the beginning of the period	\$ 3,314,073	\$ 4,100,623
Provisions for warranty charged against income	1,678,669	1,848,378
Payments and adjustments of warranties	(1,774,455)	(2,634,928)
Accrued warranties at the end of the period	<u>\$ 3,218,287</u>	<u>\$ 3,314,073</u>

Environmental Remediation Reserve – BNS Co. was notified in 1998 by the Rhode Island Department of Environmental Management (RIDEM) that it is a potentially responsible party (PRP) with respect to the Cranston Sanitary Landfill site in Cranston, Rhode Island, a disposal site previously used by the Company in its previous manufacturing businesses. The Company and 29 other PRPs have funded a site remediation investigation and feasibility study that has now been completed. The net present value of total costs at October 31, 2009 are estimated to be \$7.4 million. Present allocations at October 31, 2009 set BNS Co.'s share of the cost of remediation for the site at 2.229 percent. Further, if certain of the PRPs are ultimately not able to fund their allocated shares or additional PRP's that have been identified and join the group, BNS Co.'s participation share could change.

In April 2008 the RIDEM issued a "Program Letter" stating the Site Investigation Report was complete, and after public notice the final approval was received by the PRP group. As a result the PRP group opened the closure project to a formal bid process.

The PRP Group has retained an expert and has partnered with an experienced contractor both with expertise in Beneficial Use Determination ("BUD") closures as there are factors that influence BUD material availability and value. The BUD material will be used for the shaping and grading of the final closure of the site. If the use of BUD material cannot be accomplished the PRP Group may have to look to alternative designs. The closure project is anticipated to begin in 2010 and may take five years to complete.

BNS Co. has accrued \$177,000 and \$120,000 as its best estimate of its obligation with respect to the site as of October 31, 2009 and 2008, respectively. This amount is included in Accrued expenses and other current liabilities on the Company's consolidated balance sheets at October 31, 2009 and 2008, respectively. It is reasonably possible that BNS Co.'s recorded estimate of its obligation may change in the future.

BNS Co. has been identified by the U.S. Environmental Protection Agency ("EPA") as a potentially responsible party ("PRP") as an alleged drum reconditioning customer of New England Container Corp. ("NECC"), by a letter dated August 14, 2008. BNS Co. is currently investigating the matter and has joined a group of other alleged NECC drum reconditioning customers. The NECC drum reconditioning PRP's have incurred and will continue to incur costs in the investigation and each PRP has been assessed a pro-rata fee for its cost share of the assessment.

BNS Co. has accrued \$25,000 and \$7,500 based on its best estimate of its obligation with respect to this site as of October 31, 2009 and October 31, 2008, respectively.

**Note 10. Related-Party Transactions**

AIP entered into a management service agreement to provide general management, financial and other corporate advisory services to Collins and its subsidiaries. These management services shall be performed by the officers, employees or agents of AIP as it may determine in its discretion from time to time. Collins shall pay to AIP an annual advisory fee of \$1 million, payable quarterly in arrears, to be reduced to \$500,000 per annum commencing with the quarter which begins November 1, 2010 and the management service agreement terminates on January 31, 2016. The expense for the advisory fee is included in other income (expense) on the Consolidated Statements of Operations and totaled \$1,000,000 the years ended October 31, 2009 and 2008, respectively. Collins shall promptly, when requested, reimburse AIP for all reasonable out-of-pocket expenses incurred in the ordinary course by AIP in connection with AIP's obligations hereunder. Notwithstanding anything to the contrary contained herein, Collins shall accrue but not pay the Management Fee if (i) any such payment would violate, breach or otherwise constitute a default (or any event which might with the lapse of time or the giving of notice or both, constitute a default) under any of the financing agreements of Collins, or (ii) AIP instructs Collins not to pay all or any portion of the Management Fee during any fiscal year. For the years ended October 31, 2009 and 2008, AIP received \$59,097 and \$101,009 in out of pocket expense reimbursement, respectively.

On closing the Business Combination described in Note 1 above, AIP received a \$1.0 million deal fee and reimbursement of its out of pocket due diligence expenses totaling \$137,755.

Steel received a \$1 million bridging deal fee as it backstopped the financing for the Business Combination described in Note 1 above as well as reimbursement of its out of pocket expenses totaling \$51,727.

Effective July 1, 2007, the Company contracted with SP Corporate Services LLC, an affiliate of Steel, to provide financial management and administrative services, including the services of a chief financial officer and corporate secretary. The Company incurred \$282,000 and \$286,768 for such services for the year ended October 31, 2009 and 2008, respectively. As of October 31, 2009 and 2008, \$0 and \$23,500 was included in accounts payable, respectively.

**Note 11. Plant Closure Expenses**

As part of Collins' business improvement strategy, Collins completed the consolidation of several of its manufacturing facilities. Specifically, Collins closed its Hutchinson, Kansas ambulance facility and consolidated its production in Orlando, Florida; it closed its Bluffton, Ohio bus facility and consolidated its production in Hutchinson, Kansas and it sold its Fairview, Oklahoma manufacturing facility and ceased the manufacture of specialty forklifts and loaders. In connection with this restructuring Collins incurred plant closure expenses, including disposal of surplus inventories, severance and relocation expenses totaling \$0 and \$462,857 pre-tax in 2009 and 2008, respectively.

**Note 12. Casualty Gain**

On June 7, 2009 the Collins Bus manufacturing facility located in South Hutchinson, Kansas sustained significant damage due to a microburst storm which hit the facility. The damage included structural damage to parts of the plant as well as damage to personal property including chassis, parts and finished goods. Due to the extraordinary efforts of its employees and the cooperation of local authorities, the company was able to complete temporary repairs and resume production about one week after the event. It is anticipated it will take approximately six months to complete permanent repairs on the building. The company's insurance includes coverage for the structure, personal property and business interruption. The company believes all of its losses will be covered by insurance and the event will not have a material adverse affect on the financial results of the company. The company has hired a public adjuster to assist them in the preparation of the claims. At October 31, 2009 CBC had received \$4.2 million of insurance proceeds of which \$1.8 million relates to building and equipment. In accordance with ASC 845-10 and after taking into account reimbursable expenses and the book value of the assets damaged due to the event, the company recorded a gain of \$305,170 which is included in operating income. There is a potential for a further gain or loss as the final repairs are completed in 2010. Additional insurance proceeds of \$0.9 million were received on January 22, 2010.

**Note 13. Segment Information**

Collins is a manufacturer of specialty vehicles and has three reportable segments: ambulances, buses and terminal trucks/road construction equipment. The ambulance segment produces modular and van type ambulances for sale to hospitals, ambulance services, fire departments and other governmental agencies. The bus segment produces small school buses and shuttle buses for sale to schools, hotel shuttle services, airports, not-for-profit agencies and other governmental agencies. The terminal trucks/road construction equipment segment produces off-road trucks designed to move trailers and containers for warehouses, truck terminals, rail yards, rail terminals and shipping ports and produces a line of road construction equipment. Each of Collins' product groups is responsible for its own marketing activities and maintains independent relationships with dealers and distributors. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements.

Collins evaluates performance based on income from operations.

Collins accounts for inter-segment sales and transfers as if the sales or transfers were to third parties, with all inter-company sales and profits eliminated in consolidation.

Collins' reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology, is responsible for its own marketing activities and maintains its own independent relationships with its dealers and distribution network.

**BNS Holding, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 13. Segment Information (Continued)**

The following table contains segment information for the years ended October 31, 2009 and 2008.

	Ambulances	Buses	Terminal Trucks and Road Construction Equipment	Corporate	Eliminations	Consolidated
<b>Revenue from external customers</b>						
2009	\$ 109,818,342	\$ 104,020,655	\$ 55,929,099	\$ -	\$ -	\$ 269,768,096
2008	99,621,620	101,757,702	94,821,063	-	(987)	296,199,398
<b>Inter segment revenues</b>						
2009	-	-	-	-	-	-
2008	-	987	-	-	-	987
<b>Depreciation and amortization expense</b>						
2009	1,157,505	1,608,993	1,185,823	1,121,506	-	5,073,827
2008	1,066,665	2,027,891	1,197,602	756,394	-	5,048,552
<b>Purchases of fixed assets</b>						
2009	423,706	974,517	373,552	139,814	-	1,911,589
2008	1,101,023	1,823,416	373,702	808,074	-	4,106,215
<b>Income from operations</b>						
2009	9,586,813	9,659,060	997,804	(4,820,812)	-	15,422,865
2008	4,238,591	6,144,792	6,305,141	(4,520,758)	-	12,167,766
<b>Goodwill and intangible assets</b>						
2009	7,297,546	16,589,865	15,459,827	288,495	-	39,635,733
2008	7,413,364	17,297,842	16,036,752	288,495	-	41,036,453
<b>Assets</b>						
2009	51,353,740	37,343,341	35,451,508	28,584,010	(22,868,557)	129,864,042
2008	48,494,196	36,937,221	39,939,813	30,352,353	(22,389,349)	133,334,234

## **BNS Holding, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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#### **Note 14. Subsequent events**

Management has evaluated and disclosed events up to and including January 26, 2010, which is the date the financial statements were issued.

On January 26, 2010, the Company signed an agreement to sell its 80% equity interest in Collins I Holding Corporation for \$64.9 million in cash. Collins I Holding Corporation owns all of the outstanding common stock of Collins Industries, Inc, which is the sole asset of Collins I Holding Corporation. The sale transaction is subject to Company shareholder approval and normal closing conditions. On closing of the transaction, the Company will use a portion of the sale proceeds to repay its loan from Steel Partners, \$21.8 million in principal and interest at October 31, 2009, plus interest accrued through the settlement date. Separately, the Company has agreed to receive a \$1.0 million fee from Collins Industries, Inc. in exchange for the cancelation of its management services agreement with Collins Industries Inc., such cancelation to be effective on payment of the fee, on or before February 19, 2010. The Company has also agreed to compensate Steel Partners Holdings, L.P., its major shareholder, in the amount of \$1.0 million for investment banking services rendered by Steel in connection with the transaction.

