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STANDARD AUTOMOTIVE CORP

Form 10-Q

February 19, 2002

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

FORM 10-Q

(Mark One)

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

For the Quarter Ended December 31, 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

(State of Incorporation)

52-2018607

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

280 Park Avenue, 21st Floor West, New York, NY

(Address of principal executive offices)

10017

(Zip Code)

(908) 874-7778

(Registrant's telephone number)

3715

(Primary Standard Industrial Code)

Former address:
401 Plaza Route 206, Hillsborough, NJ 08844

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 February 13, 2002, the registrant had a total of 3,722,400 shares of Common Stock outstanding and 1,132,600 shares of Preferred Stock outstanding.

STANDARD AUTOMOTIVE CORPORATION

For the Nine Months Ended December 31, 2001

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Form 10-Q Quarterly Report

Index

Part I. Financial Information	Page
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of December 31, 2001 (unaudited) and March 31, 2001	3
Condensed Consolidated Statements of Operations for the three and nine months ended December 31, 2001 (unaudited) and December 31, 2000 (unaudited and restated)	4
Condensed Consolidated Statement of Stockholders' Equity for the nine months ended December 31, 2001 (unaudited and restated)	5
Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2001 (unaudited) and December 31, 2000 (restated and unaudited)	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	17
Part II. Other Information	
Item 1 Legal Proceedings	22
Item 3. Defaults Upon Senior Securities	23
Item 6. Exhibits and Reports on Form 8-K	23
Signatures	25

PART I. Financial Information

Item 1. Financial Statements

STANDARD AUTOMOTIVE CORPORATION

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

December 31, 2001 (Unaudited)	March 31, 2001
-----	-----

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Assets

Cash and cash equivalents	\$ 1,240	\$ 857
Restricted Cash	4,904	
Marketable securities	102	102
Accounts receivable, net	8,753	10,620
Inventory, net	14,653	32,052
Other current assets	1,351	9,649
	-----	-----
Total current assets	31,003	53,280
Property and equipment, net	37,699	44,891
Intangible assets, net of accumulated amortization of \$3,147 and \$5,408, respectively	40,213	60,538
Other assets	3,669	4,296
	-----	-----
Total assets	\$ 112,584	\$ 163,005
	=====	=====

Liabilities and Stockholders' Equity

Accounts payable and accrued expenses	\$ 19,714	\$ 20,447
Liabilities due to banks and other lenders	95,641	95,641
Income and federal excise taxes payable	5,872	7,547
Cumulative preferred stock dividend	1,347	578
Other liabilities	3,724	7,944
	-----	-----
Total current liabilities	126,298	132,157
Other long term liabilities	2,851	4,397
	-----	-----
Total liabilities	129,149	136,554
	-----	-----

Commitments and contingencies

Stockholders' equity:

Convertible redeemable preferred stock; \$.001 par value; 3,000,000 shares authorized; 1,132,600 issued and outstanding	1	1
Common stock; \$.001 par value; 10,000,000 shares authorized; 3,722,400 issued and outstanding	4	4
Additional paid-in capital	31,455	31,308
Deferred compensation	(55)	(90)
Retained earnings (deficit)	(47,947)	(4,665)
Accumulated other comprehensive income (loss)	(23)	(107)
	-----	-----
Total stockholders' equity	(16,565)	26,451
	-----	-----
Total liabilities and stockholders' equity	\$ 112,584	\$ 163,005
	=====	=====

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

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STANDARD AUTOMOTIVE CORPORATION

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share data)

	Three months ended December 31,	
	2001	2000
		(Restated)
Revenues, net	\$ 18,232	\$ 32,329
Operating costs and expenses:		
Cost of revenues	15,234	25,955
Selling, general and administrative expenses	5,320	5,402
Loss on impairment of assets	--	--
Total operating costs and expenses	20,554	31,357
Operating income (loss)	(2,322)	972
Interest and other expenses	3,075	4,183
(Loss) before income taxes	(5,397)	(3,211)
Provision (benefit) for income taxes	440	(1,335)
Net (Loss)	(5,837)	(1,876)
Preferred dividend	289	289
Net (loss) available to common stockholders	\$ (6,126)	\$ (2,165)
Basic net (loss) per common share	\$ (1.65)	\$ (0.58)
Diluted net (loss) per common share	\$ (1.65)	\$ (0.58)
Basic weighted average number of shares outstanding	3,722	3,722
Diluted weighted average number of shares outstanding	3,722	3,722

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

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(in thousands)

	Preferred Shares Outstanding	Preferred Shares	Common Shares Outstanding	Common Stock	Additional Paid In Capital	Deferred Compensation	Retained Earnings (Deficit)
Balance - March 31, 2001	1,133	\$ 1	3,822	\$ 4	\$ 31,308	\$ (90)	\$ (
Currency Translation Adjustment							
Warrants and Options Issued						50	
Preferred Stock Dividend							
Net Loss							(
Amortization of Deferred Compensation						15	
Balance - June 30, 2001	1,133	1	3,822	4	31,358	(75)	(
Currency Translation Adjustment							
Warrants and Options Issued						50	
Preferred Stock Dividend							
Net Loss							(3
Amortization of Deferred Compensation						15	
Balance - September 30, 2001	1,133	1	3,822	4	31,408	(60)	(4
Currency Translation Adjustment							
Warrants and Options Issued						47	
Preferred Stock Dividend							
Net Loss							(

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Amortization of
Deferred
Compensation

5

Balance - December 31, 2001	1,133	\$ 1	3,822	\$ 4	\$ 31,455	\$ (55)	\$ (4)
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The accompanying notes are an integral part of these consolidated condensed statements.

5

STANDARD AUTOMOTIVE CORPORATION

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)

	Nine months ended December 31,	
	2001	2000
		(Restated)
Cash flows from operating activities:		
Net income (loss)	\$ (42,416)	\$ (49)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,262	5,525
Loss on impairment of assets	25,983	-
Non-cash interest and compensation	35	163
Deferred financing costs	(683)	(2,819)
Change in assets and liabilities:		
Accounts receivable	1,770	6,103
Inventory	8,881	7,553
Prepaid expenses and other	6,357	(1,001)
Deferred revenue	653	
Accounts payable and accrued expenses	1,474	(13,931)
Net cash provided by operating activities	7,316	1,544
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired		(26,463)
Acquisition of property and equipment	(1,177)	(2,966)
Disposition of property and equipment	14	
Net cash provided (used) by investing activities	(1,163)	(29,429)
Cash flows from financing activities:		
Proceeds from bank loan		32,255
Repayment of bank loan		(3,938)
Preferred dividend	(866)	(577)
Net cash provided by financing activities	(866)	27,740

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Net increase (decrease) in cash and cash equivalents	5,287	(145)
Cash and cash equivalents, beginning of period	857	3,136
	-----	-----
Cash and cash equivalents, end of period	\$ 6,144	\$ 2,991
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 2,723	\$ 6,965
Income taxes	1,214	3,316

Noncash investing and financing activities:

Capital stock and debt issued for acquisition of businesses and assets	-	780
--	---	-----

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

6

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 nine months ended December 31, 2001 and December 31, 2000 are unaudited. The financial statements for the nine months ended December 31, 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 nine months ended December 31, 2001 should be read in conjunction with our audited financial statements for the fiscal year ended March 31, 2001 and with the risk factors below.

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

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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 in two segments: (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 Company, Inc. ("R&S") and CPS Trailer Co. ("CPS"). Standard's Critical Components Division operates through its wholly-owned subsidiaries: Ranor, Inc. ("Ranor"), Airborne Gear & Mach. Ltd. ("Airborne"), Arell Machining Ltd. ("Arell") and The Providence Group Inc. ("TPG"). Subsequent to December 31, 2001 both the East and West divisions of Ajax have been closed, and substantially all the assets of TPG were sold.

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 amortization of goodwill and requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill amortization. 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. Amortization of goodwill for the three months ending December 31, 2001 was \$684,000 compared to \$577,000 for the three months ending December 31, 2000. Goodwill amortization for the nine months ending December 31, 2001 was \$1,660,000 compared to \$1,609,000 for the same period last year. The effect of implementing SFAS No. 142 could be significant.

In August 2001, SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets was issued. SFAS 144 supercedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of and Accounting Principles Board Opinion (APB) No. 30, Reporting the Results of Operations - Reporting the Effects of the Disposal of a Segment of a Business and Extraordinary, Unusual, and Infrequently Occurring Events and Transactions. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 retains the provisions of APB No. 30 for presentation of discontinued operations in the income statement, but broadens the presentation to include a component of an entity SFAS 144 is effective for fiscal years beginning after December 15, 2001, and the interim periods within. The Company is currently evaluating the impact on its financial statements of adopting this statement.

3. Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging

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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:

	December 31, 2001	March 31, 2001
	-----	-----
	(Unaudited)	
Raw materials	\$ 3,735,000	\$ 10,762,000
Work in progress	6,532,000	8,057,000
Finished goods	4,386,000	13,233,000
	-----	-----
	\$ 14,653,000	\$ 32,052,000
	=====	=====

The inventory is valued at the lower of cost (first in first out method) or market. Approximately \$6.9 million of the decrease in inventory represented the write-down of Ajax inventories to estimated fair market value, due to negative market conditions.

5. Long Term Debt, Credit Agreements and Federal Excise Taxes

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 condensed consolidated 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 in quarterly installments commencing in June 2000 in specified amounts ranging from approximately \$1.3 million and increasing annually thereafter to approximately \$1.6 million per quarter 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, the June 2001 principal payment of \$1.6 million, the September 2001 principal payment of \$1.6 million or the December 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

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into sale and leaseback transactions, and place liens on substantially all our assets. In addition, our Credit Facility contains covenants regarding the maintenance of certain financial and non-financial covenants.

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, \$4.2 million, \$4.1 million and \$4.1 million under the Credit Facility on March 31, 2001, July 2, 2001, September 30, 2001, and December 31, 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 March 31, 2002.

From May 21, 2001 to July 17, 2001, and from August 23, 2001 to October 19, 2001 we and the Bank Lenders under the Credit Facility (the "Bank Lenders") had been operating under the terms of forbearance agreements pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the term of the latter forbearance agreement, we engaged the services of a crisis manager and an investment-banking firm to identify potential buyers for the Company's subsidiaries. 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 December 31, 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 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 costs and legal fees. If the banks had taken the foregoing action, our ability to operate our business would have been severely impaired and, in all likelihood, we would have been required to seek protection from our creditors to continue operations, which could have involved filing for bankruptcy protection in the United States and possibly Canada and Mexico, where we have operations.

8

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 was subject to our acknowledgement that the defaults set forth in the acceleration notice continued 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 Bank Lenders under the Credit Facility may send an acceleration notice at any time and that the Bank Lenders have reserved all rights and remedies under the Credit Facility.

On October 25, 2001 we and the Bank Lenders under the Credit Facility entered into a new forbearance agreement which was to expire on January 31, 2002, pursuant to which the banks agreed to refrain from exercising their rights until such date. During the forbearance period, periodic reports were to be made to the Bank Group by the investment bankers and the Company on the status of potential asset dispositions. Pursuant to this forbearance agreement, we were

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required to make payments of \$750,000 on each of December 31, 2001 and January 31, 2002, both of which have been paid. We are no longer operating under the terms of a forbearance agreement.

On October 31, 2001 the Company's crisis manager ended its engagement to provide consulting services to the Company. As a result of the crisis manager's subsequent failure to provide financial reports to the Bank Lenders, the Bank Lenders notified the Company that it was in default of certain financial reporting required pursuant to the forbearance agreement, that it had failed to retain a crisis manager acceptable to the Bank Lenders, and that the Bank Lenders reserve all rights and remedies under the forbearance agreement and the Credit Facility. The Company and the Bank Lenders have come to a mutually acceptable alternative to the replacement of the crisis manager on an interim basis.

Since the end of January 2002, we have been operating without a forbearance agreement from the Bank Lenders, and continue to be in default under the Credit Facility. The Bank Lenders have advised us that they seek to resolve our defaults under the Credit Facility by our making a consensual, voluntary filing under Chapter 11 of the United States Bankruptcy Code (for the "Standard Automotive Corporation" parent holding company, but not for our operating subsidiaries). The Bank Lenders maintain the ability to exercise their rights and remedies under the Credit Facility at any time. In connection with the exercise of such rights and remedies, the Bank Lenders have taken possession of one of our bank accounts containing approximately \$3.5million in cash.

On February 11, 2002, we announced that our Board of Directors had appointed director John E. Elliott II as Chairman of the Board and Chief Restructuring Officer. We also announced that James F. O'Crowley, III was no longer our Chief Executive Officer and President. In addition, the following directors have resigned from our Board: Karl M. Massaro, Steven J. Merker, William C. Needham, Jr. and Joseph Spinella.

Our new management has been in discussions with the Bank Lenders regarding our defaults under the Credit Facility. There can be no assurance that the outcome of these discussions will be favorable to the Corporation or its stockholders. There can be no assurance that we will not make a Chapter 11 filing as a result of these discussions.

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 December 31, 2001 the average rate of interest for the Loans is 10.25%, 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 December 31, 2001 the total amount outstanding under the Credit Facility was \$91.0 million, excluding \$8.4 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 possibly selling our operating units to generate cash to repay the bank debt, although we can give no assurance that our efforts to sell such units will be successful. Due to our current condition of default, our entire long-term debt has been reclassified to current liabilities.

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We are currently in arrears on payment of certain federal excise taxes of approximately \$6.6 million, on which approximately \$1.9 million of interest was accrued as of December 31, 2001. Although no formal payment 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 each of July 16, 2001, August 15, 2001 and September 15, 2001, and \$40,000 on each of October 15, 2001, November 15, 2001, and December 15, 2001. On January 25, 2002 we received notice that the Internal Revenue Service filed a Federal Tax Lien on the assets of Ajax for the amount of the unpaid excise tax and interest.

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 (loss) per Common Share

Basic net income (loss) per share is calculated by dividing income (loss) 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 dividend payments, 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.

9

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 transferred to us 200,000 shares of common stock held by him. In addition, Mr. William Merker provided us with a promissory note, payable on December 1, 2001, in an aggregate principal amount of \$201,500, which is equal to the amount by which \$800,000 exceeds the fair market value of the transferred shares as determined by an independent appraiser, less expenses related to the appraisal in the amount of \$22,500. The note was paid by Mr. William Merker to the Company on December 1, 2001.

8. Segment Information

The segment information for the period ended December 31, 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 December 31, 2000.

Below is the selected financial segment data for the nine months ended December 31, 2001 and 2000:

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December 31, 2001	Truck Body/Trailer Division	Critical Components Division	Segment Totals
-----	-----	-----	-----
(in thousands)			
Revenue	\$ 45,652	\$ 31,099	\$ 76,751
Operating income (loss)	\$ (26,545)	3,715	(22,830)
Identifiable assets	21,829	47,019	68,848
Capital expenditures	1,177		1,177

December 31, 2000 (a)	Truck Body/Trailer Division	Critical Components Division	Segment Totals
-----	-----	-----	-----
Revenue	\$ 87,255	30,585	\$ 117,840
Operating income	6,859	7,017	13,876
Identifiable assets	48,048	44,164	92,212
Capital expenditures	1,329	1,637	2,966

(a) Restated

The following is a reconciliation of reportable segment operating income and assets to the Company's consolidated totals for the nine months ended December 31, 2001 and 2000:

10

Operating income	December 31,	
	2001	2000
-----	-----	-----
	(Restated)	
	(in thousands)	
Identifiable operating income (loss) for reporting segments	\$ (22,830)	\$ 13,876
Other corporate expenses	8,068	4,053
	-----	-----
Consolidated operating income (loss)	\$ (30,898)	\$ 9,823
	=====	=====
Assets	December 31,	
	2001	2000
-----	-----	-----
	(in thousands)	
Total assets for reporting segments	\$ 68,848	\$ 92,212
Goodwill	40,213	58,210
Other unallocated amounts (primarily deferred financing costs)	3,523	8,302
	-----	-----
Consolidated total assets	\$ 112,584	\$ 158,724
	=====	=====

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Revenue by geographical area are comprised as follows:

	Nine months ended December 31, 2001	2000
	-----	-----
		(Restated)
		(in thousands)
United States	\$ 62,120	\$ 103,897
Canada	14,631	13,943
	-----	-----
Total net revenues	\$ 76,751	\$ 117,840
	=====	=====

9. Loss on Impairment of Assets and Subsequent Event

As of September 30, 2001 we concluded that impairments occurred in the value of the assets of the Ajax unit of the Truck Body/Trailer Division and the TPG unit of the Critical Components Division. The decision was made based on current and projected earnings levels of these divisions and current market conditions in accordance with SFAS No. 121. Accordingly, we recorded impairment losses of \$23.7 million for the Ajax unit and \$2.2 million for the TPG unit during the quarter ended September 30, 2001. The primary components of the impairment loss included write downs of \$18.0 million of goodwill, \$4.6 million of inventories and \$3.3 million of property, plant and equipment.

On January 4, 2002, we sold substantially all of the operating assets of the TPG unit for \$250,000. In connection with the TPG transaction, the buyer assumed substantially all of the unit's liabilities. The loss to be recorded on this transaction will not be materially different from the previously recorded impairment loss related to the TPG division.

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

The financial statements for the nine months ended December 31, 2001 and December 31, 2000 are unaudited. The financial statements for the nine months ended December 31, 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."

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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 amortization of goodwill and requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill amortization. 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. Amortization of goodwill for the three months ending December 31, 2001 was \$684,000 compared to \$577,000 for the three months ending December 31, 2000. Goodwill amortization for the nine months ending December 31, 2001 was \$1,660,000 compared to \$1,609,000 for the same period last year. The effect of implementing SFAS No. 142 could be significant.

In August 2001, SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets was issued. SFAS 144 supercedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be disposed of and Accounting Principles Board (APB) Opinion No. 30, Reporting the Results of Operations -Reporting the Effects of the Disposal of a Segment of a Business and Extraordinary Unusual and Infrequently Occurring Events and Transactions. SFAS 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 retains the provisions of APB No. 30 for presentation of discontinued operations in the income statement, but broadens the presentation to include a component of an entity. SFAS 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within. The Company is currently evaluating the impact on its financial statements of adopting this statement.

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.

Recent Events

Since the end of January 2002, we have been operating without a forbearance agreement from the Bank Lenders, and continue to be in default under the Credit Facility. The Bank Lenders have advised us that they seek to resolve our defaults under the Credit Facility by our making a consensual, voluntary filing under Chapter 11 of the United States Bankruptcy Code (for the "Standard Automotive Corporation" parent holding company, but not for our operating subsidiaries). The Bank Lenders maintain the ability to exercise their rights and remedies under the Credit Facility at any time. In connection with the exercise of such rights and remedies, the Bank Lenders have taken possession of one of our bank accounts containing approximately \$3.5 million in cash.

On February 11, 2002, we announced that our Board of Directors had appointed director John E. Elliott II as Chairman of the Board and Chief Restructuring Officer. We also announced that James F. O'Crowley, III was no longer our Chief Executive Officer and President. In addition, the following directors have resigned from our Board: Karl M. Massaro, Steven J. Merker, William C. Needham, Jr. and Joseph Spinella.

Our new management has been in discussions with the Bank Lenders regarding our defaults under the Credit Facility. There can be no assurance that the outcome of these discussions will be favorable to the Corporation or its

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stockholders. There can be no assurance that we will not make a Chapter 11 filing as a result of these discussions.

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 segments, 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:

- o 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. Subsequent to December 31, 2001, both the New Jersey and Mexico divisions of Ajax have been closed.
- o R&S Truck Body Company, 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 newly designed elliptical and crossmemberless aluminum and steel dump bodies. R&S is currently testing a new lightweight steerable suspension with an in house fabricated axle for the dump body market.
- o CPS Trailer Co. ("CPS"), located in Oran, Missouri, designs, manufactures and sells bottom dump trailers, end dump trailers, roll-off hoists, pup trailers, two-can 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:

- o Ranor, Inc. ("Ranor"), located in Westminister, 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

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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.

12

- o Airborne Gear & Mach. 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 is considered a preferred vendor by its significant customers. We acquired Airborne in April 2000.
- o 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 is considered a preferred supplier by its significant customers. We acquired Arell in April 2000.
- o The Providence Group Inc. ("TPG"), located in Knoxville, Tennessee, is a specialized engineering services company that provides engineering service predominately in the environmental and nuclear industries. TPG designs, manufactures and operates remote robotic retrieval systems used in the cleaning and transferring of stored nuclear waste. We acquired TPG in September 2000. On January 4, 2002 substantially all of the assets of TPG were sold and the buyer also assumed most of its liabilities.

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. We have recently engaged the services of an investment banking firm to identify prospective buyers and to evaluate any potential offers for the Company and/or for its subsidiaries.

Our current business strategy is 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 Bank 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. A number 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)

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The following table sets forth, for the indicated periods, certain components of our Consolidated Statements of Operations expressed in dollar amounts and as a percentage of net revenues. The nine months ended December 31, 2001 reflect the consolidated results of all operating companies including TPG, which was acquired on August 31, 2000, for the entire period. The nine months ended December 31, 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 nine months ended December 31, 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.

13

(in thousands)	For the Three Months Ended December 31,				For the Nine Months Ended December 31,	
	2001		2000 (Restated)		2001	
Revenues, net	\$ 18,232	100.0%	\$ 32,329	100.0%	\$ 76,751	100.0%
Cost of revenues	15,234	83.6	25,955	80.3	64,141	83.6
Selling, general and administrative	5,320	29.1	5,402	16.7	17,525	22.8
Loss on impairment of assets	--	--	--	--	25,983	33.9
Operating income (loss)	(2,322)	(12.7)	972	3.0	(30,898)	(40.3)
Interest and other	3,075	16.9	4,183	12.9	9,552	12.4
Income (loss) before provision for taxes	(5,397)	(29.6)	(3,211)	(9.9)	(40,450)	(52.7)
Provision for income taxes	440	(2.4)	(1,335)	4.1	1,966	(2.5)
Net income (loss)	\$ (5,837)	(32.0)%	\$ (1,876)	(5.8)%	\$ (42,416)	(55.2)%

Comparison of Nine Months Ended December 31, 2001 to December 31, 2000

Net Revenues for the nine months ended December 31, 2001 were \$76.8 million, a decrease of 35% from net revenues of \$117.8 million, as restated, for the comparable period in 2000. Net revenues for our Truck Body/Trailer Division decreased from approximately \$87.3 million, as restated, for the nine months ended December 31, 2000 to approximately \$45.7 million for the nine months ended December 31, 2001, a decrease of 48%. 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 and the downturn in the Truck Body/Trailer Division, the Critical Components Division contributed 41% of revenues for the nine months ended December 31, 2001 versus 26% for the nine months ended December 31, 2000. Our Critical Components Division experienced an overall net revenue increase of 2%, to \$31.1 million for

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the nine months ended December 31, 2001, compared to \$30.6 million for the nine months ended December 31, 2000.

Cost of Revenues decreased to \$64.1 million, or 83.6% of net revenues, for the nine months ended December 31, 2001 versus \$93.7 million, as restated, or 79.5% of net revenues for the comparable period in 2000. This decrease is principally attributed to lower demand for our Truck Body/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 Body/Trailer Division. The ratio of our cost of revenues to revenues at our Critical Components Division remained relatively constant.

Selling, General & Administrative Expenses ("SG&A") were \$17.5 million during the nine months ended December 31, 2001, an increase of \$3.1 million from \$14.4 million incurred, as restated, during the comparable period in 2000. SG&A, as a percentage of net revenue, increased to 22.8% of net revenues, up from 12.2% for the comparable period in 2000. The dollar increases include significantly higher professional fees associated with our efforts to restructure our Credit Facility and obtain additional forbearance from the bank. The increases also resulted from our higher corporate oversight expense associated with changes in management and our restructuring efforts.

Loss on the impairment of Assets reflects a loss on an impairment of assets of \$23.7 million for the Ajax unit and \$2.2 million for the TPG unit.

Provision for income taxes does not reflect tax benefits being recorded for losses, because there is no assurance that these benefits will be realized.

Comparison of Three Months Ended December 31, 2001 to December 31, 2000

Net Revenues for the three months ended December 31, 2001 were \$18.2 million, a decrease of 43.7% from net revenues of \$32.3 million, as restated, for the comparable period in 2000. Net revenues for our Truck Body/Trailer Division decreased from approximately \$21.4 million, as restated, for the three months ended December 31, 2000 to approximately \$8.9 million for the three months ended December 31, 2001, a decrease of 58%. The decrease in net revenues was primarily attributable to the significant downturn in the truck body and trailer industries. As a result of the downturn in the Truck Body/Trailer Division, the Critical Components Division contributed 51.0% of revenues for the three months ended December 31, 2001 versus 33.8% for the three months ended December 31, 2000. Our Critical Components Division experienced an overall net revenue decrease of 14.7%, to \$9.3 million for the three months ended December 31, 2001, compared to \$10.9 million for the three months ended December 31, 2000.

Cost of Revenues decreased to \$15.2 million, or 83.6% of net revenues, for the three months ended December 31, 2001 versus \$26.0 million, as restated, or 80.3% of net revenues for the comparable period in 2000. This decrease is principally attributed to lower demand for our Truck Body/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 Body/Trailer Division. The ratio of our cost of revenues to revenues at our Critical Components Division remained relatively constant.

Selling, General & Administrative Expenses ("SG&A") were \$5.3 million during the three months ended December 31, 2001, a decrease of \$0.1 million from \$5.4 million incurred, as restated, during the comparable period in 2000. SG&A,

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as a percentage of net revenue, increased to 29.1% of net revenues, up from 16.7% for the comparable period in 2000. The percentage increase reflects the lower revenues in 2001 while we incurred professional fees associated with our efforts to restructure our Credit Facility and obtain additional forbearance from the Bank Lenders.

Interest and Other Expense decreased to \$3.1 million for the three months ended December 31, 2001 from \$4.2 million, as restated, during the comparable period in 2000. This decrease primarily reflects the provision of \$1.1 million of interest expense during the quarter ending December 31, 2000 on the outstanding balance of federal excise taxes payable of \$7.3 million as of December 31, 2000.

Provision for income taxes does not reflect tax benefits being recorded for losses, because there are no assurances that these benefits will be realized. During the quarter, as the result of filing the prior year tax returns, the Company provided taxes for the difference between prior year end estimates and actual income tax refunds received.

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 December 31, 2001 was \$6.1 million, an increase of approximately \$5.3 million from our cash and cash equivalents of approximately \$900,000 at March 31, 2001. Of the \$6.1 million, \$4.9 million was in a restricted account, which is controlled by the Bank Lenders and from which the Company does not have the ability to make disbursements. The \$4.9 million is the proceeds of our federal income tax refund received in December 2001. Subsequent to December 31, 2001, the Bank Lenders have drawn down funds from this account for forbearance fees and the December 31, 2001 and January 31, 2002 required \$750,000 payments to the Bank Lenders.

Approximately \$7.3 million of cash was provided by operating activities during the nine months ended December 31, 2001 compared with \$1.5 million, as restated, during the comparable period in 2000. The cash provided by operating activities for the nine months ended December 31, 2001 primarily reflects deferral of payments to our lenders and suppliers, reduction of inventories since March 31, 2001 through improved asset management and the loss on impairment of assets recorded in the quarter ended September 30, 2001.

Net cash used in investing activities was approximately \$1.2 million during the nine months ended December 31, 2001 as compared with \$29.4 million, as restated, used during the comparable period in 2000. The cash used by investing activities during the nine months ending December 31, 2001 was primarily for the acquisition of property and equipment, while the cash used in investing activities during the nine months ending December 31, 2000 primarily reflected the acquisitions of Airborne, Arell and TPG.

The \$0.9 million of cash used by financing activities for the nine months ending December 31, 2001 was for the preferred stock dividend, while the cash provided by financing activities during the nine months ending December 31, 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 nine months ending December 31, 2000, the Credit Facility was also used to finance capital expenditures and to provide additional working capital.

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As of February 13, 2002 our existing cash, together with cash generated from our operations will not be sufficient to fund our current obligations in respect to 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 December 31, 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.

15

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 Bank 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, the June 2001 principal payment of \$1.6 million, the September 2001 principal payment of \$1.6 million and the December 2001 principal payment of \$1.6 million as well as the related concurrent interest payments of \$1.5 million, \$2.6 million, \$2.5 million and \$2.5 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, \$4.2 million, \$4.1 million and \$4.1 million under the Credit Facility on March 31, 2001, July 2, 2001, September 30, 2001, and December 28, 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 March 31, 2002.

From May 21, 2001 to July 17, 2001, and from August 23, 2001 to October 19, 2001 we and the Bank Lenders under the Credit Facility had been operating

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under the terms of forbearance agreements pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the term of the latter forbearance agreement, we engaged the services of a crisis manager and an investment-banking firm to identify potential buyers for the Company's subsidiaries. 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 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. If the banks had taken the foregoing action, our ability to operate our business would have been severely impaired and, in all likelihood, we would have been required to seek protection from our creditors to continue operations, which could have involved 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 was subject to our acknowledgement that the defaults set forth in the acceleration notice continued 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 Bank Lenders under the Credit Facility may send an acceleration notice at any time and that the Bank Lenders have reserved all rights and remedies under the Credit Facility.

On October 25, 2001 we and the Bank Lenders under the Credit Facility entered into a new forbearance agreement which was to expire on January 31, 2002, pursuant to which the banks agreed to refrain from exercising their rights until such date. During the forbearance period, periodic reports were to be made to the Bank Group by the crisis manager, investment bankers and the Company on the status of potential asset dispositions. We are no longer operating under the terms of a forbearance agreement.

On October 31, 2001 the Company's crisis manager ended its engagement to provide consulting services to the Company. As a result of the crisis manager's subsequent failure to provide financial reports to the Bank Lenders, the Bank Lenders notified the Company that it was in default of certain financial reporting required pursuant to the forbearance agreement, that it had failed to retain a crisis manager acceptable to the Bank Lenders, and that the Bank Lenders reserve all rights and remedies under the forbearance agreement and the Credit Facility. The Company and the Bank Lenders have come to a mutually acceptable alternative to the replacement of the crisis manager, on an interim basis.

Since the end of January 2002, we have been operating without a forbearance agreement from the Bank Lenders, and continue to be in default under the Credit Facility. The Bank Lenders have advised us that they seek to resolve our defaults under the Credit Facility by our making a consensual, voluntary filing under Chapter 11 of the United States Bankruptcy Code (for the "Standard Automotive Corporation" parent holding company, but not for our operating subsidiaries). The Bank Lenders maintain the ability to exercise their rights

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and remedies under the Credit Facility at any time. In connection with the exercise of such rights and remedies, the Bank Lenders have taken possession of one of our bank accounts containing approximately \$3.5 million in cash.

On February 11, 2002, we announced that our Board of Directors had appointed director John E. Elliott II as Chairman of the Board and Chief Restructuring Officer. We also announced that James F. O'Crowley, III was no longer our Chief Executive Officer and President. In addition, the following directors have resigned from our Board: Karl M. Massaro, Steven J. Merker, William C. Needham, Jr. and Joseph Spinella.

Our new management has been in discussions with the Bank Lenders regarding our defaults under the Credit Facility. There can be no assurance that the outcome of these discussions will be favorable to the Corporation or its stockholders. There can be no assurance that we will not make a Chapter 11 filing as a result of these discussions.

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

Capital expenditures were approximately \$1.2 million for the nine months ended December 31, 2001 compared to approximately \$3.0 million, as restated, for the comparable period last year. Capital expenditures incurred during the nine months ended December 31, 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 December 31, 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 Bank Lenders under our Credit Facility to resume payment of preferred dividends. Beginning on September 28, 2001, as a result of the failure to pay the quarterly dividend for four consecutive quarters, the holders of our preferred stock have been entitled to elect two directors to our Board of Directors.

16

As of December 31, 2001, we had working capital of approximately \$0.3 million prior to the reclassification of \$95.6 million of long-term debt to current liabilities. There can be no assurance 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. If, prior to the issuance of our March 31, 2002 annual report, there is not a successful outcome to our discussions with the Bank Lenders under our Credit Facility or with the Internal Revenue Service with respect to our outstanding excise tax liabilities, our independent accountants have advised us that 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

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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. With the authorization of the Bank Lenders, a payment of \$626,000 was made to the former owners of Airborne and Arell during the quarter ended December 31, 2001. Any such future payments would also require the authorization of the Bank 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 December 31, 2001, we had approximately \$91.0 million of prime rate 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.

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 December 31, 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 nine months ended December 31, 2001 we incurred net losses of approximately \$42.7 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,

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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 nine months ended December 31, 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.

17

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 Bank 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, \$4.2 million, \$4.1 million and \$4.1 million under the Credit Facility on March 31, 2001, July 2, 2001, September 30, 2001 and December 28, 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 March 31, 2002.

From May 21, 2001 to July 17, 2001, and from August 23, 2001 to October 19, 2001, we and the Bank Lenders under the Credit Facility had been operating under the terms of forbearance agreements pursuant to which the banks had agreed to refrain from exercising their remedies under the Credit Facility until such date. During the term of the latter forbearance period, and since then, we engaged the services of a crisis manager and an investment-banking firm to identify potential buyers for the Company's subsidiaries. As disclosed in our Form 8-K filed with the Securities and Exchange Commission on August 1, 2001, we received an acceleration notice from 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 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. If the banks had taken the foregoing action, our ability to operate our business would have been severely impaired and, in all likelihood, we would have been required to seek protection from our creditors to continue operations, which could have involved 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 was subject to our acknowledgement that the defaults set forth in the acceleration notice continued 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

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31, 2001 and July 2, 2001, respectively. We have agreed that the Bank Lenders under the Credit Facility may send an acceleration notice at any time and that the Bank Lenders have reserved all rights and remedies under the Credit Facility.

On October 25, 2001 we and the Bank Lenders under the Credit Facility entered into a new forbearance agreement which was to expire on January 31, 2002, pursuant to which the banks agreed to refrain from exercising their rights until such date. During the forbearance period periodic reports were to be made to the Bank Group by the crisis manager, investment bankers and the company on the status of potential asset disposition. We are no longer operating under a forbearance agreement and there can be no assurance that we can obtain further forbearance or waivers on favorable terms, if at all.

On October 31, 2001 the Company's crisis manager ended its engagement to provide consulting services to the Company. As a result of the crisis manager's subsequent failure to provide financial reports to the Bank Lenders, the Bank Lenders notified the Company that it was in default of certain financial reporting required pursuant to the forbearance agreement, that it had failed to retain a crisis manager acceptable to the Bank Lenders, and that the Bank Lenders reserve all rights and remedies under the forbearance agreement and the Credit Facility. The Company and the Bank Lenders have come to a mutually acceptable alternative to the replacement of the crisis manager, on an interim basis.

Since the end of January 2002, we have been operating without a forbearance agreement from the Bank Lenders, and continue to be in default under the Credit Facility. The Bank Lenders have advised us that they seek to resolve our defaults under the Credit Facility by our making a consensual, voluntary filing under Chapter 11 of the United States Bankruptcy Code (for the "Standard Automotive Corporation" parent holding company, but not for our operating subsidiaries). The Bank Lenders maintain the ability to exercise their rights and remedies under the Credit Facility at any time. In connection with the exercise of such rights and remedies, the Bank Lenders have taken possession of one of our bank accounts containing approximately \$3.5 million in cash.

On February 11, 2002, we announced that our Board of Directors had appointed director John E. Elliott II as Chairman of the Board and Chief Restructuring Officer. We also announced that James F. O'Crowley, III was no longer our Chief Executive Officer and President. In addition, the following directors have resigned from our Board: Karl M. Massaro, Steven J. Merker, William C. Needham, Jr. and Joseph Spinella.

Our new management has been in discussions with the Bank Lenders regarding our defaults under the Credit Facility. There can be no assurance that the outcome of these discussions will be favorable to the Corporation or its stockholders. There can be no assurance that we will not make a Chapter 11 filing as a result of these discussions.

We need to sell or dispose of assets in order to meet our existing debt obligations and to fund our operations. We may not be able to sell such assets at appropriate values. We could experience a change of control as a result of such events. In addition, holders of our common stock and preferred stock may have their equity interest 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 have engaged an investment banking firm to identify potential buyers for our subsidiaries. We can give no assurance that our efforts to sell our subsidiaries will be successful or that the sale of assets will be at appropriate values. In the event we restructure our existing indebtedness as the result of asset sales, such events could cause a change in control of the

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Company.

If we are unable to accomplish an out-of-court restructuring through the sale of assets 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.

18

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 Bank Lenders under our Credit Facility. The Bank 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 December 31, 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, sell assets, 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.

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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 a new President and Chief Executive Officer. In August 2001, we hired a new Chief Financial Officer. In February 2002, we announced that our board had appointed director John E. Elliott II as Chairman of the Board and Chief Restructuring Officer. We also announced that James F. O'Crowley, III was no longer Chief Executive Officer and President. Neither our new Chief Restructuring Officer or our new Chief Financial Officer have worked together with our remaining management team before and they, and additional managers 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.

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.

If we sell assets, such sales may depress the trading prices of our common and preferred stock.

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 objects 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 stockholders 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 stockholders' investments would likely decline substantially.

In addition, the declines in our stock price may have harmed and, 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

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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 stockholders' investment.

19

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 \$1.9 million of interest was accrued as of December 31, 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 each of July 16, 2001, August 15, 2001, and September 15, 2001, and \$40,000 on each of October 15, 2001, November 15, 2001, and December 31, 2001. This arrearage has also resulted in an additional event of default under our Credit Facility. Our financial statements include approximately \$205,000 of interest expense for the quarter ended December 31, 2001 related to federal excise tax currently in arrears. On January 25, 2002 we were informed that the IRS filed a federal tax lien on the assets of Ajax for the amount of the unpaid excise tax and interest. 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:

- o our ability to restructure our payment obligations under the Credit Facility;
- o general economic conditions;
- o the conditions of the trucking, commercial aerospace, defense, nuclear and industrial industries in general;
- o the collectability of accounts receivables from customers;
- o further price depression in the industries in which we participate;
- o our ability to introduce new products and services;
- o timing of sales;
- o sales of assets;
- o changes in estimates of the cost of completion of long-term contracts;
- o the timing and costs of any acquisitions of services or technologies;

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- o changes in vendor trade terms (payment terms); and
- o 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 unit on a percentage-of-completion basis. For the nine months ended December 31, 2001, Ranor accounted for approximately 17% 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.

20

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. Beginning on September 28, 2001, as a result of the failure to pay the quarterly dividend for four consecutive quarters, the holders of our preferred stock have been entitled to elect two directors to our Board of Directors. Such right shall terminate as of the next annual meeting of stockholders following payment of all accrued dividends. 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 Bank 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,

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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 December 31, 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 35% of the Critical Components Division's net revenues for the quarter ended December 31, 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 nine months ended December 31, 2001, three customers were responsible for 36% of the sales of Truck Body/Trailer Division and three customers were responsible for 52% of the sales of our Critical Components Division. Our preferred supplier arrangement with one of our major customers expired 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

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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.

21

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 cyclicity. 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.

Terrorist attacks and threats or actual war may negatively impact all aspects of our operations, revenues, cost and stock price.

Recent terrorist attacks in the United States, as well as future events occurring in response or connection to them, including, without limitation, future terrorist attacks against United States targets, rumors or threats of war, actual conflicts involving the United States or its allies or military or trade disruptions impacting our domestic or foreign suppliers, may impact our operations, including, among other things, causing delays or losses in the delivery of merchandise to us and decreased sale of our products. More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and worldwide financial markets and economy. They also could result in economic recession in the U.S. or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and cost and may result in volatility of the market price for our common stock and preferred stock and on the future price of our common stock and preferred stock.

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

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As of February 1, 2002, our three largest stockholders, including one director and one former director who are brothers, collectively beneficially owned approximately 47.6% 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 stockholders.

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 stockholders 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 stockholders.

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, R&S filed a motion with the court seeking judgment in its 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 its motion for a new trial, R&S 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 the R&S motions. We believe that the R&S position is meritorious and R&S intends to vigorously defend its interests in this matter. The Company recorded 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 million, \$4.2 million, \$4.1 million and \$4.1 million under the Credit Facility on March 31, 2001, July 2, 2001, September 28, 2001, and December 31, 2001, respectively, which constituted additional events of default thereunder. As of December 31, 2001, we were also in default in interest payments totaling approximately \$375,000 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 March 31, 2002.

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 or sell assets, although we can give no assurance that our efforts to obtain additional financing, sell assets 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 five quarters ended December 31, 2000, March 31, 2001, June 30, 2001, September 30, 2001, and December 31, 2001. The cumulated arrearage at March 31, 2001 was \$578,000 and as of December 31, 2001 was \$1,348,000. Since Standard has been in arrearage on dividend payments for four or more quarters, the holders of our Preferred Stock are entitled to elect 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 Bank 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.

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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

10.47 Employment Agreement dated July 30, 2001 between Standard and Matthew B. Burris

- (b) Reports on Form 8-K

We filed the following Reports on Form 8-K during the quarter ended December 31, 2001:

Date ----	Item: -----
October 9, 2001	Item 5- Announcing an extension of the forbearance agreement between Standard and its Bank Lenders under the Term Loan and Revolving Credit facility, expiring on October 29, 2001

23

October 27, 2001	Item 5-Announcing a forbearance agreement expiring on January 31, 2002 between Standard and its Bank Lenders under the Term Loan and Revolving Credit Facility.
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24

SIGNATURES

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

STANDARD AUTOMOTIVE CORPORATION

/s/ Matthew B. Burris

Date: February 19, 2002

Matthew B. Burris
Chief Financial Officer, Vice President, Treasurer and Secretary (Duly Authorized Officer and Principal Financial and Accounting Officer)

25