STANDARD AUTOMOTIVE CORP
Form 10-Q
August 14, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

(x) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended June 30, 2001
Or

(_) 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: 001-13657

STANDARD AUTOMOTIVE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	52-2018607
(State of Incorporation)	(I.R.S. Employer Identification No.)
321 Valley Road, Hillsborough, NJ	08844-4056
(Address of principal executive offices)	(Zip Code)
(908) 874-7778	3715
(Registrant's telephone number)	(Primary Standard Industrial Code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 [ ]

As of August 14, 2001, the registrant had a total of 3,822,400 shares of Common Stock outstanding and 1,132,600 shares of Preferred Stock outstanding.

STANDARD AUTOMOTIVE CORPORATION

For the Three Months Ended June 30, 2001

Form 10-Q Quarterly Report

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PART I. Financial Information

Item 1. Financial Statements

STANDARD AUTOMOTIVE CORPORATION

Consolidated Condensed Balance Sheets
(in thousands, except share data)

	June 30, 2001 (Unaudited)	March 31, (Audited
Assets		
Cash and cash equivalents	$ 1,647	$
Marketable securities	102	
Accounts receivable, net	14,766	1
Inventory, net	30,087	3
Other current assets	10,049	
Total current assets	56,651	5
Property and equipment, net	43,968	4
Intangible assets, net of accumulated amortization of $6,008 and $5,408, respectively	59,118	6
Other assets	4,043	
Total assets	$ 163,780	$ 16
Liabilities and Stockholders' Equity		
Accounts payable and accrued expenses	$ 24,721	$ 2
Liabilities due to banks and other lenders	95,639	9
Income and federal excise taxes payable	8,258	
Cumulative preferred stock dividend	866	
Other current liabilities	7,226	
Total current liabilities	136,710	13
Other long term liabilities	4,404	
Total liabilities	141,114	13
Commitments and contingencies		
Stockholders' equity:		
Convertible redeemable preferred stock; $ .001 par value; 3,000,000 shares authorized; 1,132,600 issued and outstanding	1	
Common stock; $ .001 par value; 10,000,000 shares authorized; 3,822,400 issued and outstanding	4	
Additional paid-in capital	31,358	3
Deferred compensation	(75)	
Retained earnings (deficit)	(8,572)	(
Accumulated other comprehensive income (loss)	(50)	
Total stockholders' equity	22,666	2
Total liabilities and stockholders' equity	$ 163,780	$ 16

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

STANDARD AUTOMOTIVE CORPORATION

Consolidated Condensed Statements of Income (Loss)

(Unaudited)

(in thousands, except net income per share data)

	Three months ended June 30,	
	2001	2000
		(Restate
Revenues, net	$ 31,815	$ 44,16
Operating costs and expenses:		
Cost of revenues	25,945	34,93
Selling, general and administrative expenses	5,416	4,32
Total operating costs and expenses	31,361	39,26
Operating income	454	4,90
Interest and other expense	3,234	2,58
Income before income taxes	(2,780)	2,32
Provision (benefit) for income taxes	838	1,07
Net income (loss)	(3,618)	1,25
Preferred dividend	289	28
Net income (loss) available to common stockholders	$ (3,907)	$ 96
Basic net income (loss) per share	$ (1.02)	$ 0.2
Diluted net income (loss) per share	$ (1.02)	$ 0.2
Basic weighted average number of shares outstanding	3,814	3,68
Diluted weighted average number of shares outstanding	3,814	4,83

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

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Standard Automotive Corporation

Consolidated Condensed Statement of Stockholders' Equity (Unaudited)

(in thousands)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock
Balance - March 31, 2001	1,133	$ 1	3,822	$ 4
Currency Translation Adjustment	--	--	--	--
Warrants and Options Issued	--	--	--	--
Preferred Stock Dividend	--	--	--	--
Net Loss	--	--	--	--
Amortization of Deferred Compensation	--	--	--	--
Balance - June 30, 2001	1,133	$ 1	3,822	$ 4

	Deferred Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance - March 31, 2001	$ (90)	$ (4,665)	$ (107)	$26,451
Currency Translation Adjustment	--	--	57	57
Warrants and Options Issued	--	--	--	50
Preferred Stock Dividend	--	(289)	--	(289)
Net Loss	--	(3,618)	--	(3,618)

Amortization of Deferred Compensation	15	--	--	15
Balance - June 30, 2001	$ (75)	$ (8,572)	$ (50)	$22,666

The accompanying notes are an integral part
of this consolidated condensed statement.

STANDARD AUTOMOTIVE CORPORATION

Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)

	Three months en June 30,	
	2001	2
		(Res
Cash flows from operating activities:		
Net income (loss)	$ (3,618)	$
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,997	
Non-cash interest and compensation	75	
Change in assets and liabilities:		
Accounts receivable	(4,146)	
Inventory	1,965	
Prepaid expenses and other	358	
Accounts payable, accrued expenses expenses and other	4,668	
Net cash provided (used) by operating activities	1,299	
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	-	
Acquisition of property and equipment	(239)	
Net cash used by investing activities	(239)	
Cash flows from financing activities:		
Proceeds from bank loan	-	
Repayment of bank loan	-	
Bank forbearance	(350)	
Deferred financing costs	80	

Preferred dividend payment	-	
Net cash provided (used) by financing activities	(270)	
Net increase in cash and cash equivalents	790	
Cash and cash equivalents, beginning of period	857	
Cash and cash equivalents, end of period	$ 1,647	$
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2	$
Income taxes	324	
Noncash investing and financing activities:		
Capital stock and debt issued for acquisition of businesses and assets	-	

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

STANDARD AUTOMOTIVE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

General

The information in this Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained in this Quarterly Report that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. Actual results and the timing of certain events may differ significantly from the results discussed in forward-looking statements.

The financial statements for the three months ended June 30, 2001 and June 30, 2000 are unaudited. The financial statements for the three months ended June 30, 2000 have been restated for a change in accounting policy in the method of recognizing revenue and for accrued interest expense incurred on delinquent federal excise taxes. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim period have been made. The financial statements for the three months ended June 30, 2001 should be read in conjunction with our audited financial statements for the fiscal year ended March 31, 2001.

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. The costs we will ultimately incur and the value of assets ultimately realized could differ in the near term from the related amounts reflected in the accompanying financial statements.

Significant accounting estimates include valuation of inventory, useful lives of property, equipment and intangible assets, the allocation of purchase prices, the measurement of contingencies and percentage of completion on long-term contracts.

1. Organizational and Business Combination

Standard Automotive Corporation (the "Company" or "Standard") is a Delaware corporation that commenced operations in January, 1998. Standard currently operates two divisions: (i) the Truck Body/Trailer Division, which designs, manufactures and distributes trailer chassis for use primarily in the transport of shipping containers and a broad line of specialized dump truck bodies, dump trailers, truck suspensions and other related assemblies, and (ii) the Critical Components Division, which specializes in the fabrication of precision assemblies for the aerospace, nuclear, industrial and military markets. Standard's Truck Body/Trailer Division operates through its wholly-owned subsidiaries: Ajax Manufacturing Company ("Ajax"), R/S Truck Body Co. ("R/S") and CPS Trailer Co. ("CPS"). Standard's Critical Components Division operates through its wholly-owned subsidiaries: Ranor Inc. ("Ranor"), Airborne Gear & Machine Ltd. ("Airborne"), Arell Machining Ltd. ("Arell") and The Providence Group, Inc. ("TPG").

2. Recently Issued Accounting Pronouncements

In June 2001, the FASB approved SFAS Nos. 141 and 142 entitled Business Combinations and Goodwill and Other Intangible Assets, respectively. The statement on business combinations, among other things, eliminates the "Pooling of Interests" method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142, among other things, discontinues goodwill amortization and requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. These statements are effective for the Company beginning April 1, 2002 and have certain transition rules which must be implemented within six months from adoption.

3. Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was effective for the Company beginning April 1, 2001. The implementation of SFAS No. 133 did not have a material impact on our financial position or results of operations.

4. Inventory

Inventory is comprised of the following:

	June 30, 2001 (Unaudited)	March 31, 2001 (Audited)
Raw materials	$ 9,654,000	$10,762,000

Work in progress	7,623,000	8,057,000
Finished goods	12,810,000	13,233,000
	$30,087,000	$32,052,000

5. Long Term Debt and Credit Agreements

Classification

Due to the effects of the default events described below, certain long term debt has been classified as a current liability on the accompanying consolidated condensed balance sheets.

Term and Revolver Loans

Our Term Loan and Revolving Credit Facility ("Credit Facility"), as amended to date, provides for term loans in principal amounts of up to $75.0 million and revolving loans in principal amounts of up to $25.0 million. The principal of the term loans is payable quarterly commencing in June 2000 in specified amounts ranging from approximately $1.3 million quarterly commencing in June 2000 and increasing annually thereafter to approximately $1.6 million in June 2001, $1.9 million in June 2002, $2.3 million in June 2003, $2.6 million in June 2004, and $3.2 million in June 2005. Amounts outstanding under the revolving loans are payable in full in April, 2005. All remaining principal then outstanding is due in April 2007. In addition, the amounts outstanding under the Credit Facility are subject to mandatory prepayments in certain circumstances. Subject to our request, together with the approval of the lenders, the maturity of the revolving loans may be extended for one year with a maximum extension of two one-year periods. We made scheduled principal payments of approximately $4.0 million during the nine months ended December 31, 2000. However, we did not make the March 2001 principal payment of $1.3 million or the June 2001 principal payment of $1.6 million.

All amounts outstanding under the Credit Facility are secured by a lien on substantially all of our assets. In addition, the Credit Facility imposes significant operating and financial restrictions on us, including certain limitations on our ability to incur additional debt, make payments on subordinated indebtedness, pay loans, transact business with affiliates, enter into sale and leaseback transactions, and place liens on our assets. In addition, our Credit Facility contains covenants regarding the maintenance of certain financial ratios.

In December 2000, we informed the agent under the Credit Facility that we were then in default of certain financial covenants under the Credit Facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful.

From May 21, 2001 to July 17, 2001, we and the bank lenders under the Credit Facility had been operating under the terms of a forbearance agreement pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the forbearance period, and since then, we have been engaged in efforts to obtain additional financing to facilitate a restructuring of our existing indebtedness. As disclosed in our

Form 8-K filed with the Securities and Exchange Commission on August 1, 2001, we received an acceleration notice from PNC Bank, N.A. ("PNC"), the administrative agent under our Credit Facility, terminating the commitments to make loans under the Credit Facility and declaring all amounts due under the Credit Facility, approximately $91 million at June 30, 2001, excluding costs and legal fees, to be immediately due and payable. According to the notice of acceleration, if the amounts due were not paid by Wednesday, August 1, 2001, the administrative agents and the banks under the Credit Facility reserved their rights without further notice to exercise all of their rights and remedies under the Credit Facility documents, including but not limited to collecting receivables owed to us and our subsidiaries directly from the parties owing such amounts, taking

control of and voting and managing all or part of the pledged stock of our subsidiaries and instituting suit, including foreclosure actions, to collect the debt as well as cost and legal fees. In the event that the banks were to take the foregoing actions, our ability to operate our business would be severely impaired and, in all likelihood, we would be required to seek protection from our creditors to continue operations, which could involve filing for bankruptcy protection in the United States and possibly Canada and Mexico, where we have operations.

On August 9, 2001, we received a letter from the administrative agent under the Credit Facility, withdrawing the acceleration notice previously sent to us. The withdrawal letter is subject to our acknowledgement that the defaults set forth in the acceleration notice continue to exist, including the default of certain financial covenants under the Credit Facility since December 2000, and the failure to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively. We have agreed that the lenders under the Credit Facility may send an acceleration notice at any time and that the lenders have reserved all rights and remedies under the Credit Facility.

We are currently negotiating with the lenders under the Credit Facility to enter into a new forbearance agreement that would extend the forbearance period to mid-September, although no assurance can be given that we will be able to obtain such forbearance or that during any extended forbearance period we will be able to obtain additional financing or restructure our indebtedness. Even if we are able to enter into an additional forbearance agreement with the lenders under the Credit Facility, they would retain their rights to foreclose on the collateral under the Credit Facility to the extent we defaulted under such forbearance agreement or at any time following the termination of such forbearance agreement.

Interest on the amounts outstanding under the Loans is payable monthly and generally accrues at a variable rate based upon LIBOR or the Base Rate of PNC, plus a percentage which adjusts from time to time based upon the ratio of the Company's indebtedness to EBITDA, as such terms are defined in the Credit Facility. As of June 30, 2001 the rate of interest for the Loans is 10.75%, which is the default rate. All amounts outstanding under the Credit Facility are secured by a lien on substantially all of the Company's assets. The Credit Facility requires the Company to maintain compliance with certain financial and non-financial covenants.

At June 30, 2001 the total amount outstanding under the Credit Facility was $91.0 million, excluding $4.1 million of accrued interest.

We are currently unable to meet our payment obligations under the Credit

Facility and will be unable to achieve compliance with the terms of the Credit Facility absent additional equity or debt financing, restructuring of the terms of the Credit Facility or a combination of such financing and restructuring. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. Due to our current condition of default, our entire long-term debt has been reclassified to current liabilities.

We are currently in arrears on payment of certain federal excise taxes of approximately $6.7 million, on which approximately $1.5 million of interest was accrued as of June 30, 2001. We expect to attempt to negotiate a payment plan with the Internal Revenue Service ("IRS") to resolve the arrearage. Although no formal plan is yet in place, we made a voluntary tax payment in the amount of $634,135 on March 9, 2001 as well as $20,000 on July 16, 2001, and intend to make voluntary monthly payments of $20,000 on August 15, 2001 and September 15, 2001. This arrearage has also resulted in an additional event of default under our Credit Facility. Furthermore, the IRS has the statutory authority to impose penalties which could be material.

We have been advised by our independent accountants that if these matters are not resolved prior to issuance of our March 31, 2002 annual report, they may have to modify their report as to whether we are a going concern.

6. Basic and Diluted Net Income per Common Share

Basic net income per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing income available to common shareholders plus convertible preferred dividends, if there is any dilutive convertible preferred stock used in computing common equivalent shares, by the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of the incremental common shares issuable upon the conversion of convertible preferred stock and the exercise of stock options and warrants (using the "Treasury Stock" method); common equivalent shares are excluded from the calculation if their effect is anti-dilutive.

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The following table sets forth, for the periods indicated, the calculation of basic and diluted net income (loss) per share:

	For the Three Months Ended June 30, 2001	2000 (Restated)
	(in thousands, except per share data)	
NUMERATOR:		
Income (loss) available to common stockholders used in computing basic net income per share	$ (3,907)	$ 961
Convertible preferred dividends on dilutive		

convertible preferred stock	289	289
Income (loss) available to common stockholders used in computing diluted net income per share	$ (3,618)	$ 1,250
DENOMINATOR:		
Weighted average number of common shares outstanding used in basic net income (loss) per share	3,814	3,689
Common equivalent shares:		
Convertible preferred stock	-	1,133
Options	-	9
Warrants	-	-
Weighted average number of common shares and common equivalent shares used in diluted net income per share	3,814	4,831
Basic net income (loss) per share	$ (1.02)	$ 0.2
Diluted net income (loss) per share	$ (1.02)	$ 0.2

7. Related Party Transactions

On May 16, 2001, we entered into an agreement with William Merker, then a director, to settle a dispute regarding the propriety of William Merker's relationship with the agent associated with the purchase of Airborne, Arell and TPG. Pursuant to the terms of this agreement, Mr. William Merker agreed to transfer to us 200,000 shares of common stock held by him. In addition, Mr. William Merker agreed to provide us with a promissory note, payable in three months, in an aggregate principal amount equal to the amount by which $800,000 exceeds the fair market value of the transferred shares as determined by an independent appraiser.

8. Segment Information

As a result of the acquisition of Ranor in June 1999 we reorganized operations by creating two operating divisions: the Truck Body/Trailer Division and the Critical Components Division.

The segment information for the period ended June 30, 2000 for our Critical Components Division represents Ranor's results of operations for the full period and also Airborne's and Arell's from April 26, 2000 through June 30, 2000.

Below is the selected financial segment data for the three months ended June 30, 2001 and 2000:

June 30, 2001	Truck Body/Trailer Division	Critical Components Division	Segment Totals
		(in thousands)	
Revenue	$ 19,766	$ 12,049	$ 31,815
Operating income	4	2,592	2,596
Identifiable assets	56,872	43,045	99,917
Capital expenditures	84	155	239

June 30, 2001	Truck Body/Trailer Division	Critical Components Division	Segment Totals
Revenue	$ 35,102 (a)	9,067	$ 44,169
Operating income	4,076 (a)	1,868	5,944
Identifiable assets	56,382	40,929	97,311
Capital expenditures	509	522	1,031

(a) Restated

The following is a reconciliation of reportable segment operating income and assets to the Company's consolidated totals for the three months ended June 30, 2001 and June 30, 2000:

Operating income	June 30, 2001	
		(Re
	(in thousands)	
Total operating income for reporting segments	$ 2,596	
Other corporate expenses	2,142	
Consolidated operating income	$ 454	

Assets	June 30, 2001	
	(in thousands)	
Total assets for reporting segments	$ 99,917	
Goodwill	59,118	
Other unallocated amounts (primarily deferred financing costs)	4,745	
Consolidated total assets	$ 163,780	

Revenues by geographical area are comprised as follows:

	Three months ended June 30,	
	2001	2000 (Restated)
	(in thousands)	
United States	$ 26,833	$ 40,755
Canada	4,982	3,414
Total net revenues	$ 31,815	$ 44,169

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial statements for the three months ended June 30, 2001 and June 30, 2000 are unaudited. The financial statements for the three months ended June 30, 2000 have been restated for a change in accounting policy in the method of recognizing revenue and for accrued interest expense incurred on delinquent federal excise taxes. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim period have been made.

The following discussion and analysis of the financial condition and results of operations of Standard Automotive Corporation should be read together with the consolidated financial statements and notes thereto included elsewhere herein.

This discussion contains forward-looking statements that involve risks and uncertainties. Standard Automotive Corporation's actual results may differ materially from those expressed or implied by these forward-looking statements as a result of various factors, such as those set forth under "Risk Factors."

Recently Issued Accounting Pronouncements

In June 2001, the FASB approved SFAS Nos. 141 and 142 entitled Business Combinations and Goodwill and Other Intangible Assets, respectively. The statement on business combinations, among other things, eliminates the "Pooling of Interests" method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. These statements are effective for the Company beginning April 1, 2002 and have certain transition rules which must be implemented within six months from adoption.

Derivative Instruments and Hedging Activities

SFAS No. 133 was effective for the Company beginning April 1, 2001. The implementation of SFAS No. 133 did not have a material impact on our financial position or results of operations.

Overview

Standard Automotive Corporation is a diversified holding company. We commenced operations in January 1998 with the acquisition of Ajax Manufacturing

Company ("Ajax"). We have expanded our operations through subsequent acquisitions and growth within acquired companies. Standard is comprised of seven operating companies located throughout the United States, Canada and Mexico.

Our subsidiaries are currently organized into two operating divisions: the Truck Body/Trailer Division and the Critical Components Division. These two divisions operate separately.

Truck Body/Trailer Division

Our Truck Body/Trailer Division designs, manufactures and sells trailer chassis, dump truck bodies, specialty trailers, truck suspensions and related assemblies through the following operating companies:

- Ajax designs, manufactures and sells container chassis, refurbishes (or "re-manufactures") used chassis, and manufactures specialty transportation equipment. Container chassis are used to transport maritime shipping containers from container ships to inland destinations. Container chassis are sold to leasing companies, large steamship lines, railroads and trucking companies to transport overland 20-, 40-, 45- and 48-foot shipping containers. Ajax operates facilities in Hillsborough, New Jersey and Sonora, Mexico.

- R/S Truck Body Co., Inc. ("R/S"), located in Ivel, Kentucky, designs, manufactures and sells customized, high end, steel and aluminum dump truck bodies, platform bodies, custom large dump trailers, specialized truck suspension systems and related products and parts. R/S recently introduced several new products to the market, including the aluminum platform trailer and the aluminum elliptical body.

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- CPS Trailer Co. ("CPS"), located in Oran, Missouri, designs, manufactures and sells bottom dump trailers, half-round end dump trailers, light-weight end dump trailers, grain hopper trailers and walking floor van trailers, used for hauling bulk commodities such as gravel and grain, and for the construction, agriculture and waste hauling industries.

Critical Components Division

Our Critical Components Division designs, manufactures, and sells precision-machined components to original equipment manufacturers ("OEMs") in the aerospace, nuclear, defense and industrial markets through the following operating companies:

- Ranor, Inc. ("Ranor"), located in Westminster, Massachusetts, specializes in the fabrication and precision machining of large metal components that exceed one hundred tons for the aerospace, nuclear, defense, shipbuilding and power generation markets as well as national laboratories. Ranor manufactures domes, machined in one piece, for Boeing's Delta rocket program. Additionally, Ranor manufactures and supplies steam accumulator tanks for U.S. Navy nuclear-powered aircraft carriers, as well as large precision vacuum chambers for the National Ignition Laboratories at Lawrence Livermore. Ranor also manufactures and supplies large machined casings for ground-based, gas turbine power generation engines, and nuclear spent fuel canisters.

- Airborne Machine & Gear, Ltd. ("Airborne"), located in St. Leonard, Quebec, Canada, is principally engaged in the manufacture and sale of hot section engine components in exotic materials including Inconel (a nickel alloy), titanium and beryllium copper. Airborne operates under long-term agreements with, and is considered a preferred vendor by its significant customers. We acquired Airborne in April 2000.

- Arell Machining, Ltd. ("Arell"), located in Anjou, Quebec, Canada, manufactures hot and cold section engine components, airframe structural components and landing gear kits and assemblies for the aerospace market. Arell operates under long term agreements with, and is considered a preferred supplier by its significant customers. We acquired Arell in April 2000.

- The Providence Group, Inc. ("TPG"), located in Knoxville, Tennessee, is a specialized engineering services company that provides engineering services predominately in the environmental and nuclear industries. TPG designs, manufactures and operates a line of remote robotic retrieval systems used in the cleaning and transferring of stored nuclear waste. We acquired TPG in September 2000.

Strategy

In light of our recent history of losses and the unavailability of additional acquisition financing, we have shifted our strategic emphasis from growth through acquisitions to growth and management of our current core businesses. Notwithstanding our strategic initiatives, we cannot provide any assurance that we will achieve or sustain profitability in the future.

Our current business strategy is to create efficiencies by integrating the companies in each of our operating units, to increase sales by improving the quality of our products and to decrease our costs through progressive inventory and purchasing management, more effective cash management, and improved labor efficiencies. Implementing our business strategy will, during the continuation of defaults under our Credit Facility, require the continued forbearance of our senior lenders, which cannot be assured.

We believe that our competitive advantages include management experience and the skill of our work force, as well as established relationships with customers. Most of the individuals who formerly owned or managed our operating companies have remained with the businesses after acquisition by Standard, and provide comprehensive knowledge of customer needs and markets, enabling our operating companies to design and manufacture customized products.

Results of Operations (Unaudited)

The following table sets forth, for the indicated periods, certain components of our Consolidated Statements of Income expressed in dollar amounts and as a percentage of net revenues. The three months ended June 30, 2001 reflect the consolidated results of all operating companies including TPG, which was acquired on August 31, 2000, for the entire period. The three months ended June 30, 2000 reflect the consolidated amounts of Standard, Ajax, R/S, CPS and Ranor

for the entire period and also Airborne and Arell from the date of their acquisitions on April 26, 2000. The financial statements for the three months ended June 30, 2000 have been restated for a change in accounting policy in the method of recognizing revenue and for accrued interest expense incurred on delinquent federal excise taxes.

	For the Three Months Ended June 30,			
	2001		2000	
			(Restated)	
	(dollar amounts are in thousands)			
Revenues, net	$ 31,815	100.0 %	$ 44,169	100.0 %
Cost of revenues	25,945	81.5	34,935	79.1
Selling, general and administrative	5,416	17.0	4,327	9.8
Operating income	454	1.4	4,907	11.1
Interest and other expense	3,234	10.2	2,580	5.8
Income before provision for taxes	(2,780)	(8.7)	2,327	5.3
Provision for income taxes	838	2.6	1,077	2.4
Net income (loss)	$ (3,618)	(11.4) %	$ 1,250	2.8 %

Comparison of Three Months Ended June 30, 2001 to June 30, 2000

Net Revenues for the three months ended June 30, 2001 were $31.8 million, a decrease of 28% from net revenues of $44.2 million, as restated, for the comparable period in 2000. Net revenues for our Truck Body/Trailer Division decreased from approximately $35.1 million, as restated, for the three months ended June 30, 2000 to approximately $19.8 million for the three months ended June 30, 2001, a decrease of 44%. The decrease in net revenues was primarily attributable to the significant downturn in the truck body and trailer industries. The decrease in net revenues in our Truck Body/Trailer Division was partially offset by higher net revenues in our Critical Components Division due to the inclusion of Airborne, Arell and TPG, which were acquired during the fiscal year ended March 31, 2001. As a result of acquisitions, the Critical Components Division contributed 37.9% of revenues for the three months ended June 30, 2001 versus 20.5% for the three months ended June 30, 2000. Our Critical Components Division experienced an overall net revenue increase of 33%, to $12.0 million for the three months ended June 30, 2001, compared to $9.1 million for the three months ended June 30, 2000.

Cost of Revenues decreased to $25.9 million, or 81.5% of net revenues, for the three months ended June 30, 2001 versus $34.9 million, as restated, or 79.1% of net revenues for the comparable period in 2000. This decrease is principally attributed to lower demand for our Truck/Trailer Division products. The consolidated ratio of our cost of revenues to revenues increased primarily due to the application of our fixed costs against decreased revenues in our Truck/Trailer Division. Conversely, the ratio of our cost of revenues to revenues at our Critical Components Division remained relatively constant, with increased Critical Components Division product sales, principally at our Canadian subsidiaries, which generally carry lower costs relative to selling prices, offsetting the higher cost products at our Truck/Trailer Division, where volume declined period to period.

Selling, General & Administrative Expenses ("SG&A") were $5.4 million during the three months ended June 30, 2001, an increase of $1.1 million from $4.3 million incurred during the comparable period in 2000. SG&A, as a percentage of net revenue, increased to 17.0% of net revenues, up from 9.8% for the comparable period in 2000. The dollar increases include significantly higher legal and other professional fees associated with our efforts to restructure our Credit Facility and obtain additional forbearance from the bank, as well as final adjustments for amortization of goodwill. The increases also resulted from our continued expansion into product lines with higher selling and administrative expenses as well as higher corporate oversight expense associated with changes in management and our restructuring efforts.

Interest and Other Expense increased to $3.2 million for the three months ended June 30, 2001 from $2.6 million, as restated, during the comparable period in 2000. This increase primarily reflects the effect of increased interest rates as a consequence of our defaults under the Credit Facility.

Liquidity and Capital Resources

We have historically funded our operations and capital expenditures through cash flow generated by operations, from borrowings under our Credit Facility and, to a lesser extent, through the incurrence of subordinated indebtedness, capital lease transactions and the issuance of common and preferred stock.

Our cash position as of June 30, 2001 was $1.6 million, a decrease of approximately $1.5 million from our cash and cash equivalents of approximately $3.1 million at June 30, 2000.

Approximately $1.3 million of cash was provided by operating activities during the three months ended June 30, 2001 compared to $2.4 million of cash used during the three months ended June 30, 2000. The cash provided by operating activities for the three months ended June 30, 2001 primarily reflects deferral of payments to our lenders and suppliers and also reduction of inventories, offset by increased receivables resulting from significantly higher sales levels during the quarter ended June 30, 2001 versus the quarter ended March 31, 2001, as well as the net cash loss from operations.

Net cash used in investing activities was approximately $239,000 during the three months ended June 30, 2001 as compared with $22.4 million during the comparable period in 2000. The cash used in investing activities during the quarter ending June 30, 2001 was solely for capital expenditures, while the cash used in investing activities during the quarter ending June 30, 2000 primarily reflected the acquisitions of Airborne and Arell. The $270,000 of cash used by financing activities for the quarter ending June 30, 2001 was principally for the forbearance agreement related to the events of default under our Credit Facility while the cash provided by financing activities during the quarter ending June 30, 2000 principally reflected the financing obtained through an increase in our Credit Facility for the acquisitions of Airborne and Arell. In addition to financing the acquisitions of Arell and Airborne during the quarter ending June 30, 2000, the Credit Facility was also used to finance capital expenditures and to provide additional working capital.

Excluding payment obligations in respect of indebtedness, preferred stock, Internal Revenue Service payments and potential penalties, and earn-out payments relating to acquired businesses, as discussed below, we believe that cash on hand, together with cash provided from operations, would be sufficient to fund our operations through March 31, 2002. As of August 13, 2001 our existing cash, together with cash generated from our operations will not be sufficient to fund our current obligations in respect of our senior indebtedness, subordinated indebtedness, preferred stock dividends and payment obligations under earn-out arrangements relating to acquired businesses. We are currently in default under our Credit Facility and are unable to borrow thereunder to fund our operations and other obligations.

At June 30, 2001, we had $95.6 million in total debt outstanding, consisting of an outstanding revolving loan of $20.0 million, term loans of $71.0 million and subordinated notes to the prior owners of Ranor of $4.6 million. Due to continuing conditions of default described below, the entire $95.6 million of outstanding debt has been reclassified, for reporting purposes, from long-term debt to current liabilities.

Our Credit Facility, as amended to date, provides for term loans in principal amounts of up to $75.0 million and revolving loans in principal amounts of up to $25.0 million. The principal of the term loans is payable quarterly commencing in June 2000 in specified amounts ranging from approximately $1.3 million quarterly commencing in June 2000 and increasing annually thereafter to approximately $1.6 million in June 2001, $1.9 million in June 2002, $2.3 million in June 2003, $2.6 million in June 2004, and $3.2 million in June 2005. Amounts outstanding under the revolving loans are payable in full in April, 2005. All remaining principal then outstanding is due in April 2007. In addition, the amounts outstanding under the Credit Facility are subject to mandatory prepayments in certain circumstances. Subject to our request, together with the approval of the lenders, the maturity of the revolving loans may be extended for one year with a maximum extension of two one-year periods. We made scheduled principal payments of approximately $4.0 million during the nine months ended December 31, 2001. However, we did not make the March 2001 principal payment of $1.3 million and the June 2001 principal payment of $1.6 million as well as the related concurrent interest payments of $1.5 million and $2.6 million, respectively.

All amounts outstanding under the Credit Facility are secured by a lien on substantially all of our assets. In addition, the Credit Facility imposes significant operating and financial restrictions on us, including certain limitations on our ability to incur additional debt, make payments on subordinated indebtedness, pay dividends, redeem capital stock, sell assets, engage in mergers and acquisitions or make investments, make loans, transact business with affiliates, enter into sale and leaseback transactions, and place liens on our assets. In addition, our Credit Facility contains covenants regarding the maintenance of certain financial ratios.

In December 2000, we informed the agent under the Credit Facility that we were then in default of certain financial covenants under the Credit Facility. In addition, we failed to make scheduled interest and principal payments totaling

approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful.

From May 21, 2001 to July 17, 2001, we and the bank lenders under the Credit Facility had been operating under the terms of a forbearance agreement pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the forbearance period, and since then, we have been engaged in efforts to obtain additional financing to facilitate a restructuring of our existing indebtedness. As disclosed in our Form 8-K filed with the Securities and Exchange Commission on August 1, 2001, we received an acceleration notice from PNC Bank, N.A. ("PNC"), the administrative agent under our Credit Facility, terminating the commitments to make loans under the Credit Facility and declaring all amounts due under the Credit Facility, approximately $91 million at June 30, 2001, excluding costs and legal fees, to be immediately due and payable. According to the notice of acceleration, if the amounts due were not paid by Wednesday, August 1, 2001, the administrative agents and the banks under the Credit Facility reserved their rights without further notice to exercise all of their rights and remedies under the Credit Facility documents, including but not limited to collecting receivables owed to us and our subsidiaries directly from the parties owing such amounts, taking control of and voting and managing all or part of the pledged stock of our subsidiaries and instituting suit, including foreclosure actions, to collect the debt as well as cost and legal fees. In the event that the banks were to take the foregoing actions, our ability to operate our business would be severely impaired and, in all likelihood, we would be required to seek protection from our creditors to continue operations, which could involve filing for bankruptcy protection in the United States and possibly Canada and Mexico where we have operations.

On August 9, 2001, we received a letter from the administrative agent under the Credit Facility, withdrawing the acceleration notice previously sent to us. The withdrawal letter is subject to our acknowledgement that the defaults set forth in the acceleration notice continue to exist, including the default of certain financial covenants under the Credit Facility since December 2000, and the failure to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively. We have agreed that the lenders under the Credit Facility may send an acceleration notice at any time and that the lenders have reserved all rights and remedies under the Credit Facility.

We are currently negotiating with the lenders under the Credit Facility to enter into a new forbearance agreement that would extend the forbearance period to mid-September, although no assurance can be given that we will be able to obtain such forbearance or that during any extended forbearance period we will be able to obtain additional financing or restructure our indebtedness. Even if we are able to enter into an additional forbearance agreement with the lenders under the Credit Facility, they would retain their rights to foreclose on the collateral under the Credit Facility to the extent we defaulted under such forbearance agreement or at any time following the termination of such forbearance agreement.

The terms on which we sell our products vary by operating company, but generally provide for payment within 30 days.

Capital expenditures were approximately $239,000 for the three months ended June 30, 2001 compared to approximately $1.0 million for the comparable period last year. Capital expenditures incurred during the three months ended June 30 2001 were primarily for the purchase of production equipment and computer software to maintain our current plant capacity. We expect that capital expenditures during the fiscal year ending March 31, 2002 will not exceed those of the preceding year.

The annual dividend requirement on our preferred stock at June 30, 2001 is currently $1,155,000. We suspended payment of the quarterly dividend of $289,000 during the quarter ended December 31, 2000. Unpaid dividends on the preferred stock are cumulative. Our future earnings, if any, may not be adequate to pay the cumulative dividend or future dividends on the preferred stock. Although we intend to pay the cumulative dividend and to resume payment of regular quarterly dividends out of available surplus, there can be no assurance that we will maintain sufficient surplus or that future earnings, if any, will be adequate to pay the cumulative dividend or future dividends on our preferred stock. Further, we will need the approval of the lenders under our Credit Facility to resume payment of preferred dividends.

As of June 30, 2001, we had working capital of approximately $15.6 million prior to the reclassification of $95.6 million of long-term debt to current liabilities. Excluding payment obligations in respect of indebtedness, preferred stock, Internal Revenue Service payments and potential penalties, and earn-out payments relating to acquired businesses, management believes that our current working capital position, along with anticipated results of operations, will be

sufficient to allow us to fund our working capital requirements for at least the next twelve months. This assessment is dependent upon the successful outcome of the negotiations with the lenders under our Credit Facility and with the Internal Revenue Service with respect to our outstanding excise tax liabilities. We have been advised by our independent accountants that if these matters are not resolved prior to issuance of our March 31, 2002 annual report, they may have to modify their report as to whether we are a going concern.

In April 2000 we acquired all of the outstanding capital stock of Airborne and Arell. Under the terms of those acquisition agreements, we agreed to pay approximately $5.1 million in the event that certain earnings targets were achieved during the three years following the acquisition. Accordingly, we accrued for a liability of approximately $2 million for the fiscal year ended March 31, 2001, representing the portion of the earnout attributable to that year. Airborne and Arell met their earnings targets for the fiscal year ended March 31, 2001. However, we are prohibited from paying this amount under the terms of the forbearance agreement with our senior lenders. Additionally, we have also agreed to pay a certain percentage of the earnings of both companies to the extent that their cumulative earnings for the fiscal years ending March 31, 2001, 2002 and 2003 exceed a certain level.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to interest rate risk primarily through our borrowings under the Credit Facility. As of June 30, 2001, we had approximately $91.0 million of prime based debt not including accrued interest outstanding under the Credit Facility. A hypothetical 100 basis-point increase in the floating interest rate from the current level corresponds to an increase in our interest expense over a one-year period of $951,000. This sensitivity analysis does not account for the change in our competitive environment indirectly related to the change in interest rates and the potential decisions which could be taken in response to any of these changes. Furthermore, on April 25, 2000 we entered into an interest rate hedge with a notional amount of $37,500,000 to protect against interest rate increases.

Foreign Currency Exchange Risk

In April 2000, we acquired Airborne and Arell, both located outside of Montreal, Canada, and in April 1999 we commenced production at our facility in Sonora, Mexico. Accordingly, fluctuations in the value of the Canadian dollar and/or Mexican peso compared to the U.S. dollar upon currency conversion may affect our financial position and cash flow. As of June 30, 2001, we had not established any programs for hedging against foreign currency losses. Because a majority of our transactions are U.S. based and U.S. dollar-denominated, a hypothetical 10 % change in the value of the Canadian dollar or Mexican peso would not have a materially adverse impact on our financial position and cash flow.

Risk Factors

Our auditors have issued a "going concern" audit opinion.

The auditor's report on our financial statements for the fiscal year ended March 31, 2001 states that because of operating losses and our continued experience of negative cash flows from operations, there is substantial doubt about our ability to continue as a going concern. A "going concern" opinion indicates that the financial statements have been prepared assuming we will continue as a going concern and do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

We have recently incurred losses which are likely to continue.

During the fiscal year ended March 31, 2001, we incurred net losses of approximately $10.2 million, and during the three months ended June 30, 2001 we incurred net losses of approximately $3.6 million. Because of the general decline in the trucking industry, our significantly increased interest expense as a result of recent acquisitions and our inability to successfully integrate acquired businesses, these losses are likely to continue, and perhaps increase, during at least a portion of our current fiscal year. In addition, our revenues declined from the year ended March 31, 2000 to the year ended March 31, 2001 as well as for the three months ended June 30, 2001 versus the comparable period in 2000. We will need to generate additional revenue and achieve cost reductions if we are to regain and sustain profitability. We may not achieve or

sustain profitability and our losses may continue to grow in the future. As a result, we may not be able to pursue our business strategy effectively.

We are in default under our Credit Facility. If we fail to obtain further forbearance or waivers with respect to these defaults or obtain additional financing to enable us to cure them, then our lenders under the Credit Facility may foreclose on substantially all of our assets, which would severely impair our ability to operate our business and perhaps require us to seek protection from our creditors.

In December 2000, we informed the agent under the Credit Facility that we were then in default of certain financial covenants under the Credit Facility.

In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful.

From May 21, 2001 to July 17, 2001, we and the bank lenders under the Credit Facility had been operating under the terms of a forbearance agreement pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the forbearance period, and since then, we have been engaged in efforts to obtain additional financing to facilitate a restructuring of our existing indebtedness. As disclosed in our Form 8-K filed with the Securities and Exchange Commission on August 1, 2001, we received an acceleration notice from PNC Bank, N.A. ("PNC"), the administrative agent under our Credit Facility, terminating the commitments to make loans under the Credit Facility and declaring all amounts due under the Credit Facility, approximately $91 million at June 30, 2001, excluding costs and legal fees, to be immediately due and payable. According to the notice of acceleration, if the amounts due were not paid by Wednesday, August 1, 2001, the administrative agents and the banks under the Credit Facility reserved their rights without further notice to exercise all of their rights and remedies under the Credit Facility documents, including but not limited to collecting receivables owed to us and our subsidiaries directly from the parties owing such amounts, taking control of and voting and managing all or part of the pledged stock of our subsidiaries and instituting suit, including foreclosure actions, to collect the debt as well as cost and legal fees. In the event that the banks were to take the foregoing actions, our ability to operate our business would be severely impaired and, in all likelihood, we would be required to seek protection from our creditors to continue operations, which could involve filing for bankruptcy protection in the United States and possibly Canada and Mexico where we have operations.

On August 9, 2001, we received a letter from the administrative agent under the Credit Facility, withdrawing the acceleration notice previously sent to us. The withdrawal letter is subject to our acknowledgement that the defaults set forth in the acceleration notice continue to exist, including the default of certain financial covenants under the Credit Facility since December 2000, and the failure to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively. We have agreed that the lenders under the Credit Facility may send an acceleration notice at any time and that the lenders have reserved all rights and remedies under the Credit Facility.

We are currently negotiating with the lenders under the Credit Facility to enter into a new forbearance agreement that would extend the forbearance period to mid-September, although no assurance can be given that we will be able to obtain such forbearance or that during any extended forbearance period we will be able to obtain additional financing or restructure our indebtedness. Even if we are able to enter into an additional forbearance agreement with the lenders under the Credit Facility, they would retain their rights to foreclose on the collateral under the Credit Facility to the extent we defaulted under such forbearance agreement or at any time following the termination of such forbearance agreement.

We need to obtain additional financing, or a significant restructuring of obligations under Credit Facility, in order to meet our existing debt obligations and to fund our operations. We may not be able to obtain such additional financing or restructuring. We could experience a change of control as a result of such a financing or restructuring if either of such events occurs. In addition, holders of our common stock and preferred stock may be severely diluted or eliminated entirely in connection with a restructuring transaction or if we become subject to proceedings in respect of protection from our creditors.

We are currently developing a business plan that will offer a basis for a restructuring proposal that we intend to provide to our creditors that we expect will include additional, new equity or equity-linked financing. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. Events of default under our existing

indebtedness, our recent history of losses and the "going concern" audit opinion on our 2001 fiscal year financial statements increase the difficulty of obtaining such additional financing. Any additional financing will require the consent of our senior lenders and, to the extent it contemplates the issuance of shares of preferred stock senior to our existing preferred stock, holders of a majority of the shares of our preferred stock. We may be unable to effectuate a restructuring proposal if we are unable to reach agreement with our creditors or preferred stockholders or because we are unable to obtain additional financing. In the event that we obtain additional financing and/or a restructuring of our existing indebtedness, such events could cause a change of control of the company.

If we are unable to accomplish an out-of-court restructuring, we may seek protection from our creditors. Moreover, it is possible that our creditors may seek to initiate involuntary proceedings against us or against one or more of our subsidiaries in the United States and/or in Canada or Mexico, which would force us to make defensive voluntary filing(s) of our own. Should we be forced to take action with respect to one or more of our foreign subsidiaries, such filings raise substantial additional risk to us and the success of our proposed restructuring transaction due to both the uncertainty created by foreign creditors' rights laws and the additional complexity that would be caused by such additional filings. We can provide no assurance that we would be able to successfully restructure our foreign subsidiaries should such filings be required. In addition, if we restructure our debt or file for protection from our creditors, it is very likely that our common stock and preferred stock will be severely diluted if not eliminated entirely.

Restructuring our indebtedness may require us to sell assets. The terms of such sales may not be advantageous and the loss of such assets may harm our ability to operate our business.

In order to effect a restructuring of our indebtedness we will be required to obtain the consent of the lenders under our Credit Facility. These lenders may require as a condition of their consent that we dispose of certain assets or businesses and apply the proceeds to reduce our indebtedness to them. In the event that we are required to engage in such sales of assets, we may not be able to negotiate favorable terms and may realize reduced values for such assets. In addition, the loss of the assets that we sell could harm our ability to operate our business.

We currently are, and will continue to be, highly leveraged and subject to substantial restrictions as to our operations.

As of June 30, 2001, we had $95.6 million of debt outstanding, of which $91.0 million was outstanding under our Credit Facility. Due to conditions of default previously described, the entire $95.6 million of outstanding debt was reclassified, for reporting purposes, from long-term debt to current liabilities. To date, a substantial portion of our cash flow has been devoted to debt service. Our ability to make payments of principal and interest on our outstanding indebtedness will be largely dependent upon our ability to raise additional financing, restructure existing indebtedness and on our future operating performance. Even if we are able to obtain additional financing and restructure our existing indebtedness, we will remain highly leveraged. All amounts outstanding under the Credit Facility are secured by a lien on substantially all of our assets. In addition, our Credit Facility imposes, and any new or restructured indebtedness will impose, significant operating and financial restrictions on us, including certain limitations on our ability to incur additional debt, make payments on subordinated indebtedness, pay dividends, redeem capital stock, sell assets, engage in mergers and acquisitions or make investments, make loans, transact business with affiliates, enter into sale and leaseback transactions, and place liens on our assets. In addition, our Credit Facility contains covenants regarding the maintenance of certain financial ratios. Servicing our debt obligations will significantly reduce the amount of cash available for investment in our businesses and, together with restrictions imposed by the terms of our indebtedness, may cause our results of operations to suffer.

We have recently undergone changes in our management team and cannot assure you that our management team can effectively work together to operate our business.

In March 2001, our board appointed our new President and Chief Executive Officer. In August 2001, we hired a new Chief Financial Officer. Neither our new President and Chief Executive Officer or our new Chief Financial Officer have worked together or with our remaining management team before and they, and additional managers or that they may hire, may not be able to forge effective working relationships with other members of management at the corporate or operating unit levels. In addition, they, and any other newly hired managers, will need to learn about our company and the industries in which we operate. If our senior management cannot work together effectively, then our business and strategies will be harmed and we will incur additional costs in seeking and retaining new management personnel.

Even if we are able to secure additional financing, the trading prices of shares of our common stock and preferred stock could decline and our stockholders could experience significant ownership dilution, further depressing the prices of shares of our common stock and preferred stock.

Any financing that we complete is likely to involve the issuance of our equity securities. If we issue additional equity securities, such issuances may depress the trading prices of our common stock and preferred stock and stockholders may experience significant dilution of their ownership interest. In addition, the newly issued securities may have rights superior to those of our common stock and existing preferred stock. The dilutive effect of these issuances will be increased to the extent our share price declines.

Our stock price has declined and may continue to decline, which could reduce the value of stockholders' investments, subject us to litigation, cause us to be unable to maintain our listing on the American Stock Exchange, and make obtaining future equity financing more difficult for us.

The market prices of our common stock and preferred stock have declined since we completed our initial public offering in January 1998, and it is likely that they will continue to decline. In the past, companies whose stock prices have declined have been the object of securities class action litigation. If we were to become the object of securities class action litigation, it could result in substantial additional costs for which we are unprepared and it could divert our management's attention and resources.

Our common stock and preferred stock are each currently listed on the American Stock Exchange (the "Exchange"). The Exchange has broad discretion to suspend a company's securities from trading or to de-list a company's securities from the Exchange. The Exchange will consider suspending or de-listing the securities of a company if the company sustains losses which are so substantial in relation to its existing financial resources that it appears questionable as to whether such company will be able to continue operations and/or meet its obligations as they mature. The Exchange will also consider suspension or de-listing if the aggregate market value of shares of common stock publicly held is less than $1 million, if the number of shareholders is less than 300, if the company has sold or disposed of a substantial portion of its operations, assets or business as a result of foreclosure or receivership, or if the selling price of shares of a company's stock sell at a low price per share for a substantial period of time, among other reasons. If the Exchange should suspend or de-list our common stock or our preferred stock, the market for our shares would become significantly less liquid, and the value of shareholders' investments would likely decline substantially.

In addition, the declines in our stock price may have harmed, may continue to harm our ability to issue or significantly increase the ownership dilution to stockholders caused by our issuing, equity in financing or other transactions. The price at which we issue shares in such transactions is generally based on the market price of our common stock and a decline in our stock price would result in our needing to issue a greater number of shares to raise a given amount of funding or acquire a given dollar value of goods or services. The occurrence of any of the foregoing would likely have a material adverse effect on Standard's and shareholders' investments.

We are in arrears on payment of certain federal excise taxes of approximately $6.7 million, which has resulted in an additional event of default under our Credit Facility, and which could subject us to penalties in material amounts.

We are currently in arrears on payment of certain federal excise taxes of approximately $6.7 million, on which approximately $1.5 million of interest was accrued as of June 30, 2001. We expect to attempt to negotiate a payment plan with the Internal Revenue Service ("IRS") to resolve the arrearage. Although no formal plan is yet in place, we made a voluntary tax payment in the amount of $634,135 on March 9, 2001 as well as $20,000 on July 16, 2001, and intend to make voluntary monthly payments of $20,000 August 15, 2001 and September 15, 2001. This arrearage has also resulted in an additional event of default under our Credit Facility. Our financial statements include approximately $206,000 of interest expense for the quarter related to federal excise tax currently in arrears. Further, the IRS has the statutory authority to impose penalties which could be material. If we are unable to negotiate a payment plan with the IRS, or if the IRS imposes statutory penalties on Standard, the IRS could commence proceedings to freeze or foreclose upon our assets, including our bank accounts. In any of those events our business, financial position or results of operations could be materially and adversely affected.

Our quarterly operating results are likely to be subject to substantial fluctuations in the future due to numerous factors, many of which are outside of our control. These fluctuations can make assessing an investment in our securities difficult and depress the trading prices of our securities.

Our future quarterly operating results are likely to be subject to substantial fluctuations as a result of a variety of factors, including:

- our ability to restructure our payment obligations under the Credit Facility;

- general economic conditions;

- the conditions of the trucking, aerospace, defense, nuclear and industrial industries in general;

- the collectability of accounts receivables from customers;

- further price depression in the industries in which we participate;

- our ability to introduce new products and services;

- timing of sales;

- changes in estimates of the cost of completion of long-term contracts;

- the timing and costs of any acquisitions of services or technologies;

- changes in vendor trade terms (payment terms); and

- our ability to further cut overhead costs.

Variability in our operating results could have a material adverse effect on our business, financial condition and results of operations, as well as the trading prices of our common and preferred stock.

Our reported revenue numbers may not prove to be comparable to prior or future periods because accounting for our revenues on certain of our long-term contracts requires us to estimate future costs which are uncertain.

We account for a significant percentage of our long-term contracts at our Ranor and TPG facilities on a percentage-of-completion basis. For the three months ended June 30, 2001, Ranor and TPG accounted for approximately 22.3% of our total revenues. This accounting method requires that, for each uncompleted long-term contract, we recognize revenues and earnings based on management's estimates to complete, which are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Accordingly, the revenue we recognize in any given period on such contracts depends to a significant extent on our estimate of the total remaining costs to complete individual projects. As with any estimates, our estimates of costs of completion are subject to numerous risks and uncertainties, including risks of increased costs for, or unavailability of, raw materials, as well as engineering and manufacturing risks in producing products on a timely basis. If in any period we significantly increase our estimate of the total cost to complete a project, we may recognize very little or no additional revenue with respect to that project. As a result, our gross margin in that period may not be directly comparable to prior or future periods and in such period and future periods may be significantly reduced. In some cases we may recognize a loss on individual projects prior to their completion.

We have suspended dividend payments that have and will continue to cumulate and we are in default on certain of our subordinated debt.

The annual dividend requirement on our preferred stock is currently

$1,155,000. We suspended payment of the quarterly dividend of $289,000 during the quarter ended December 31, 2000. Unpaid dividends on the preferred stock are cumulative. Our future earnings, if any, may not be adequate to pay the cumulative dividend or future dividends on the preferred stock. Although we intend to pay the cumulative dividends and to resume payment of regular quarterly dividends out of available surplus, there can be no assurance that we will maintain sufficient surplus or that future earnings, if any, will be adequate to pay the cumulative dividend or future dividends on our preferred stock. In addition, we are in default of interest payments under approximately $4.6 million of convertible subordinated notes issued in connection with our acquisition of our Ranor subsidiary during 1999. We will need the approval of the lenders under our Credit Facility to resume payment of preferred dividends and payment of interest and principal on our subordinated debt.

Our business is concentrated in industries that are subject to economic cycles.

A significant portion of our business and business development efforts are concentrated in the trucking, and, to a lesser extent, the aerospace, nuclear, industrial and defense industries. Since March 2000, the U.S. economy has suffered a sharp decline. As demonstrated by our decline in revenues from our Truck Body/Trailer Division in the quarter ending June 30, 2001, many of our customers have substantially curtailed, if not eliminated, significant additional expenditures in these areas. Certain of these developments have already had an adverse impact on our business. A continuation of the current economic environment will likely further adversely affect our business.

The Critical Components Division relies on U.S. government contracts and subcontracts for a substantial portion of its revenues.

A significant portion of our business and business development efforts are concentrated in industries where the U.S. government is a major customer. Approximately 23.5% of the Critical Components Division's net revenues for the quarter ended June 30, 2001 were derived directly from contracts with the U.S. government, or agencies or departments thereof, or indirectly from subcontracts with U.S. Government contractors. The majority of these Government contracts are subject to termination and renegotiation for the convenience of the government. As a result, our business, financial condition and results of operations may be materially affected by changes in U.S. Government expenditures in the industries in which we operate.

We are dependent on a few customers for a substantial percentage of our revenues.

Due to the nature of the markets we participate in, including the heavy-duty trailer chassis and container industry and the nuclear waste disposal industry, the available pool of potential customers is limited. For the quarter ended June 30, 2001, two customers were responsible for 42% of the sales of Truck Body/Trailer Division and one customer was responsible for 33% of the sales of our Critical Components Division. Our preferred supplier arrangement with this customer expires in the second quarter of our 2001 fiscal year. We are currently negotiating with this customer to renew our preferred supplier arrangement, although we cannot be sure we will be successful in doing so. The loss of any major customer could have a material adverse effect on our business, financial condition and operating results.

We could face additional regulatory requirements, tax liabilities and other risks as a result of our international operations.

In April 2000, our Critical Components division acquired Airborne and Arell, both based in Canada. In addition, our Truck Body/Trailer Division operates a facility in Mexico. There are risks related to doing business in international markets, such as changes in regulatory requirements, tariffs and other trade barriers, fluctuations in currency exchange rates, more stringent rules relating to labor or the environment, and adverse tax consequences. Furthermore, we may face difficulties in staffing and managing any foreign operations. One or more of these factors could harm any existing or future international operations.

Many of the raw materials we use come from a small number of suppliers.

A significant portion of our precision machining business depends on the adequate supply of specialty metals and exotic alloys at competitive prices and on reasonable terms. Many of these raw materials may be obtained from a small number of suppliers, and in some cases, a single supplier. Although we have not experienced significant problems with our suppliers in the past, there can be no assurance that such relationship will continue or that we will continue to obtain such supplies at cost levels that would not adversely affect our gross margins. The partial or complete loss of any of our suppliers, or production shortfalls or interruptions that otherwise impair our supply of raw materials, would have a material adverse effect on our business, financial condition and results of operations. It is uncertain whether alternative sources of supply could be developed without a material disruption in our ability to provide products to our customers.

We must comply with strict government and environmental regulations. Both compliance and non-compliance could result in substantial expenses and liabilities.

Trailer chassis and container length, height, width, gross vehicle weight and other specifications are regulated by the National Highway Traffic Safety Administration and individual states. Historically, changes and anticipated changes in these regulations have resulted in significant fluctuations in demand for new trailer chassis and containers thereby contributing to industry cyclicality. Standard's manufactured chassis are also subject to federal excise taxes, for which we are in substantial arrears. Changes or anticipated changes in these regulations or in applicable tax laws may have a material adverse impact on the Truck Body/Trailer Division's manufacturing operations and sales.

We are subject to Federal, state and local laws and regulations relating to our operations, including building and occupancy codes, occupational safety and environmental laws including laws governing the use, discharge and disposal of hazardous materials. Except as otherwise described above with regard to air quality regulations, the Company is not aware of any material non-compliance with any such laws and regulations. The Company is a manufacturer of truck trailer chassis and is covered by Standard Industrial Code (SIC) #3715. Companies covered by SIC Code #3715 are among those companies subject to the New Jersey Industrial Site Recovery Act ("ISRA"). Pursuant to ISRA, the Company is conducting an investigation into any environmental "Areas of Concern" ("AOCs") that may be present at the facility. The Company has entered into a Remediation Agreement with NJDEP by which the Company will fulfill its obligations under ISRA. AOCs could require remediation, which could have a material adverse effect on the Company. Furthermore, there can be no assurance that additional similar or different investigations will not reveal additional environmental regulatory compliance liabilities, nor can there be any assurance that health-related or environmental issues will not arise in the future or that any such issues will not have a material adverse effect on the Company's operating results and financial position.

We have acquired numerous businesses and we may not be able to successfully integrate them.

Over the past years, we have made several acquisitions of complementary businesses which we continue to integrate. The growth associated with these acquisitions has resulted in a significant strain on our managerial, financial, engineering and other resources. There can be no assurance that we will be successful in the integration process.

Our largest stockholders could act together to exercise significant control over us.

As of June 30, 2001, our three largest shareholders, including one director and one former director who are brothers, collectively beneficially owned approximately 51.9% of our outstanding common stock. As a result of this concentration of ownership, these stockholders, should they choose to act together, would be able to exercise significant influence over matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership could also have the effect of delaying or preventing a change in control of the company.

Certain anti-takeover provisions could cause harm to our shareholders.

Our certificate of incorporation and by-laws contain certain provisions that could have the effect of delaying or preventing a change of control of the company, even if such a transaction would be beneficial to our stockholders. For example, our certificate of incorporation authorizes the board of directors to issue one or more series of preferred stock without stockholder approval. Such preferred stock could have voting and conversion rights that adversely affect the voting power of the holders of preferred stock and/or common stock, or could result in one or more classes of outstanding securities that would have dividend, liquidation or other rights superior to those of the preferred stock and/or common stock. Issuance of such preferred stock may have an adverse effect on the then prevailing market price of the preferred stock and/or common stock. Our certificate of incorporation also requires a vote of 75% for certain business combination transactions, whether or not shareholders are otherwise entitled to vote on such transactions under applicable law. Similarly, our by-laws establish a "staggered" board of directors and contain provisions limiting the ability of stockholders to nominate new directors. Additionally, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Section 203 could have the effect of delaying or preventing a change of control of the company even if it would be in the best interests of the company or our shareholders.

In April 2000, we acquired Airborne and Arell in Montreal, Canada and in April 1999 we commenced production at our facility in Sonora, Mexico. Accordingly, fluctuations in the value of the Canadian Dollar or the Mexican Peso, compared to the U.S. Dollar upon currency conversion, may affect our financial position and cash flow. As of June 30, 2001, we had not established a foreign currency hedging program. Because a majority of our transactions are U.S. based and U.S. Dollar denominated, a hypothetical 10% change in the value of the Canadian Dollar or the Mexican Peso would not have a materially adverse impact on our financial position and cash flow.

PART II. Other Information

Item 1. Legal Proceedings

We are involved in litigation arising in the normal course of our business. Management believes that the litigation in which we are currently involved, either individually or in the aggregate, is not material to Standard's financial position or results of operations.

On June 22, 2001, the United States District Court for the Eastern District of Wisconsin entered a judgment of $570,000 against our subsidiary R/S in a suit brought by a former distributor with whom R/S terminated its relationship in September 1999. On July 3, 2001, we filed a motion with the court seeking judgment in our favor as a matter of law notwithstanding the verdict and filed a motion for a new trial, arguing that the evidence adduced at trial does not support the jury's verdict. In our motion for a new trial, we requested that the court, in the alternative, reduce the amount of the jury's verdict to a figure reasonably supported by the evidence. The court has yet to rule on our motions. We believe that our position is meritorious and intend to vigorously defend our interests in this matter. The Company set up an accrual for $570,000.

Item 3. Defaults Upon Senior Securities

(a) During the fiscal year ending March 31, 2001, we incurred net losses of approximately $10.2 million. In December 2000, we notified the agent under our Credit Facility that we were not in compliance with certain financial covenants under the Credit Facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. As of June 30, 2001, we were also in default in interest payments totaling approximately $548,000 in respect of convertible subordinated notes issued to finance the acquisition of our Ranor subsidiary. We expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million under the Credit Facility on the next payment date of September 30, 2001.

We are currently unable to meet our payment obligations under the Credit Facility and will be unable to achieve compliance with the terms of the Credit Facility absent additional equity or debt financing, restructuring of the terms of the Credit Facility or a combination of such financing and restructuring. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. Due to our current condition of default, our entire long-term debt has been reclassified to current liabilities.

(b) The holders of our Preferred Stock are entitled to receive cumulative dividends at the rate of $1.02 per share per year, paid quarterly on the last business day of March, June, September and December of each year, commencing on March 31, 1998. To date, we have paid all required dividends on the Preferred Stock with cash generated from operations with the exception of the dividends for the three quarters ended December 31, 2000, March 31, 2001 and June 30, 2001. The cumulated arrearage at March 31, 2001 was $578,000 and as of June 30, 2001 was $867,000. If Standard is in arrearage on dividend payments for four or more quarters, the holders of our Preferred Stock are entitled to appoint two directors to Standard's board of directors.

The annual dividend requirement on our Preferred Stock is $1,155,000.

During the quarter ending December 31, 2000, we suspended payment of the quarterly dividend of $289,000 on the Preferred Stock. Unpaid dividends on the Preferred Stock are cumulative. Our future earnings, if any, may not be adequate to pay the cumulative dividend or future dividends on the Preferred Stock. Although we intend to pay the cumulative dividend and to resume payment of regular quarterly dividends out of available surplus, there can be no assurance that we will maintain sufficient surplus or that future earnings, if any, will be adequate to pay the cumulative dividend or future dividends on the Preferred Stock. Further, we will need approval of our senior lenders to resume payment of dividends on the Preferred Stock.

We have not paid dividends on our common stock to date. The future payment of dividends is subject to the discretion of our board of directors. Moreover, our senior secured Credit Facility contains restrictions on our ability to pay dividends. The current intention of the board of directors is to retain all earnings, other than Preferred Stock dividends, for use in our business. Accordingly, we do not currently expect to pay dividends on our common stock in the foreseeable future.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this Quarterly Report on Form 10-Q

10.38 Agreement dated May 16, 2001 between Standard Automotive and William Merker

10.39 Amended and Restated Employment Agreement dated as of July 16, 2001 between Standard Automotive and James F. "Pat" O'Crowley.

10.40 Separation Agreement dated July 12, 2001 for Joseph Spinella

(b) Reports on Form 8-K

We filed a report on Form 8-K, Item 6, on May 23, 2001, announcing the election of Messrs. James F. O'Crowley, III, James E. Gross and John E. Elliott, II to our board of directors and the resignation of Mr. William Merker from our board of directors.

We filed a report on Form 8-K, Item 5, on June 7, 2001, announcing Mr. Steven Merker's resignation as Chairman of our board of directors.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STANDARD AUTOMOTIVE CORPORATION

/s/ James F. O'Crowley, III Date: August 14, 2001

By: ____

James F. O'Crowley, III
President and Chief Executive Officer
(Duly Authorized Officer)

/s/ Matthew B. Burris Date: August 14, 2001

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Matthew B. Burris
Chief Financial Officer (Principal Financial Officer)