STANDARD AUTOMOTIVE CORP
Form 10-K/A
July 27, 2001

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

FORM 10-K/A

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

For the fiscal year ended March 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	52-2018607
(State of Incorporation)	(I.R.S. Employer Identification No.)

321 Valley Road, Hillsborough, NJ	08844-4056
(Address of principal executive offices)	(Zip Code)

(908) 874-7778
(Registrant's telephone number)

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

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each Exchange on which registered
Common Stock	American Stock Exchange
8 1/2% Senior Convertible Redeemable Preferred Stock	American Stock Exchange

Securities registered under Section 12(g) of the Exchange Act: None.

The undersigned registrant hereby amends the following items, financial

statements, exhibits or other portions of its Annual Report on Form 10-K for the year ended March 31, 2001 filed on July 16, 2001 as set forth in the pages attached hereto.

Part II:	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.
	Item 8.	Financial Statements and Supplementary Data.

The information herein contains forward-looking statements relating to Standard Automotive Corporation ("we," "Standard" or "the Company") 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 herein 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. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements.

PART I

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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'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 "Item 7B - Risk Factors That May Affect Future Results."

Overview

General

Standard Automotive manufactures and sells trailer chassis, dump truck bodies, specialty trailers and related assemblies for use in the North American transportation industry, as well as precision-machined components for use in the aerospace, nuclear, defense and industrial markets in North America. Our business is currently operated through two divisions, the Truck Body/Trailer Division and the Critical Components Division. The markets we serve, particularly the U.S. truck trailer industry, are cyclical. During the 2000 calendar year, the U.S. truck trailer industry experienced a significant decrease in the number of truck trailer units shipped overall.

We commenced operations in 1998 with the acquisition of the trailer chassis business of our Ajax Manufacturing Co., Inc. subsidiary and since then have expanded our operations primarily through acquisitions. Our acquisitions

have been accounted for using the purchase method of accounting and as a result we have recorded significant intangible assets relating to goodwill totaling $30 million, $16 million and $21 million, respectively, for the fiscal years ending March 31, 1999, 2000 and 2001. Accordingly our financial results reflect increasing amortization of intangible assets over the periods disclosed. Our results reflect the operations of acquired businesses from the respective dates of their acquisition and therefore may not be directly comparable to our results for prior periods.

Our acquisitions have been financed principally through the incurrence of senior indebtedness and, to a lesser degree, through the issuance of subordinated indebtedness and preferred stock. As of March 31, 2001, we had an aggregate of approximately $96 million of debt, $91 million of which had been incurred under our senior secured credit facility. Accordingly, our results throughout the periods presented reflect increasing expenses associated with interest and principal payments on acquisition-related indebtedness.

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 senior secured credit facility that we were not in compliance with certain financial covenants under the credit facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 and $4.2 million under the credit facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. As of June 30, 2001, we were also in default in interest payments totaling approximately $548,000 in respect of convertible subordinated notes issued to finance the acquisition of our Ranor subsidiary. We expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million under the senior secured credit facility on the next payment date of September 30, 2001.

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

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

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 the company will achieve or sustain profitability in the future.

Acquisitions

In April 2000, we acquired all of the outstanding capital stock of Airborne and Arell. The consideration paid for Airborne during the quarter ended June 30, 2000 was approximately $12.6 million, including acquisition-related expenses of $300,000, of which approximately $12.3 was paid in cash to the sellers at closing. The consideration paid for Arell during the quarter ended June 30, 2000 was approximately $8.8 million including acquisition-related expenses of $200,000, of which approximately $8.6 million was paid in cash to the sellers at closing. To the extent that Airborne and Arell generate a cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") of at least Cdn. $9 million in any of the three years following the date of acquisition, the former owners are entitled to receive earnout payments in respect of that year. In the event that all EBITDA targets are achieved in the three years following the closing, these payments would total an additional Cdn. $8 million.

As of March 31, 2001, Airborne and Arell have achieved the cumulative earnings targets and as a result the purchase price has been adjusted. Additionally, to the extent that Airborne and Arell generate cumulative EBITDA of at least Cdn. $31,500,000, in any of the three years following the date of acquisition, the former owners are entitled to secure 20% of the EBITDA in excess of Cdn. $31,500,000. We recorded goodwill in connection with the Airborne and Arell transactions of approximately $8.0 million and $6.5 million, respectively.

On July 1, 2000, we entered into a 12 month operating lease agreement with Wheeler Steel Works, Inc. and Wheeler Truck Equipment, Inc. (collectively "Wheeler") to utilize their production facility. The lease called for 12 monthly installments of $15,000 with a purchase option available at its expiration. The lease was terminable at our sole discretion upon 30 days notice. Upon termination, we were required to provide Wheeler net assets with a book value of $144,000. Included in this lease is the obligation for us to fund the monthly payments of all the outstanding debt of Wheeler. Should we decide to exercise the purchase option, all loan payments made on behalf of Wheeler were to be considered as a reduction of the purchase price. As of March 31, 2001, we determined not to exercise the option to purchase the facility. In connection with this decision, we recorded a one time charge of $456,000. Finally, we incurred an additional $693,000 of losses relating to this transaction.

On August 1, 2000, we acquired substantially all of the assets of Better Built, a manufacturer of trailers and hoists for the waste transportation industry. The consideration paid for the assets was approximately $660,000, of which approximately $110,000 was recorded as goodwill.

On August 31, 2000, we acquired all of the capital stock of TPG. The consideration paid for TPG was approximately $3,322,000 consisting of a $3,000,000 payment to the seller, subject to final adjustment, as well as acquisition-related expenses of approximately $322,000. As part of the agreement the seller agreed to deliver $1 million of net book value at the closing. We decided that such amount was not delivered. The seller settled the matter by waiving its future rights. The acquisition has been accounted for as a purchase. During March 2001, we recorded a charge of $966,000 related to the writedown of certain amounts due from the seller.

Change in Accounting Policy

Prior to January 1, 2001, we recognized revenue on sales of truck chassis manufactured by an operating entity in our Truck Body/Trailer Division using the "bill and hold" method of accounting. We employed this method because, based on

the customer's request, we manufactured and segregated truck chassis for delivery based on the customers predetermined needs. We believe these arrangements met all of the requirements of Staff Accounting Bulletin, Revenue Recognition Financial Statements ("SAB 101") regarding "bill and hold" sales. In the fourth quarter of fiscal 2001, we changed our accounting policy for revenue recognition with respect to these sales to record revenue after receipt of the chassis by the customer. The administrative effort to maintain the former policy was too burdensome and not cost effective for us as well as our customers and accordingly we will recognize revenue on these types of sales when the customer takes physical possession of the chassis. The effect of the change in fiscal 2001 was to decrease revenue "bill and hold" sales recognized in fiscal 2001 prior to the change and to increase revenues as a cumulative adjustment for "bill and hold" sales recognized in fiscal 2000. These changes increased fiscal 2001 revenues by $8,511,000, net income by $562,000, and earnings per share by $0.15. The net effect of the change related to fiscal 2001 beginning retained earnings of $(711,000) and $(0.19) earnings per share has been reflected as a cumulative change in the accompanying consolidated statements of operations.

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. Statement 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. These statements are effective for us beginning April 1, 2002 and have certain transition rules that require us to obtain independent appraisals of certain of its operating units, which must be completed within six months from adoption.

During December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Bulletin No. 101 expresses the views of the SEC staff in applying generally accepted accounting principles to certain revenue recognition issues.

Revenue Recognition

Revenue under long-term contracts in the Critical Components Division is recognized using the percentage-of-completion method of accounting. Costs include value-added raw materials, direct engineering and manufacturing costs, applicable overheads, and special tooling and test equipment. Revenues and earnings on uncompleted contracts are based on our estimates to complete and are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Management evaluates each contract to determine the best indication of completion. Such indicators could be cost incurred, labor incurred or units shipped. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Progress billings are made according to the terms of the contract.

Results of Operations

The following table sets forth, for the indicated periods, certain consolidated operating data expressed in dollar amounts and as a percentage of consolidated net revenues. The fiscal years ended March 31, 2001, March 31, 2000 and March 31, 1999 reflect the consolidated results of Standard including Ajax, R/S, CPS, Ranor, Airborne, Arell and TPG from their respective dates of acquisition.

	Year Ended March 31,				
	2001		2000		
Revenues, net	$ 137,351	100.0%	$ 159,476	100.0%	$ 75,4
Cost of revenues	111,434	81.1	129,090	80.9	59,9
Selling, general and administrative	21,816	15.9	14,273	8.8	6,6
Amortization of intangible assets .	2,861	2.1	1,466	0.9	1,0
Operating income	1,240	0.9	14,647	9.2	7,8
Other income (expense)	(12,291)	8.9	(5,295)	(3.3)	(2,0
Income (loss) before provision for taxes	(11,051)	(8.0)	9,352	5.9	5,7
Provision (benefit) for income taxes	(1,547)	(1.1)	3,955	2.5	2,2
Net income (loss) before accounting change	(9,504)	(6.9)	5,397	3.4	3,4
Accounting change	(711)	(0.5)	--	--	
Net income	$(10,215)	(7.4)%	$ 5,397	3.4%	$ 3,4

Comparison of Year Ended March 31, 2001 to Year Ended March 31, 2000

Net Revenues. Net revenues in fiscal 2001 were approximately $137.4 million, a decrease of 13.9% from fiscal 2000 revenues of approximately $159.5 million. Net revenues for our Truck Body/Trailer Division decreased from approximately $139.8 million to approximately $94.4 million, a decrease of 32.5%. The decrease in net revenues was primarily attributable to the significant downturn in the truck body and trailer industries, which was in turn attributable to higher interest rates and increased fuel prices as well as reduced purchasing activities by our customers. Additionally, sales in the Truck Body/Trailer Division increased $8.5 million because of our change in accounting policy relating to "bill and hold" transactions. 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. As a result of acquisitions, the Critical Components Division contributed 31.2% of revenues in fiscal 2001 versus 13% in fiscal 2000. While our Critical Components Division experienced overall growth of 115%, net revenues at our Ranor subsidiary decreased from approximately $20.0 million to $18.8 million, a decrease of 6%, primarily due to reduced demand for nuclear canisters.

Cost of Revenues. Cost of revenues for fiscal 2001 decreased to approximately $111.4 million, or 81.1% of net revenues, from $129.1 million, or 81% of net revenues, in fiscal 2000, principally because of lower demand for our Truck/Trailer Division products. The consolidated cost of revenue ratio remained

relatively constant, with increased Critical Components Division product sales, principally at our Canadian subsidiaries, which generally carry lower costs,

relative to selling prices, offsetting the higher cost products at our Truck/Trailer Division, where volume declined year to year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were approximately $21.8 million during fiscal 2001, an increase of 54% from the $14.2 million incurred during fiscal 2000. Selling general and administrative expense as a percentage of net revenue increased to 15.9%, up from 8.8% for the comparable period in 2000. The increase resulted from our expansion into product lines with higher selling and administrative expenses and also higher corporate oversight expense. Additionally, we experienced a time lag between the decreases in revenues attributable to cost-reduction programs in our Truck Body/Trailer Division and the anticipated favorable effects from those programs. Selling, general and administrative expense also increased by a $966,000 change relating to the write-down of an asset acquired in The Providence Group acquisition. Finally, during the year we incurred approximately $1.0 million relating to banking and business development activities.

Interest Expense. Interest expense increased to $11.9 million in fiscal 2001 from $5.0 million during fiscal 2000. This increase reflects a combination of higher debt incurred to finance the acquisitions of Airborne and Arell, the effect of increased interest rates and the inclusion of approximately $1.3 million of interest expense relating to federal excise taxes.

Comparison of Year Ended March 31, 2000 to Year Ended March 31, 1999

Net Revenues. Net revenues in fiscal 2000 were $159,476,000, an increase of 111% from Fiscal 1999 revenues of $75,452,000. The increase reflects sales from our chassis manufacturing facility in Sonora, Mexico, which commenced operations in April 1999, nine months of ownership of Ranor and a general improvement in the trailer industry. The Mexican facility represented 27% of total Fiscal 2000 revenue while R/S, CPS and Ranor contributed 20%, 14% and 13%, respectively.

Cost of Revenues. Cost of revenues for fiscal 2000 increased to approximately $129.1 million, or 81% of net revenues, from approximately $60.0 million, or 79% of net revenues, in fiscal 1999. Cost of revenues as a percentage of net revenues increased slightly during fiscal 2000, as a more favorable cost mix associated with the products of R/S, CPS and Ranor was offset by the start-up expenses resulting in lower margins at our Mexican facility.

Selling General and Administrative Expenses. Selling, general and administrative expenses were approximately $14.3 million during fiscal 2000, an increase of 116% from the $6.6 million incurred during fiscal 1999. Selling, general and administrative expenses were 9% of sales for each of the periods. During fiscal 2000, we experienced higher corporate oversight expenses which were offset by generally more favorable sales-to-expense ratios at our manufacturing locations.

Interest Expense. Interest Expense increased to $5.0 million in fiscal 2000 from $1.8 million during fiscal 1999, reflecting debt incurred in pursuing our acquisition and internal growth strategies.

Liquidity and Capital Resources

We have historically funded our operations and capital expenditures through cash flow generated by operations, from borrowings under our senior 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 March 31, 2001 was $857,000 a decrease of approximately $2.3 million from our cash and cash equivalents at March 31, 2000 of approximately $3.1 million. This decrease was due to cash provided by operating and financing activities of approximately $3.7 million and $24.9, respectively, offset by cash used in investing activities of approximately $30.8 million.

We generated approximately $3.7 million of cash in operating activities during fiscal 2001 compared to $3.8 million during fiscal 2000. The cash generated in operating activities during fiscal 2001 primarily reflects the net loss of approximately $10.2 million, offset by approximately $13.9 million of depreciation and amortization, collection of receivables and other operating activities.

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Net cash used in investing activities was $30.8 million during fiscal 2001 as compared with $31.1 million during the prior year. The cash used in investing activities during fiscal 2001 was primarily for the acquisitions of Airborne, Arell and TPG, while the prior year principally reflected the acquisition of Ranor. The cash generated by financing activities during 2001 principally reflects the financing for the acquisitions of Airborne and Arell. The cash generated by financing activities for the twelve months ended March 31, 2000 was primarily from the increase in our credit facility used to finance the acquisition of Ranor. In April 2000, we acquired Airborne and Arell. The funding to complete the acquisitions was obtained through an increase in our credit facility. In addition to financing the acquisitions of Arell and Airborne, the credit facility was used to finance capital expenditures, and to provide additional working capital.

Our cash position as of June 29, 2001 was approximately $1.1 million. Excluding payment obligations in respect of indebtedness, preferred stock, Internal Revenue Service payments and potential penalties, and earn-out payments relating to acquired businesses, as discussed below, we believe that cash on hand, together with cash provided from operations, would be sufficient to fund our operations through March 31, 2002. Our existing cash, together with cash generated from our operations will not be sufficient to fund our current obligations in respect of our senior indebtedness, subordinated indebtedness, preferred stock dividends and payment obligations under earn-out arrangements relating to acquired businesses. We are currently in default under our credit facility and are unable to borrow thereunder to fund our operations and other obligations.

At March 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. At March 31, 2001, we also had other debt of $79,000. Due to continuing conditions of default described below, the entire $95.6 million of outstanding debt has been reclassified, for reporting purposes, from long-term debt to current liabilities.

Our senior secured credit facility, as amended on April 25, 2000, provides for term loans in principal amounts of up to $75.0 million and revolving loans in principal amounts of up to $25.0 million. The principal of the term loans is payable quarterly commencing in June 2000 in specified amounts ranging from approximately $1.3 million quarterly commencing in June 2000 and increasing annually thereafter to approximately $1.6 million in June 2001, $1.9 million in

June 2002, $2.3 million in June 2003, $2.6 million in June 2004, and $3.2 million in June 2005. Amounts outstanding under the revolving loans are payable in full in April, 2005. All remaining principal then outstanding is due in April 2007. In addition, the amounts outstanding under the credit facility are subject to mandatory prepayments in certain circumstances. Subject to our request, together with the approval of the lenders, the maturity of the revolving loans may be extended for one year with a maximum extension of two one-year periods. We made scheduled principal payments of approximately $4.0 million during the nine months ended December 31, 2001. However, we did not make the March 2001 principal payment of $1.3 million or the June 2001 principal payment of $1.6 million.

All amounts outstanding under the credit facility are secured by a lien on substantially all of our assets. In addition, the credit facility imposes significant operating and financial restrictions on us, including certain limitations on our ability to incur additional debt, make payments on subordinated indebtedness, pay 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.

We are currently in default of certain financial covenants under our credit facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the credit facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. We are currently operating under the terms of a forbearance agreement pursuant to which the lenders under our credit facility have agreed to forbear enforcing their rights under the credit facility for a period ending on July 17, 2001. Under the terms of the forbearance agreement, we have agreed with our lenders, among other things, that, in exchange for their forbearance, we will not request any additional loans under the credit facility, pay any dividends on our preferred stock, pay any principal or interest on our subordinated debt or make any payments in respect of earn-out obligations relating to acquisitions. As a result of our defaults under the credit facility,

interest on the entire unpaid principal and interest of $92.5 million, as of March 31, 2001, is accruing interest at default rates having a weighted average of 10.75% per annum.

While we believe that we are currently in compliance with the terms of the forbearance agreement, failure to observe or perform one or more covenants under our credit facility not covered by the forbearance agreement, or failure to observe or perform the covenants of the forbearance agreement itself, at any given time will require us to obtain a waiver or consent from the lenders, or refinance our credit facility. In addition, the forbearance agreement only prohibits the lenders from exercising their rights in respect of specified defaults for a period ending on July 17, 2001. If we are unable after the term of the forbearance agreement to comply with the covenants of the credit facility, including bringing our payment obligations thereunder current, our failure to so comply could constitute an event of default under the credit facility and we would be required to obtain a waiver or consent from the

lenders, or refinance the credit facility. Such a waiver, consent or refinancing may not be available to us on reasonable terms. Upon the occurrence of an event of default under our credit facility, the lenders could elect to declare all amounts outstanding under our credit facility, together with our accrued interest and certain expenses, to be immediately due and payable and could begin to foreclose on our assets. Our failure to comply with any of these covenants or restrictions could also limit our ability to obtain future financings.

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

Capital expenditures were $3.8 million in fiscal 2001 compared to approximately $4.0 million in fiscal 2000. Capital expenditures incurred during fiscal 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 March 31, 2001 is $1,155,000. We suspended payment of the quarterly dividend of $289,000 during the quarter ended December 31, 2000. Unpaid dividends on the preferred stock are cumulative. Our future earnings, if any, may not be adequate to pay the cumulative dividend or future dividends on the preferred stock. Although we intend to pay the cumulative dividend and to resume payment of regular quarterly dividends out of available surplus, there can be no assurance that we will maintain sufficient surplus or that future earnings, if any, will be adequate to pay the cumulative dividend or future dividends on our preferred stock. Further, we will need the approval of the lenders under our credit facility to resume payment of preferred dividends.

As of March 31, 2001, we had working capital of approximately $6.5 million prior to the reclassification of $86.5 million of long-term debt to current liabilities. Excluding payment obligations in respect of indebtedness, preferred stock, Internal Revenue Service payments and potential penalties, and earn-out payments relating to acquired businesses, management believes that our current working capital position, along with anticipated results of operations, will be sufficient to allow us to fund our working capital requirements for at least the next twelve months. This assessment is dependent upon the successful outcome of the negotiations with the lenders under our credit facility and with the Internal Revenue Service with respect to our outstanding excise tax liabilities.

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

Item 8. Financial Statements and Supplementary Data

Financial statements required by this Item 8 are set forth starting on page F-1.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 27, 2001.

STANDARD AUTOMOTIVE CORPORATION

By: /s/ Joseph Spinella

Joseph Spinella
Chief Financial Officer and Secretary

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Stockholders of
Standard Automotive Corporation:

We have audited the accompanying consolidated balance sheets of Standard Automotive Corporation (a Delaware Corporation) as of March 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Standard Automotive Corporation as of March 31, 2001 and 2000, and the results of their operations and their

cash flows for each of the three years ended March 31, 2001 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered net losses and is in default of certain financial covenants under its credit facility. In addition, the Company has failed to make scheduled interest and principal payments on the credit facility and is currently in arrears on the payment of certain federal excise taxes and preferred dividends. These issues raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regards to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As explained in Note 3 to the financial statements, effective January 1, 2001, the Company changed its method of accounting for certain sales transactions.

New York, New York
July 12, 2001

Arthur Andersen LLP

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STANDARD AUTOMOTIVE CORPORATION

Consolidated Balance Sheets
(in thousands)

	March 31,	
	2001	2000
Assets		
Cash and cash equivalents	$ 857	$ 3,136
Marketable securities	102	102
Accounts receivable, net of allowance for doubtful accounts of $424 and $136 respectively	10,620	25,217
Other receivables	279	--
Inventory, net	32,052	20,602
Prepaid expenses	1,502	1,269
Federal tax receivable	7,041	--
Deferred taxes	827	768
Total current assets	53,280	51,094
Property and equipment, net	44,891	38,724
Intangible assets, net of accumulated amortization of $5,408 and $2,522, respectively	60,538	44,151
Deferred financing costs	4,175	2,234
Other assets	121	1,062

Total assets	$ 163,005	$ 137,265
Liabilities and Stockholders' Equity		
Accounts payable	$ 12,721	$ 19,037
Accrued expenses	7,726	2,451
Liabilities due to banks	95,641	4,000
Income taxes payable	800	219
Federal excise taxes payable	6,747	8,292
Cumulated preferred stock dividend	578	--
Other current liabilities	7,944	2,087
Total current liabilities	132,157	36,086
Long term debt	--	64,157
Other long term liabilities	99	104
Deferred taxes	4,298	--
Total long term liabilities	4,397	64,261
Total liabilities	136,554	100,347
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, 3,822,400and 3,602,400 issued and outstanding, respectively	4	4
Additional paid-in capital	31,308	30,208
Deferred compensation	(90)	--
Retained earnings (deficit)	(4,665)	6,705
Accumulated other comprehensive income (loss)	(107)	--
Total stockholder's equity	26,451	36,918
Total liabilities & stockholder's equity	$ 163,005	$ 137,265

The accompanying notes are an integral part of these consolidated balance sheets.

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STANDARD AUTOMOTIVE CORPORATION

Consolidated Statements of Operations
(in thousands, except net income per share data)

	For the Years Ended March		
	2001	2000	
Revenues, net	$ 137,351	$ 159,476	$

Operating costs and expenses:		
Cost of revenues	111,434	129,090
Selling, general and administrative expenses	21,816	14,273
Amortization of intangible assets	2,861	1,466
Total operating costs and expenses	136,111	144,829
Operating income	1,240	14,647
Interest expense	11,927	5,045
Other expense (income), net	364	250
Income (loss) before income taxes	(11,051)	9,352
Provision (benefit) for income taxes	(1,547)	3,955
Net income (loss) before cumulative effect of change in accounting principle	(9,504)	5,397
Cumulative effect on prior years of changing to a different method of recognizing revenue	(711)	--
Net income (loss)	(10,215)	5,397
Preferred dividend	1,155	1,160
Net income (loss) available to common stockholders	$ (11,370)	$ 4,237
Per share amounts -- Basic net income (loss) per share:		
Basic income (loss) per share attributable to common stockholders before cumulative effect of change in accounting principle	$ (2.87)	$ 1.17
Cumulative effect on prior years of changing to a different method of recognizing revenue	(0.19)	--
	$ (3.06)	$ 1.17
Diluted net income (loss) per share:		
Diluted income (loss) per share attributable to common stockholders before cumulative effect of change in accounting principle	$ (2.87)	$ 1.11
Cumulative effect on prior years of changing to a different method of recognizing revenue	(0.19)	--
	$ (3.06)	$ 1.11
Basic weighted average number of shares outstanding	3,716	3,623
Diluted weighted average number of shares outstanding	3,716	4,867
Pro forma amounts assuming the different method of recognizing revenue is applied retroactively		
Net income (loss)	$ (9,504)	$ 4,920
Basic net income (loss) per share	$ (2.87)	$ 1.04
Diluted net income (loss) per share	$ (2.87)	$ 1.01

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

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Standard Automotive Corporation

Consolidated Statements of Stockholders' Equity (in thousands)

	Preferred Shares Outstanding	Preferred Stock	Common Shares Outstanding	Common Stock	Com Sub Re
Balance - March 31, 1998	1,150	$ 1	3,095	$ 3	$
Payment of Common Stock Subscription Receivable	--	--	--	--	
Shares Issued for Acquisitions .	--	--	405	1	
Warrants and Options Issued	--	--	--	--	
Preferred Stock Dividend	--	--	--	--	
Net Income	--	--	--	--	
Balance - March 31, 1999	1,150	1	3,500	4	
Shares Issued for Acquisitions .	--	--	180	--	
Warrants and Options Issued	--	--	--	--	
Preferred Stock Dividend	--	--	--	--	
Conversion of Preferred Stock to Common Stock	(17)	--	17	--	
Purchase of Treasury Stock	--	--	(95)	--	
Net Income					
Balance - March 31, 2000	1,133	$ 1	3,602	$ 4	$
Currency Translation Adjustment					
Shares Issued for Acquisitions .	--	--	120	--	
Shares Issued to Employees			100		
Warrants and Options Issued	--	--	--	--	
Preferred Stock Dividend	--	--	--	--	
Net Income	--	--	--	--	
Balance - March 31, 2001	1,133	$ 1	3,822	$ 4	$

	Additional Paid In Capital	Deferred Compensation	Retained Earnings	Other Accumulated Comprehensive Income (Loss)
Balance - March 31, 1998	$ 24,548	$ --	$ 159	
Payment of Common Stock Subscription Receivable	--	--	--	
Shares Issued for Acquisitions .	3,559	--	--	
Warrants and Options Issued	336	--	--	
Preferred Stock Dividend	--	--	(1,173)	

Net Income	--		3,482	
Balance - March 31, 1999	28,443	--	2,468	--
Shares Issued for Acquisitions .	2,565	--	--	
Warrants and Options Issued	200	--	--	
Preferred Stock Dividend	--	--	(1,160)	
Conversion of Preferred Stock to Common Stock	--		--	
Purchase of Treasury Stock	(1,000)	--	--	
Net Income			5,397	
Balance - March 31, 2000	$ 30,208	$ --	$ 6,705	$ --
Currency Translation Adjustment				(107)
Shares Issued for Acquisitions .	780		--	--
Shares Issued to Employees	120	(90)		
Warrants and Options Issued	200		--	
Preferred Stock Dividend	--	--	(1,155)	--
Net Income	--	--	(10,215)	--
Balance - March 31, 2001	$ 31,308	$ (90)	$ (4,665)	$ (107)

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

STANDARD AUTOMOTIVE CORPORATION

Consolidated Statements of Cash Flows
(in thousands)

	For the Ye	
	2001	
Cash flows from operating activities:		
Net income (loss)	$ (9,504)	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accounting method	(711)	
Foreign currency translation adjustment	(107)	
Non-cash purchase price adjustment	(636)	
Depreciation and amortization	7,494	
Non-cash interest and compensation	1,149	
Deferred taxes	1,176	
Change in assets and liabilities:		
Accounts receivable	17,720	
Inventory	(6,646)	
Income taxes receivable	(7,042)	
Prepaid expenses and other	2,921	
Accounts payable and accrued expenses	(2,018)	

Income taxes payable	(520)
Federal excise taxes payable	(1,545)
Other liabilities	1,955
Net cash provided by operating activities	3,686
Cash flows from investing activities:	
Acquisition of businesses, net of cash acquired	(27,034)
Deferred acquisition costs	--
Purchase of marketable securities	
Acquisition of property and equipment	(3,781)
Net cash used in investing activities	(30,815)
Cash flows from financing activities:	
Proceeds from bank loan	32,255
Repayment bank loan	(4,008)
Deferred financing costs	(2,820)
Preferred dividend payment	(577)
Purchase of treasury stock	--
Repayment of acquisition note	--
Other	--
Net cash provided by financing activities	24,850
Net increase (decrease) in cash and cash equivalents	(2,279)
Cash and cash equivalents, beginning of period	3,136
Cash and cash equivalents, end of period	$ 857
Supplemental disclosures of cash flow information:	
Cash paid during the period for:	
Interest	$ 8,510
Income taxes	3,071

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

STANDARD AUTOMOTIVE CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Organization

Standard Automotive Corporation ("we," the "Company" or "SAC") was incorporated in Delaware in January 1997. The Company conducted no operations during the fiscal year ended March 31,1997. The Company has two operating divisions: the Truck Body/Trailer Division and the Critical Components Division.

Truck Body/Trailer Division

The Truck Body/Trailer Division's principal activity is the manufacture of trailer chassis, dump truck bodies, dump trailers, truck suspensions and other related assemblies for domestic customers in the inter-modal industry, construction and agricultural industries, through the following wholly owned subsidiaries:

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

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

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

Critical Components Division

The 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 wholly-owned subsidiaries:

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

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

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

The Providence Group, Inc. ("TPG"), located in Knoxville, Tennessee, is

a specialized engineering services company that provides engineering services predominately in the environmental and nuclear industries. TPG designs, manufactures and operates a line of remote robotic retrieval systems used in the cleaning and transferring of stored nuclear waste. We acquired TPG in September 2000.

Basis of Presentation

We are currently in default of certain financial covenants under our credit facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.8 million and $4.2 million under the credit facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We are currently operating under the terms of a forbearance agreement pursuant to which the lenders under our credit facility have agreed to forbear enforcing their rights under the credit facility for a period ending on July 17, 2001. Under the terms of the forbearance agreement, we have agreed with our lenders, among other things, that, in exchange for their forbearance, we will not request any additional loans under the credit facility, pay any dividends on our preferred stock, pay any principal or interest on our subordinated debt or make any payments in respect of earn-out obligations relating to acquisitions. As a result of our defaults under the credit facility, interest on the entire unpaid principal and interest of $95.1 million as of June 30, 2001 is accruing at default rates having a weighted average of 10.75% per annum. We are currently in arrears on payment of certain federal excise taxes of approximately $6.7 million, on which approximately $1.5 million of interest was accrued as of June 30, 2001. We expect to attempt to negotiate a payment plan with the Internal Revenue Service ("IRS") to resolve the arrearage. Although no formal plan is yet in place, we made a tax payment in the amount of $634,135 on March 9, 2001, and intend to make monthly payments of $20,000 on July 15, 2001, August 15, 2001 and September 15, 2001. Further, the IRS has the statutory authority to impose penalties which could be material.

The above factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We are currently developing a business plan that will offer a basis for a restructuring proposal that we intend to provide to our creditors that we expect will include additional, new equity or equity-linked financing. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. Events of default under our existing indebtedness and our recent history of losses increase the difficulty of obtaining such additional financing. Any additional financing will require the consent of our senior lenders and, to the extent it contemplates the issuance of shares of preferred stock senior to our existing preferred stock, holders of a majority of the shares of our preferred stock. We may be unable to effectuate a restructuring proposal if we are unable to reach agreement with our creditors or existing preferred stockholders or because we are unable to obtain additional financing. In the event that we obtain additional financing and/or a restructuring of our existing indebtedness, such events could cause a change of control of the company.

If we are unable to accomplish an out-of-court restructuring, we may seek protection from our creditors. Moreover, it is possible that our creditors may seek to initiate involuntary proceedings against us or against one or more of our subsidiaries in the United States and/or in Canada or Mexico, which would

force us to make defensive voluntary filing(s) of our own. Should we be forced to take action with respect to one or more of our foreign subsidiaries, such filings raise substantial additional risk to us and to 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.

2. Acquisitions and Pro Forma Information

In January 1998, we executed an agreement to purchase all the outstanding shares of Ajax for a total purchase price of approximately $23,819,000 (including assumed liabilities of approximately $5,772,000), comprised of a cash payment of approximately $19,618,000 and incurred a debt obligation of approximately $4,000,000 to the Ajax shareholder and other consideration valued at approximately $201,000. In connection with the acquisition, we paid advisory fees of $160,000 to certain directors and officers of the Company. The acquisition was accounted for as a purchase and, accordingly, our 1998 financial statements include the results and activity of Ajax for only the period of January 27, 1998 through March 31, 1998. The excess of the purchase price over the fair value of Ajax's net assets at the date of acquisition totaled approximately $15,257,000. This amount is being amortized on a straight-line basis over a 20-year period. The final allocation of the Ajax purchase price was subject to a post closing balance sheet adjustment which increased the purchase price by $453,000. The total amount due of $4,453,000 has been paid to the Ajax shareholder.

In July 1998, we purchased all the outstanding shares of Barclay Investments, Inc. ("Barclay"), a non-operating entity, and R/S. In September 1998, we purchased all the outstanding shares of CPS. In connection with these acquisitions, we paid advisory fees of $813,000 to certain directors and officers of the Company. These acquisitions were accounted for using the purchase-method of accounting. The aggregate purchase price of approximately $24,000,000 (including assumed liabilities of approximately $9,982,000) has been allocated to the assets acquired and liabilities assumed based on respective fair values at the dates of acquisition. The excess of the purchase price over the fair value of net assets of R/S and CPS at the dates of acquisition totaled approximately $14,492,000. This amount is being amortized on a straight-line basis over a period not to exceed forty years. The Company had independent appraisals performed in order to properly value and amortize the useful lives of the assets acquired.

In June 1999, we acquired all of the outstanding capital stock of Critical Components Corporation ("CCC"), a non-operating company, and through CCC, acquired substantially all of the assets of Ranor, a fabricator of large precision assemblies for the aerospace, nuclear, industrial and defense markets. In connection with the acquisition, we paid advisory fees consisting of 180,000 shares of common stock and $952,000 in cash to Redstone Advisors, a related party. The consideration paid to Ranor was $28,800,000 (including assumed liabilities of approximately $1,398,000), subject to final adjustment, of which $23,500,000 was paid in cash and $5,300,000 was paid in the form of convertible subordinated notes, issued by the Company and convertible into common stock of Critical Components Corporation. The acquisition was accounted for as a purchase. The excess of the purchase price over the fair value of the net assets

acquired was approximately $16,200,000.

In April 2000, we acquired all of the outstanding capital stock of Airborne and Arell. In connection with the acquisition, we paid advisory fees consisting of 120,000 shares of common stock and $785,000 in cash to Redstone Advisors, a related party. The consideration paid for Airborne was approximately $13,910,000, of which $12,342,000 was paid in cash to the seller and $1,568,000 was incurred in fees. The consideration for Arell was approximately $9,694,000, of which $8,556,000 was paid in cash to the seller and $1,138,000 was incurred in fees. The acquisiton was accounted for as a purchase.

We obtained independent appraisals to value and determine the useful lives of the assets of both Airborne and Arell. The excess of the purchase prices over the net assets acquired from Airborne and Arell was approximately $8,001,000 and $6,468,000, respectively. Such amounts are recorded among the intangible assets and are being amortized over 20 years.

To the extent that Airborne and Arell generate a cumulative earnings before interest, taxes, depreciation and amortization ("EBITDA") of at least $5.7 million in any of the three years following the date of acquisition the former owners are entitled to receive earn out payments in respect of that year. In the event that all EBITDA targets are achieved in the three years following the closing, these payments would total an additional $5.1 million.

On August 31, 2000, we acquired all of the capital stock of TPG. In connection with the acquisition, we paid advisory fees of $409,000 to Mayfair

Associates, a related party owned by William Merker, the brother of Steven Merker, former Chairman. The consideration paid for TPG was approximately $3,322,000 consisting of a $3,000,000 payment to the seller, as well as acquisition-related expenses of approximately $322,000. As part of the agreement the seller agreed to deliver $1 million of net book value at the closing. The Company determined that such amount was not delivered. The seller settled the matter by waving its future earn out rights. The acquisition has been accounted for as a purchase. During March 2001, we recorded a charge of $966,000 against gooodwill related to the writedown of certain amounts due from the seller.

The following unaudited pro forma consolidated statements of operations data for the years ended March 31, 2001 and 2000 give effect of the acquisitions of Airborne, Arell and TPG as if each of these acquisitions had occurred on April 1, 2000 and 1999.

	Year Ended March 31, 2001	Year Ended March 31, 2000
Pro Forma:		
Revenues, net..........................	$ 143,001	$ 183,068
Operating income.......................	893	19,911
Net income.............................	(10,409)	8,032
Preferred dividend.....................	1,155	1,160
Basic net income (loss) per share......	$ (3.11)	$ 1.90
Diluted net income (loss) per share....	$ (3.11)	$ 1.65

The pro forma operating results reflect estimated adjustments for amortization expense on intangibles arising from the acquisitions and interest expense on the acquisition debt and also the related tax effects thereon.

Pro forma results of operations information is not necessarily indicative of either the results of operations that would have occurred had the acquisitions been consummated as of April 1, 2000 or future results of the combined companies.

3. Change in Accounting Policy

Prior to January 1, 2001, we recognized revenue on sales of truck chassis manufactured by an operating entity in our Truck Body/Trailer Division using the "bill and hold" method of accounting. We employed this method because, based on the customer's request, we manufactured and segregated truck chassis for delivery based on the customers predetermined needs. We believe these arrangements met all of the requirements of Staff Accounting Bulletin, Revenue Recognition in Financial Statements ("SAB 101") regarding "bill and hold" sales. In the fourth quarter of fiscal 2001, we changed our accounting policy for revenue recognition with respect to these sales to record revenue after receipt of the chassis by the customer. The administrative effort to maintain the former policy was too burdensome and not cost effective for us as well as our customers and accordingly we will recognize revenue on these types of sales when the customer takes physical possession of the chassis. The effect of the change in fiscal 2001 was to decrease revenue for "bill and hold" sales recognized in fiscal 2001 prior to the change and to increase revenue as a cumulative adjustment for "bill and hold" sales recognized in fiscal 2000. These changes increased fiscal 2001 revenues by $8,511,000, net income by $562,000, and earnings per share by $0.15. The net effect of the change related to fiscal 2001 beginning retained earnings of $(711,000) and $(0.19) earnings per share has been reflected as a cumulative change in the accompanying Consolidated Statements of Operations.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and our subsidiaries. All inter-company accounts and transactions are eliminated in consolidation.

Revenue Recognition

Truck Body/Trailer Division

Revenue is recognized in all operating entities included in the Truck Body/Trailer Division when there is pervasive evidence of an arrangement, delivery has occurred, no future obligations exist, and payment is reasonably assured. (See Note 3 for discussion of a change in accounting policy).

Critical Components Division

Revenue is recognized in all operating entities included in the Critical Components Division when there is pervasive evidence of an arrangement, delivery has occurred, no future obligations exist, and payment is reasonably assured. In the case of long-term contracts revenue is recognized using the percentage-of-completion method of accounting. Costs include value-added raw materials, direct engineering and manufacturing costs, applicable overheads, and

special tooling and test equipment. Revenues and earnings on uncompleted contracts are based on the Company's estimates to complete and are reviewed periodically, with adjustments recorded in the period in which the revisions are made. Management evaluates each contract to determine the best indication of completion. Such indicators could be cost incurred, labor incurred or units shipped. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Progress billings are made according to the terms of the contract.

Warranties

The Company accrues for its obligation to warrant that its products are free from defects in design, materials and workmanship generally for one year from the date of purchase.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of less than three months when purchased to be cash equivalents.

Marketable Securities

When applicable, the Company applies Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. Under SFAS No. 115, marketable debt and equity securities are reported at fair value, with unrealized gains and losses from those securities reported as separate component of stockholders' equity.

Income Taxes

The Company follows SFAS No. 109, Accounting for Income Taxes, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined on the difference between the financial statement and tax basis of assets and liabilities using expected tax rates in effect for the year in which the differences are expected to reverse.

Inventory

Inventory is stated at the lower of cost, determined on a first-in, first-out basis, or market. Acquired inventory from the acquisitions was adjusted to its then fair market value. Costs of revenues include charges of $309,000, $295,000 and $531,000 in the fiscal years ended March 31, 2001, 2000 and 1999, respectively, representing the effects of this adjustment as the inventory was sold.

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Property and Equipment

Property and equipment related to acquisitions are stated at their fair values at the acquisition dates. Property and equipment purchased by the Company are stated at cost. Depreciation is computed using the straight-line method for financial reporting purposes. The estimated lives used in depreciating the assets are:

Years

Transportation equipment	3 - 5
Furniture, fixtures and office equipment	5 - 10
Machinery and equipment	5 - 15
Buildings	30 - 40
Leasehold improvements	Shorter of lease term or useful life

Expenditures for major renewals and improvements that extend the useful lives of property and equipment are capitalized. Expenditures for routine maintenance and repairs are charged to expense as incurred.

Long-Lived Assets

We account for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS No. 121"), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. This statement establishes financial accounting and reporting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangibles to be disposed of. We review the recoverability of the carrying values of long-lived assets, primarily property, plant and equipment and related goodwill and other intangible assets for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset may not be fully recoverable. Under the standard, impairment losses are recognized when expected future cash flows are less than the asset's carrying value. When indicators of the impairment are present, the carrying values of the assets are evaluated in relation to the operating performance and future discounted cash flows of the underlying business. The net book value of the underlying assets is adjusted to fair value if the sum of the expected future undiscounted cash flows is less than book value. Fair values are based on quoted market prices and assumptions concerning the amount and timing of the estimated cash flows and assumed discounted rates, reflecting varying degrees of perceived risk. Management has performed a review of all long-lived assets and determined that no impairment of the respective carrying values have occurred as of March 31, 2001, 2000 and 1999.

Deferred Financing Costs

At March 31, 2001 and 2000 costs of approximately $4,175,000 and $2,234,000, respectively, were capitalized in connection with financing acquisitions. The deferred financing costs are amortized over the life of the financing.

Net Income (Loss) per Common Share

We compute net income (loss) per common share in accordance with SFAS No. 128, "Earnings Per Share". Under the provisions of SFAS No. 128, basic net income (loss) per common share ("Basic EPS") is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per common share ("Diluted EPS") is computed by dividing net income (loss) by the weighted average number of common shares and dilutive common share equivalents then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the consolidated statements of operations.

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Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal year-end exchange rates. Income and expense items are

translated at average exchange rates during the fiscal year. The resulting translation adjustments are recorded as a component of Stockholders' Equity in accompanying Consolidated Financial Statement. Gains or losses resulting from foreign currency transactions are included in the accompanying Consolidated Statements of Operations.

Derivative Instruments and Hedging Activities

In June 1999, the FASB issued SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133. The Statement defers for one year the effective date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, which was issued in June 1998 and establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either as asset or liability measured at its fair value. SFAS No. 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS No. 133 is effective for the Company beginning April 1, 2001. We believe that the implementation of SFAS No. 133 will not have a material impact on our financial position or results of operations.

Recently Issued Accounting Pronouncements

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The costs we will ultimately incur and the value of assets ultimately realized could differ in the near term from the related amounts reflected in the accompanying financial statements.

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

Fair Value of Financial Instruments

Generally accepted accounting principles require disclosing fair value to the extent practicable for financial instruments which are recognized or unrecognized in the balance sheet. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement. For cash equivalents, marketable securities, accounts receivable, accounts payable, and debt instruments, it is estimated that the carrying amounts at March 31, 2001 and 2000 approximated fair values for these instruments because of their short-term maturity, their

interest rates or their payment terms.

Stock-Based Compensation

The Company accounts for its employee stock option plan in accordance with the provisions of Accounting Principles Bulletin No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations. Compensation expense related to employee stock options is recorded only if, on the date of grant, the fair value of the underlying stock exceeds the exercise price. The Company adopted the disclosure-only requirements of SFAS No. 123, Accounting for Stock-Based Compensation, which allows entities to continue to apply the provisions of APB Opinion No. 25 for transactions with employees and provide pro forma net income and pro forma earnings per share disclosures for employee stock options as if the fair value based method of accounting in SFAS No. 123 had been applied to these transactions.

The Company accounts for non-employee stock-based awards in which goods or services are the consideration received for the equity instruments issued based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more readily determinable.

During March 2000, the FASB issued Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, which clarifies the application of APB Opinion No. 25, regarding (a) the definition of an employee for purposes of applying APB Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a non-compensatory plan, (c) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. Interpretation No. 44 was effective on July 1, 2000.

5. Inventory

Inventory is comprised of the following:

	March 31	
	2001	2000
Raw materials...........	$ 10,762,000	$ 9,977,000
Work in progress........	8,057,000	2,545,000
Finished goods..........	13,233,000	8,080,000
	$ 32,052,000	$ 20,602,000

6. Property and Equipment, net

Property and equipment are summarized by major classifications as follows:

	March 31,	
	2001	2000
Transportation equipment	$ 798,000	$ 765,000
Leasehold improvements	4,120,000	3,713,000
Furniture, fixtures and office equipment	3,602,000	1,860,000

Machinery and equipment	26,718,000	20,142,000
Building	14,536,000	12,546,000
Land	3,595,000	3,139,000
Total	53,369,000	42,165,000
Less: Accumulated depreciation and amortization	8,478,000	3,441,000
	$44,891,000	$38,724,000

Depreciation and amortization expense for the years ended March 31, 2001, 2000 and 1999 was $4,633,000, $2,625,000 and $581,000, respectively.

7. Long Term Debt and Credit Agreements

Classification

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

Term and Revolver Loans

In July 1998 the Company and certain of its subsidiaries (acting as Guarantors) entered into, with PNC Bank, N.A. ("PNC"), both individually and as agent for other financial institutions a $40,000,000 Term Loan and Revolving Credit Facility ("Credit Facility"). The Credit Facility provided for a term loan in the amount of $25,000,000 and a revolving loan in the principal amount of $15,000,000 (collectively, the "Loans"). Portions of the term loan were used to fund the acquisitions of R/S and CPS and to retire certain indebtedness of R/S, CPS and the Company.

In June 1999, the Company obtained an increase in its existing Credit Facility arrangement from $40,000,000 to $68,125,000 through PNC and PNC Capital Markets to consummate the acquisition of Ranor. The Company's Credit Facility, as amended, provided for Term Loans in the principal amount of $48,125,000 and a Revolving Loan in the principal amount of $20,000,000 (the "Loans"). The principal of the Term Loans was payable in two installments: $23,125,000 due June 2004 and $25,000,000 due June 2005. Amounts outstanding under the Revolving Loan were payable in full in July 2002, subject to the Company's request, with the approval of the lenders, to extend the due date for one year, with a maximum extension of two one year periods.

In April 2000, we acquired Airborne and Arell. The funding to complete the acquisitions was obtained through increasing our existing Credit Facility of $68,125,000 to $100,000,000.

Our Credit Facility, as amended on April 25, 2000, provides for term loans in principal amounts of up to $75.0 million and revolving loans in principal amounts of up to $25.0 million. The principal of the term loans is payable quarterly commencing in June 2000 in specified amounts ranging from approximately $1.3 million quarterly commencing in June 2000 and increasing annually thereafter to approximately $1.6 million in June 2001, $1.9 million in June 2002, $2.3 million in June 2003, $2.6 million in June 2004, and $3.2 million in June 2005. Amounts outstanding under the revolving loans are payable in full in April, 2005. All remaining principal then outstanding is due in April 2007. In addition, the amounts outstanding under the Credit Facility are subject to mandatory prepayments in certain circumstances. Subject to our request,

together with the approval of the lenders, the maturity of the revolving loans may be extended for one year with a maximum extension of two one-year periods. We made scheduled principal payments of approximately $4.0 million during the nine months ended December 31, 2000. However, we did not make the March 2001 principal payment of $1.3 million or the June 2001 principal payment of $1.6 million.

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

In December 2000, we informed the agent under the Credit Facility that we were then in default of certain financial covenants under the Credit Facility. In addition, we failed to make scheduled interest and principal payments totaling approximately $2.7 million and $4.2 million under the Credit Facility on March 31, 2001 and July 2, 2001, respectively, which constituted additional events of default thereunder. Absent significant additional financing or a restructuring, we expect to be unable to pay additional principal and interest payments totaling approximately $4.1 million on the next payment date of September 30, 2001. We have engaged an investment banking firm to assist us in obtaining additional financing, although we can give no assurance that our efforts to obtain additional financing or restructure our existing indebtedness will be successful. We are currently operating under the terms of a forbearance agreement pursuant to which the lenders under the Credit Facility have agreed to forbear enforcing their rights under the Credit Facility for a period ending on July 17, 2001. Under the terms of the forbearance agreement, we have agreed with our lenders, among other things, that, in exchange for their forbearance, we will not request any additional loans under the Credit Facility, pay any dividends on our preferred stock, pay any principal or interest on our subordinated debt or make any payments in respect of earn-out obligations relating to acquisitions.

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While we believe that we are currently in compliance with the terms of the forbearance agreement, failure to observe or perform one or more covenants under the Credit Agreement not covered by the forbearance agreement, or failure to observe or perform the covenants of the forbearance agreement itself, at any given time will require us to obtain a waiver or consent from the lenders, or refinance the Credit Facility. In addition, the forbearance agreement only prohibits the lenders from exercising their rights in respect of specified defaults for a period ending on July 17, 2001. If we are unable after the term of the forbearance agreement to comply with the covenants of the Credit Facility, including bringing our payment obligations thereunder current, our failure to so comply could constitute an event of default under the Credit Facility, and we would be required to obtain a waiver or consent from the lenders, or refinance the Credit Facility. Such a waiver, consent or refinancing may not be available to us on reasonable terms. Upon the occurrence of an event of default under our Credit Facility, the lenders could elect to declare all amounts outstanding under the Credit Facility, together with our accrued interest and certain expenses, to be immediately due and payable and could begin to foreclose on our assets. Our failure to comply with any of these covenants or restrictions could also limit our ability to obtain future financings.

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 March 31, 2001 the rate of interest for the Loans is 10.75%, which is the default rate. All amounts outstanding under the Credit Facility are secured by a lien on substantially all of the Company's assets. The Credit Facility requires the Company to maintain compliance with certain financial and non-financial covenants.

At March 31, 2001 the total amount outstanding under the Credit Facility was $91,000,000, excluding $1,500,000 of accrued interest.

The following are the future net minimum principal payments under the terms of the original Credit Agreement which do not include payments in default:

Year Ending March 31,	Amount
2002	$ 6,250,000
2003	7,750,000
2004	9,250,000
2005	10,250,000
2006 and thereafter	56,250,000
	$ 89,750,000

Seller Financing

As part of the acquisition of Ranor in June 1999 the sellers of Ranor were issued $5,300,000 of three-year, 6% interest only, convertible subordinated notes, convertible into common stock of Critical Components Corporation. The balance outstanding for the convertible subordinated notes at March 31, 2001 was $4,550,000 as a result of the settlement from an arbitration entered into by the parties. Interest is payable quarterly in arrears. As of March 31, 2001, we were in default in respect of $411,300 in interest payments under the convertible subordinated notes.

In connection with the acquisition of Ajax, the Company incurred an obligation of approximately $4,000,000 to the Ajax shareholder. The note was secured by the assets of the Company and accrued interest at a rate of 10% per annum. The outstanding principal was paid in full in July 1999.

8. Stockholders' Equity

Initial Public Offering

In January 1998, the Company completed an Initial Public Offering (the "IPO") of its securities consisting of 1,150,000 shares of convertible preferred stock and 1,495,000 shares of common stock, including the exercise of the Underwriters' over-allotment option, from which it derived net proceeds of approximately $23,988,000.

Common Stock Reserved for Issuance

At March 31, 2001 and 2000, the Company had reserved 2,604,000 shares for issuance upon the exercise of stock options, warrants and the conversion of preferred stock.

Convertible Redeemable Preferred Stock ("Preferred Stock")

Dividends on the Company's Preferred Stock are payable at a rate of $1.02 per year on a quarterly basis and are convertible into common stock on a one to one basis after July 21, 1998. The Preferred Stock's conversion rate is subject to adjustment under certain circumstances, which include the failure to pay the dividend in a timely manner.

The Preferred Stock is redeemable by the Company, with advance notice, on or after July 22, 2000 at a price of $12 per share (plus unpaid dividends) at certain stock market price levels for the Common Stock. The Preferred Stock holders have the authority, voting as a class, to approve or disapprove issuance of any security which is senior to or comparable to the rights of the Preferred Stock, and also has preference with respect to distribution of assets. In the event that dividends are in arrears for four fiscal quarters, the Preferred Stock holders will be entitled to elect two directors to the Company's Board of Directors.

The Company's Board of Directors may not declare dividends on the common stock if there are any dividend arrearages on its preferred stock.

The annual dividend requirement on our Preferred Stock is $1,155,000. During the quarter ending December 31, 2000 and the quarter ending March 31, 2001, we suspended dividend payments amounting to $578,000 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, if any, there can be no assurance that we will maintain sufficient surplus or that future earnings, if any, will be adequate to pay the cumulative dividends or future dividends on the Preferred Stock. Further, we will need approval from our Senior Lenders to resume payment of the Preferred Dividend.

Stock Options and Warrants

Under the 1997 Stock Option Plan, as amended, the Company may grant non-qualified and incentive stock options to certain officers, employees and directors. The options expire one to ten years from the grant date or five years for grants to shareholders who own more than 10% of the Company's stock. The options may be exercised subject to continued service and certain other conditions. Accelerated vesting occurs following a change in control of the Company and under certain other conditions. The Company may grant an aggregate of 1,000,000 shares under the plan. To date the Company has granted a total of 937,815 shares.

The per share exercise price for options granted under the Plan is determined by the Board of Directors, provided that the exercise price of an incentive stock options ("ISO") will not be less than 100% of the fair market value of a share of the common stock on the date the option is granted (110% of fair market value on the date of grant of an ISO if the grantee owns more than 10% of the common stock of the Company). Upon exercise of an option, the grantee may pay the purchase price with previously acquired shares of common stock of the Company or, at the discretion of the Board of Directors, the Company may loan some or the entire purchase price to the grantee.

Both William Merker, a former director, holding 225,000 warrants and a former employee holding 25,000 options have the right to cashless exercise of these instruments without approval of the Board. As a result, these options are accounted for on a variable basis. Because the market value of the underlying

stock has been less than the exercise price of the options, there has been no impact to the Company's results of operations or financial position to date.

Under SFAS No. 123, the Company estimates the fair value of each stock option and warrant at the grant date by using the Black-Scholes option-pricing model with the following weighted average assumptions used for 1999 grants: (1) expected lives of one to seven years; (2) dividend yield of 0%; (3) expected volatility of 62.9%; and (4) risk-free interest rate of 4.89%. If compensation cost for the Company's stock option grants had been determined in accordance with SFAS No. 123, net income available to common stockholders and earnings per share would have been reduced by approximately $221,000 and $0.07, respectively, for the year ended March 31, 1999.

For the year ended March 31, 2000 the stock option and warrant grants were valued with the following weighted average assumptions: (1) expected lives of one to ten years; (2) dividend yield of 0%; (3) expected volatility of 54.4%; and (4) risk-free interest rate of 6.36%. If compensation cost for the Company's stock option grants had been determined in accordance with SFAS No. 123, net income available to common stockholders and basic and diluted earnings per share would have been reduced by approximately $399,984 and $0.11 and $0.08 respectively, for the year ended March 31, 2000.

For the year ended March 31, 2001 the stock option and warrant grants were valued with the following weighted average assumptions: (1) expected lives of five years; (2) dividend yield of 0%; (3) expected volatility of 73%; and (4) risk-free interest rate of 6.66%. If compensation cost for the Company's stock option grants had been determined in accordance with SFAS No. 123, net income available to common stockholders and earnings per share would have been reduced by approximately $570,613 and $0.15, respectively, for the year ended March 31, 2001.

The following table summarizes information about stock options and warrants outstanding at March 31, 2001:

	Options/Warrants Outstanding			Options/Wa
Range of Exercise Prices	Number of Options/ Warrants Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Op Warrants Exer
$5.94 - 8.56	516,265	4.15	$ 7.21	223,0
$9.04 - 11.50	565,000	3.84	$ 10.64	485,6
$15.88 - 19.80	152,000	6.13	$ 16.58	93,9
	1,233,265	4.25	$ 9.94	802,7

	1999 Shares	1999 Weighted Average Exercise Price	2000 Shares	2000 Weighted Average Exercise Price	Sha
Shares under Option/					

Warrant beginning of period..................	352,000	$ 10.89	785,880	$ 9.38	1,111
Granted....................	436,500	$ 8.12	329,315	$ 12.29	122
Canceled...................	(2,620)	$ 5.94	(3,930)	$ 8.47	
Exercised..................	--	$ --	--	$ --	
Shares under Option/ Warrant end of period...	785,880	$ 9.38	1,111,265	$ 10.24	1,233

Options available for grant total 62,185. The weighted average fair value of options and warrants granted during the years ended March 31, 1999, 2000 and 2001 was $7.28, $6.77 and $4.68, respectively.

The Company granted 120,000 warrants in 1999 to a non-related third party in connection with services rendered to the Company. Such warrants vest over a period of five years. The expense related to the grants approximates $200,000 in 1999, 2000 and 2001.

The Company granted 55,000 options to non-related third party in connection with the acquisition of Ranor during the fiscal year ended March 31, 2000.

Underwriters' Warrants

In connection with the IPO, the Underwriters received 130,000 common stock warrants and 100,000 preferred stock warrants with exercise prices of $16.50 and $19.80, respectively. Such warrants expire on January 21, 2003.

During fiscal year 2000, the underwriter received an additional 2,080 common stock warrants and 1,601 preferred stock warrants with exercise prices of $16.50 and $19.80, respectively. Such warrants expire on January 21, 2003.

9. Basic and Diluted Net Income Per Common Share

The Company accounts for net income per common share in accordance with the provisions of SFAS No. 128, Earnings per Share. In accordance with SFAS No. 128, basic net income per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing income available to common shareholders 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 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.

	(in thousands, except net income per share data		
	For the Fiscal Year Ended March 31,		
	2001	2000	1999
NUMERATOR:			

Net income (loss) before cumulative effect of change in accounting principle	$ (9,504)	$ 5,397	$ 3,482
Cumulative effect on prior years of changing to a different method of recognizing revenue	$ (711)	--	--
Convertible preferred dividends on dilutive convertible preferred stock	$ 1,155	1,160	1,173
Income (loss) available to common stockholders used in computing dilutive net income or net loss per share	$(11,370)	$ 4,237	$ 2,309
DENOMINATOR:			
Weighted average number of common shares outstanding used in computing basic net income or net loss per share	3,716	3,623	3,356
Common equivalent shares:			
Convertible preferred stock	--	1,139	--
Options	--	88	--
Warrants	--	17	--

	(in thousands, except net income per share data		
	For the Fiscal Year Ended March 31,		
	2001	2000	1999
Weighted average number of common shares and common equivalent shares used in computing dilutive net income or net loss per share	3,715	4,867	3,356
Basic net income (loss) per share	$ (3.06)	$ 1.17	$ 0.69
Diluted net income (loss) per share	$ (3.06)	$ 1.11	$ 0.69

10. Income Taxes

The provision (benefit) for income taxes for the years ended March 31, 2001, 2000 and 1999 consists of the following components:

	March 31,		
	2001	2000	1999
Current:			
Federal	$(6,417,000)	$ 3,065,000	$ 2,141,000
State	(175,000)	817,000	312,000

	(6,592,000)	3,882,000	2,453,000
Deferred:			
Federal	1,406,000	63,000	199,000
State	671,000	10,000	(386,000)
	2,077,000	73,000	(187,000)
Foreign	2,968,000	--	--
Total provision	$(1,547,000)	$ 3,955,000	$ 2,266,000

Deferred tax assets and liabilities consist of the following items:

	March 31,	
	2001	2000
Deferred tax asset (liability):		
KREDA	$ 168,000	$ 124,000
Accounts receivable	144,000	84,000
Inventory	146,000	180,000
Accrued liabilities	368,000	45,000
Start-up costs	--	341,000
Net operating loss carry foward	1,275,000	--
Depreciation	(3,460,000)	--
Other	95,000	(6,000)
Total deferred tax assets, gross	(1,264,000)	768,000
Less valuation allowance	(2,207,000)	--
Total deferred tax assets	$(3,471,000)	$ 768,000

During 1996, R/S applied for and was granted status under the Kentucky Rural Economic Development Act ("KREDA"). KREDA allows the Company to receive a tax credit on income earned as a result of the Company increasing its plant size and conducting operations in a rural county. Under KREDA, the Company is allowed to use this tax credit as debt repayment.

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Reconciliation between the Company's effective tax rate and the U.S. statutory rate for the years ended March 31, 2001, 2000 and 1999 are as follows:

March 31,

	2001	2000	1999
U.S. statutory rate	(34.0)%	34.0%	34.0%
State tax	(8.5)	6.3	7.8
Non deductible acquisition costs	--	--	(1.7)
Amortization of goodwill	5.9	4.9	6.2
KREDA	--	--	(2.1)
Valuation	12.9	(3.4)	(5.5)
Foreign	6.1	--	--
Other	3.6	0.5	0.7
Total effective tax rate	(14.0)%	42.3%	39.4%

11. Related Party Transactions

In January 1998, we, together with Carl Massaro, the former owner of Ajax, entered into a "triple net" lease of the former Ajax factory and office facility owned by Carl Massaro and presently occupied by us. The lease provides for annual rent of $600,000, which is payable monthly, and approximately $63,000 annually in triple net expenses for the first year. During the initial five-year term of the lease, we have the option to purchase the leased facility and land for a cash purchase price of $6.5 million, provided we are not in default under the lease. The terms of the lease, including the purchase option, were determined through arms' length negotiation.

In December 2000, we entered into an 18-month agreement with William Merker, paying him $20,000 per month for operational consulting services. On May 16, 2001, that consulting services agreement, under which Mr. Merker had received $100,000, was superseded by a separation and general release agreement providing for a final payment of $20,000. Additionally, Mr. Merker is to receive $500 per month and health insurance benefits through May 31, 2002. The release also contains restrictive covenants prohibiting Mr. Merker from directly or indirectly competing with us for an 18-month period or from soliciting or servicing any of our suppliers or customers for any competitive purpose for a 24-month period.

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 Arell, Airborne and TPG. Pursuant to the terms of this agreement, Mr. William Merker agreed to transfer to us 200,000 shares of common stock held by him. In addition, Mr. William Merker agreed to provide us with a promissory note, payable in three months, in an aggregate principal amount equal to the amount by which $800,000 exceeds the fair market value of the transferred shares as determined by an independent appraiser.

William Merker, a director of the Company from August 1997 until May of 2001 and a 5% stockholder, is the sole director and stockholder of Industrial Precision Corp. ("IPC"), a privately held precision machining company. During April 2001, we entered into an agreement with IPC pursuant to which we assigned to IPC our rights under letters of intent or otherwise with respect to acquisition transactions for nine machining companies in exchange for 5% of the founder's stock of IPC and the right to receive a fee of $225,000 in cash for each acquisition that is consummated before May 2003 by IPC with the companies subject to the agreement. Additionally, IPC is obligated to give us a right of first refusal to manufacture any of its requirements for which we have the capability (i.e., if IPC has a bona fide third-party offer to manufacture any

requirements, IPC must offer us ten days to commit to the requirement on the same price, terms and conditions).

William Merker, a director of the Company from August 1997 until May 2001 and a 5% stockholder, and Steven J. Merker, a director, member of our Compensation Committee and 5% stockholder, are directors of Invatech Corporation ("Invatech"), a privately held environmental services and products company. Joseph Spinella, a director, a member of our Compensation Committee, our Secretary, and our Chief Financial Officer since August 1999, and Paul Provost, a director, were directors of Invatech in the last fiscal year. Beginning in the last fiscal year, we have provided Invatech with office space and related office-support services in our New York City offices. We do not have a formal written agreement with, nor do we receive any payments from, Invatech. We estimate the value of the office space and services provided in the last fiscal year to be approximately $88,000.

The Company and certain officers and consultants have executed employment agreements which provide for, in certain circumstances, minimum annual salaries to be paid over specified terms. Future commitments for such payments are as follows:

Year Ending March 31,	Amount
2002........................	975,000
2003........................	576,000
	$1,551,000

12. Major Customers and Concentrations

Major Customers

Three customers individually accounted for 14%, 13% and 12% of net sales for the fiscal year ended March 31, 2001. Three customers individually accounted for 33%, 15% and 5% of net sales for the fiscal year ended March 31, 2000. Three customers individually accounted for 21%, 19% and 14% of net sales for the fiscal year ended March 31, 1999.

Historically, the Company has relied on a limited number of customers for a substantial portion of its total revenues. The Company expects that a significant portion of its future revenues will continue to be generated by a limited number of customers. The loss of any of these customers or any substantial reduction in orders by any of these customers could have a material adverse effect on operating results.

Concentrations

The Company maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000. At March 31, 2001, approximately $44,000 were invested in a domestic money market fund. At March 31, 2000 approximately $1,018,000 and $25,000 were invested in two domestic money market funds. At March 31, 1999 approximately $506,000 and $526,000 were invested in two domestic money market funds.

Credit Risk

Accounts receivable are primarily composed of unsecured balances. The Company does not require collateral as a condition of sale.

At March 31, 2001, the Company had one customer with an individual balance in excess of [10%] of consolidated accounts receivable. In the aggregate, this customer comprised approximately [30%] of the net accounts receivable balance. At March 31, 2000, the Company had two customers with individual balances in excess of 10% of consolidated accounts receivable. In the aggregate, these two customers comprise approximately 48% of the net accounts receivable balance.

13. Commitments and Contingencies

Environmental Matters

The Company is subject to various federal, state and local laws and regulations including those governing the use, discharge and disposal of hazardous materials. Except as noted below, management believes that the Company is in substantial compliance with current laws and regulations. Accordingly, no reserve has been established for such exposures. Compliance with current laws and regulations has not had, and is not expected to have, a material adverse effect on the Company's financial condition. However, it is possible that additional health related or environmental issues may arise in the future, which the Company cannot predict at present.

Violation of Federal and State Air Quality Regulation

On March 16, 1999 the Company and the New Jersey Department of Environmental Protection (NJDEP) entered into a Stipulation of Settlement by which the Company, without admission of liability, agreed to withdraw legal challenges against NJDEP and pay NJDEP $234,000 over a three-year period commencing December 31, 1999. The initial installment of $95,000 was paid December 31,1999. The Company plans to pay the second installment of $95,000 in September 2001 which was due in April 2001. As part of the settlement, NJDEP (1) has withdrawn and settled all alleged Company emission violations of air volatile compounds ("VOCs") dating from the initiation of the Company's predecessor business in 1992 through February 28, 1999; and (2) has granted the Company a new VOC permit that roughly doubles allowable VOC emissions to 51.5 tons per year. As required under the new VOC permit, the Company has installed a computer system to calculate VOC emission data. Such data are periodically reconciled with purchasing and production data. At current rates of production, all VOC emissions are within permit limits. The remaining balance as of March 31, 2001 has been accrued.

Other Environmental and Regulatory Compliance

Truck trailer length, height, width, gross vehicle weight and other specifications are regulated by the National Highway Traffic Safety Administration and individual states. Changes and anticipated changes in these regulations may impact demand for new trailers, thereby contributing to industry cyclicality. We are also governed by a variety of regulations established by various federal, state and local agencies governing such matters including employee safety and working conditions, environmental protection and other activities.

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.

In March 1998, as part of the ISRA Remediation Agreement with NJDEP, the Company performed soil and sediment sampling at various locations at the facility. The sampling results were within NJDEP compliance limits with the exception of results for certain metals detected in soil around roof downspouts at the facility. The Company has engaged a contractor to perform additional sampling at these locations, the results of which have been forwarded to NJDEP. NJDEP and the Company are presently reviewing results generated January 31, 2001. If these results indicate, additional investigations may be necessary or remedial action including removal and replacement of affected soil may be needed. The cost of such additional investigation or action, if necessary, is not expected to be material to the Company's financial position.

Legal Proceedings

From time to time, we are named as a defendant in various lawsuits, none of which is expected to have a material adverse effect on our business, financial position or results of operations, except as described below.

In connection with the Ranor acquisition, we arbitrated a dispute arising from Ranor's misrepresentation, in the asset purchase agreement, in connection with its financial statements. As a result of the arbitration, the asset purchase price was reduced by $750,000.

We are subject to the New Jersey Industrial Site Recovery Act, pursuant to which we have agreed to investigate and possibly remediate environmental contamination that may be present at our New Jersey facility. The cost of any required remediation determined to be necessary is not expected to be material but could prove to be substantial and, in such case, could have a material adverse affect on our business, financial position or results of operations.

We are currently in arrears on payment of certain federal excise taxes of approximately $6.7 million. 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 tax payment in the amount of $634,135 on March 9, 2001, and intend to make monthly payments of $20,000 on July 15, 2001, August 15, 2001 and September 15, 2001. This arrearage has also resulted in an additional event of default under our Credit Facility. Our financial statements include approximately $1.3 million for interest on the federal excise tax currently in arrears. Further, the IRS has the statutory authority to impose penalties which could be material. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Risk Factors."

On March 1, 2001, in the United States Court of Appeals for the Sixth Circuit, we filed a Petition for Review of an order of the National Labor Relations Board ("NLRB") ruling that 18 employees at our facility in Ivel,

Kentucky are to be represented under a collective bargaining agreement. The matter is currently pending before the Sixth Circuit Court of Appeals in Cincinnati, Ohio. If the Sixth Circuit rules in favor of the NLRB, the employees will be reinstated with back pay.

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

Operating Leases

The Company leases facilities and equipment under operating leases expiring through 2004. Some of the leases have renewal options and most contain provision for passing though certain incremental cost. Future net minimum annual rental payments under non-cancelable leases are as follows:

Year Ending March 31,	Amount
2002.......................	2,364,426
2003.......................	2,032,473
2004.......................	1,018,207
2005.......................	116,856
2006.......................	13,904
	$ 5,545,866

Rent expense for the year ended March 31, 2001, 2000 and 1999 totaled $1,525,000, $1,273,000 and $610,000, respectively.

On July 1, 2000, CPS entered into a 12 month operating lease agreement (the "Lease") with an unrelated party (the "Lessor") to utilize the Lessor's production facility. The Lease called for 12 monthly installments of $15,000 with a purchase option available at its expiration. The Lease was terminable at the Company's sole discretion upon 30 days notice. Upon termination, CPS was required to provide the Lessor net assets with a book value of $144,000. Included in this Lease is the obligation of CPS to fund the monthly payments of all the outstanding debt of the Lessor.

As of March 31, 2001, management decided that at the end of the 12 months the option to purchase would not be exercised. In connection with this decision, the Company recorded a one time charge of $456,000. Finally, the Company incurred an additional $693,000 of losses relating to this activity.

Defined Contribution Plan

In Fiscal 1999 the Company adopted a defined contribution 401(k) plan. All eligible U.S. employees of the Company may participate in the plan.

Participants may contribute up to 15% of their eligible compensation, as defined. The Company may make discretionary profit sharing contributions to the plan. For the fiscal years ended March 31, 2001, 2000 and 1999 the Company's expense related to the plan was $347,000, $338,846 and $33,036, respectively. Approximately $190,000 of the contribution for 2001 has not been funded.

In February 2001, the Company paid $145,000 relating to the amounts due under this plan for the months ended November and December 2000. Effective January 1,2001, the Company has suspended its discretionary contribution requirements under further notice.

14. Quarterly Information (Unaudited)

Below is selected quarterly information (in thousands, except for per share data) for the year ended March 31, 2001.

	Fiscal Year 2001, Quarters ended			
	March 31	December 31	September 30	June 30
Revenue	$ 19,511	$ 32,329	$ 41,342	$ 44,169
Operating income	(8,583)	972	3,944	4,907
Income Taxes	(1,795)	(1,335)	506	1,077
Net Income (loss)	(10,166)	(1,876)	577	1,250
Net income (loss) available to common stockholders	$ (10,454)	$ (2,165)	$ 288	$ 961
Basic net income (loss) per share ..	$ (2.81)	$ (0.58)	$ 0.07	$ 0.26
Diluted net income (loss) per share	$ (2.81)	$ (0.58)	$ 0.07	$ 0.26

We made an adjustment to the first, second, and third quarter of fiscal year ended March 31, 2001, for accrued interest expense on the arrearage of our federal excise tax which was not previously reflected in the quarterly statements in the amount of $175, $152, and $197, respectively.

The revenue for the three months ended June 30, 2000 and September 30, 2000 have been restated to reflect the change in accounting policy described in Footnote 3 in the amounts of $7,365 and $3,082, respectively.

During the fourth quarter of fiscal 2001 the Company determined that first quarter sales related to one of its business units included in the Truck Body Division were overstated by $2,330. The second and third quarter ended September 30, 2000, and December 31, 2000 were understated by $280 and $223, respectively.

The impact of the above items on earnings per share for the June, September, and December quarters was $ (0.01), $0.02, and $(0.04), respectively.

Below is selected quarterly information (in thousands, except for per share data) for the year ended March 31, 2000.

	Fiscal Year 2000, Quarters ended			
	March 31	December 31	September 30	June 30
Revenue	$ 38,374	$ 41,238	$ 44,820	$ 35,044
Operating income	3,696	3,808	3,773	3,370
Income Taxes	863	983	1,003	1,106
Net Income	1,533	1,167	1,222	1,475
Net income available to common stockholders	$ 1,244	$ 878	$ 933	$ 1,182
Basic net income per share	$ 0.21	$ 0.24	$ 0.28	$ 0.33
Diluted net income per share	$ 0.19	$ 0.24	$ 0.26	$ 0.33

We made an adjustment to the first, second, and third quarter of fiscal year ended March 31, 2000, for accrued interest expense on the arrearage of our federal excise tax which was not previously reflected in the quarterly statements in the amount of $65 and $0.02 per share; $104 and $0.03 per share; and $144 and $0.04 per share, respectively.

15. Segment Information

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information establishes standards for the way that public companies report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS No. 131 defines operating segments as components of a company about which separate financial information is available that is evaluated regularly by management in deciding how to allocate resources and in assessing performance.

Below are the selected financial segment data for the years ended March 31, 2001 and 2000:

March 31, 2001	Truck Body/Trailer Division	Critical Components Division	Total
		(in thousands)	
Revenue	$ 94,375	$ 42,977	$ 137,351
Operating Income	3,035	6,528	9,562
Identifiable Assets	51,444	41,386	92,830
Capital Expenditures	1,973	2,004	3,977
March 31, 2000			
Revenue	$ 139,803	$ 19,993	$ 159,796
Operating Income	16,161	3,945	20,106
Identifiable Assets	33,474	39,646	73,120

Capital Expenditures	2,276	1,683	3,959

The following is a reconciliation of reportable segment revenues, operating income, assets and other significant items to the Company's consolidated totals for March 31, 2001:

Revenue	
Total revenues for reporting segments	$ 137,351
Elimination of intersegment revenues	
Total consolidated revenues	$ 137,351

Operating income	
Total operating profit or loss for reporting segments	$ 9,563
Other corporate expenses	(8,323)
Income before income taxes and extraordinary items	$ (1,240)

Assets	
Total assets for reporting segments	92,830
Goodwill not allocated to segments	61,100
Other unallocated amounts	9,075
Consolidated total	$ 163,005

	Segment Totals	Adjustments	Consolidated Totals
Other Significant Items			
Interest expense	$1,516	$10,411	$11,927
Goodwill amortization	--	2,861	2,806

The following is a reconciliation of reportable segment revenues, operating income, assets and other significant items to the Company's consolidated totals for March 31, 2000:

Revenue	
Total revenues for reporting segments	$ 159,796
Elimination of intersegment revenues	(320)
Total consolidated revenues	$ 159,476

Operating income	
Total operating profit or loss for reporting segments	$ 20,106
Other corporate expenses	(5,459)
Operating income	$ 14,647

Assets	
Total assets for reporting segments	73,120
Goodwill not allocated to segments	44,151
Other unallocated amounts	19,994
Consolidated total	$ 137,265

	Segment Totals	Adjustments	Consolidated Totals
Other Significant Items			
Interest expense	$ 270	$4,775	$5,045
Goodwill amortization	--	1,466	1,466