

FORM 10-KSB

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended December 31, 1998.

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission File No. 1-8129.

US 1 INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Indiana

(State of Incorporation)

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

95-3585609

1000 Colfax, Gary, Indiana

46406

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (219) 944-6116

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, no par value	None

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes X No

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

On March 29, 1999, there were 10,618,224 shares of registrant's common stock were outstanding, and the aggregate market value of the voting stock held by non affiliates of the registrant was approximately \$700,000. For purposes of the forgoing statement, directors and officers of the registrant have been assumed to be affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's proxy statement for the annual meeting of shareholders are incorporated by reference into Part III. The date for the annual meeting has not been set as of this date.

PART 1

Item 1. Business.

The registrant, US 1 Industries, Inc. (hereinafter referred to, together with its subsidiaries, as "US 1" or the "Company"), through its subsidiaries is an interstate trucking company operating in 48 states and in Ontario and Quebec, Canada. The Company's business consists of a truckload operation for which the Company obtains substantially all of its business through independent sales agents who then contract with independent truckers to haul the freight to the desired destination.

US 1 was incorporated in California under the name Transcon Incorporated on March 3, 1981. In March 1994, the Company changed its name to US 1 Industries, Inc. In February 1995, the Company was merged with an Indiana corporation for purposes of re-incorporation under the laws of Indiana. The Company's principal subsidiaries consist of Blue and Grey Transport, Inc., an Indiana corporation ("BGT"), Blue and Grey Brokers, Inc., an Indiana corporation ("BGB"), Carolina National Logistics, Inc., an Indiana corporation ("CNL"), Carolina National Transportation, Inc., an Indiana corporation ("CNT"), Gulf Line Brokerage, Inc., an Indiana Corporation ("GLB"), Gulf Line Transportation, Inc., an Indiana Corporation ("GLT"), Keystone Lines, a California corporation ("Keystone"), and TC Services, Inc., a California corporation ("TCS"). BGT, BGB, CNL, CNT, GLB, GLT, and Keystone operate under authority granted by the United States Department of Transportation (the "DOT"), and various state agencies.

Operations

The Company carries virtually all forms of freight transported by truck, except bulk goods and hazardous materials, including specialized trucking services such as containerized, refrigerated, and flatbed transportation.

The Company contracts with independent truckers and sales agents and pays them a percentage of the revenue received from customers for the delivery of goods. The expenses related to the operation of the trucks are the responsibility of the independent contractors. Consequently, short-term fluctuations in operating activity have less of an impact on this component of the Company's net income than they have on the net income of truck transportation companies that bear substantially all of the cost of employing drivers and maintaining equipment. Like other truck transportation companies, however, US 1's revenues are affected by competition and the state of the economy.

The Company's principal focus during 1998 was growing the Company through expansion of Carolina National Transportation, which began operating in January of 1997.

Marketing and Customers

The Company conducts its business through independent sales agents. The sales agents have facilities and personnel to monitor and coordinate shipments and to dispatch independent contractors who own and operate their own trucks for freight transportation. The Company pays sales agents and contractors commissions immediately upon delivery of shipments.

Approximately 85% of the Company's revenues from its trucking operations are allocated to the payment of independent contractors and sales agents.

During 1998, the Company utilized the services of approximately 25 sales agents. The largest agent accounted for 12% of the Company's total revenues. No other agent accounted for more than 10% of revenue. The Company shipped freight for approximately 3,000 customers in 1998, no one of which accounted for more than of 10% of the Company's total revenues.

During 1997, the Company utilized the services of approximately 100 sales agents, one of which accounted for 14% of the Company's total revenue. No other agent accounted for more than 10% of revenue.

The independent contractors used by the Company must enter into standard equipment operating agreements. The agreements provide that independent contractors must bear many of the costs of operations, including drivers' compensation, maintenance costs, fuel costs, collision insurance, taxes related to the ownership and operation of the vehicle, licenses, and permits. The Company requires independent contractors to maintain their equipment to standards established by the DOT, and the drivers are subject to qualification and training procedures established by the DOT. The Company is also required to have random drug testing, enforce hours of service requirements, and monitor maintenance of vehicles.

Employees

At December 31, 1998, the Company had approximately thirty-five full-time employees. The Company's employees are not covered by a collective bargaining agreement. The Company provides services to other related party companies owned by the partners of August Investment Partnership.

Competition

The trucking industry is highly competitive. The Company competes for customers primarily with other nationwide carriers, some of which have company-owned equipment and company drivers, and many, if not most, of which have greater volume and financial resources. The Company also competes with private carriage conducted by existing and potential customers. In addition, the Company competes with other modes of transportation including rail.

The Company also faces competition for the services of independent trucking contractors and sales agents. Sales agents routinely do business with a number of carriers on an ongoing basis. The Company has attempted to develop a strong sales agent network by maintaining a policy of prompt payment upon delivery of goods.

Competition is based on several factors; principally cost, timely availability of equipment and quality of service.

Insurance

The Company insures the trucks with automobile liability insurance coverage of up to \$1 million per occurrence with a \$5,000 deductible. The Company has cargo insurance coverage of \$200,000 per occurrence (\$400,000 for catastrophes) with a \$10,000 deductible. The Company also maintains a

commercial general liability policy with a limit of \$1,000,000 per occurrence and no deductible.

Regulation

The Company is a common and contract motor carrier regulated by the DOT and various state agencies. Prior to 1980, the government strictly regulated the trucking industry as to entry of new operators, rates charged, routes driven and types of freight hauled. The Motor Carrier Act of 1980 commenced a period of deregulation that has continued to the present. The Act increased competition by easing barriers to entry into the trucking industry, such as proof of public convenience and necessity. The Act also made rates more competitive and reduced regulation of the industry.

Like all interstate motor carriers, the Company is subject to the safety requirements prescribed by the DOT, including regulations effective in 1992 that instituted drug-testing procedures and a uniform commercial driver license. The Company is in substantial compliance with these regulations.

In 1990, the Company was granted authority from Canadian authorities to haul truckload freight between all points in the provinces of Ontario and Quebec and the United States. The Company is therefore also subject to Canadian regulation, which is not dissimilar to regulation in the states.

Environmental Regulation

The Company owns property in Phoenix, Arizona that was formerly leased to Transcon Lines ("Lines") as a terminal facility, where soil contamination problems existed or are known to exist currently. State environmental authorities notified the Company of potential soil contamination from underground storage tanks, and management has been working with the regulatory authorities to implement required remediation. The underground storage tanks were removed from the Phoenix facility in February 1994. Otherwise, the Company believes it is in substantial compliance with state and federal environmental regulations relative to the trucking business.

Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

The statements contained in Item 1 (Description of Business) and Item 6 (Management Discussion and Analysis of Financial Condition and Results of Operation), particularly the statements under "Future Prospects" contain forward-looking statements that are subject to a variety of risks and uncertainties. The Company cautions readers that these risks and uncertainties could cause the Company's actual results in 1999 and beyond to differ materially from those suggested by any forward-looking statements. These risks and uncertainties include, without limitation, a lack of historic information for new operations on which expectations regarding their future performance can be based, general economic and business conditions affecting the trucking industry, competition from, among others, national and regional trucking companies that have greater financial and marketing resources than the Company, the availability of sufficient capital, and the Company's ability to successfully attract and retain qualified owner operators and agents.

Item 2. Properties

The Company's administrative offices are at 1000 Colfax, Gary, Indiana. The Company leases its headquarters for \$2,200 per month from Mr. Michael E. Kibler, President, Chief Executive Officer and a director of the Company, and Mr. Harold Antonson, Chief Financial Officer of the Company.

Carolina National leases 2400 sq. ft of office space in Mt. Pleasant, SC for \$2700 per month. The current lease is due to expire July, 1999.

Item 3. Legal Proceedings

Reference is made to Note 11 of the notes to the consolidated financial statements for discussion regarding pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of 1998.

Item 4A. Executive Officers of the Registrant.

Name and Age	Office and Experience
Michael E. Kibler, 58	Mr. Kibler is President and Chief Executive Officer of the Company and has held these positions since September 1993. He also has been President of Enterprise Truck Lines, Inc., an interstate trucking company engaging in operations similar to the Company's, since 1972. Mr. Kibler is also a director of American Inter-Fidelity Exchange, an insurance reciprocal located in Indiana that is the subject of an Order of Rehabilitation by the Indiana department of Insurance. Mr. Kibler has served as a Director of the Company since 1993.
Harold Antonson, 59	Mr. Antonson is Chief Financial Officer, and has held this position since April 1998. He also has been secretary of Enterprise Truck Line, Inc. an interstate trucking Company engaged in operations similar to the Company's since 1972.
Richard Courtney, 57	Mr. Courtney has served as Vice-President, and Secretary of the Company since September 1993. Since 1982, Mr. Courtney has been the Controller of Eastern Refrigerated Express, Inc. Mr. Courtney has served as a director of the Company since 1994.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Shares of Common Stock of the Company are listed and traded on the "bulletin board market" under the symbol US00. During 1998 the Company was de-listed from the NYSE.

The following table sets forth for the period indicated the high and low sales prices per share of the Common Stock as reported on the New York Stock Exchange Composite Tape through June 1998 and as reported by Dreyfus Brokerage Services since June 1998:

Calendar Year	High	Low
<u>1998</u>		
First Quarter	13/32	7/32
Second Quarter	3/8	1/4
Third Quarter	3/8	3/32
Fourth Quarter	3/32	1/16
<u>1998</u>		
First Quarter	9/16	9/32
Second Quarter	3/8	7/32
Third Quarter	1/2	9/32
Forth Quarter	11/16	5/16

As of March 17, 1999, there were 3,293 holders of record of Common Stock.

The Company has not paid any cash dividends on its Common Stock. Management does not anticipate paying any dividends on the Common Stock in the foreseeable future, and the Company's current credit agreement prohibits the payment of dividends.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Results of Operations

The financial statements and related notes contained elsewhere in this Form 10-KSB are essential to an understanding of the comparisons and are incorporated by reference into the discussion that follows.

1998 Compared to 1997

The Company's operating revenues from continuing operations increased from \$25.4 million in 1997 to \$30.2 million in 1998. The Company's operating revenues were generated principally by independent sales agents who originate truckload shipments. These shipments are then transported by independent trucking contractors using their own equipment. The increase in operating revenues resulted primarily from the startup and growth of Carolina National Transportation.

Total operating expenses increased from \$25.8 million in 1997 to \$30.0 million in 1998. The largest component of operating expenses is purchased transportation. Purchased transportation generally varies in proportion to operating revenues at approximately 77% of revenues. Purchased transportation increased from \$19.7 million in 1997 to \$23.4 million in 1998. Commissions increased from \$2.4 million in 1997 to \$3.2 million in 1998, and similarly vary in proportion to operating revenues. Insurance and claims, which were \$0.9 million in 1997 remained constant at \$0.9 million in 1998. The insurance rate was reduced during 1998 due to favorable loss experience. The remaining operating expenses decreased from \$2.8 million in 1997 to \$2.5 million in 1998 primarily as a result of better cost control.

The company's operating income improved from a loss of \$0.4 million in 1997 to approximately breakeven 1998.

Interest, the largest ongoing component of non operating income and expense, varies in proportion to the Company's outstanding interest-bearing indebtedness. Interest expense increased from \$0.4 million in 1997 to \$0.7 million in 1998, primarily due to the increased debt used to finance the Carolina National accounts receivable and fund operating losses.

Extraordinary income was \$0.6 million in 1997.

Overall, the Company's had a net income of \$0.2 million in 1998 as compared to a net (loss) of (\$0.3) million in 1997.

Future Prospects

The Company believes that gaining control over its operations and expenses is the most important step to being profitable in 1999. In addition the company needs to reduce its debt and related interest expense, and sales growth needs to continue.

Shareholders and potential investors in the Company are cautioned that the Company's financial condition remains precarious and that an increase in operation performance is essential to its long term survival.

Liquidity and Capital Resources

As of December 31, 1998, the Company's financial position remained poor. The Company had a net deficit in shareholders' equity of \$4.3 million and its current liabilities of \$5.2 million exceeded its current assets by \$1.0 million.

Cash flows during 1998 came from operations, and loans made by Messrs Kibler and Antonson. During 1997 cash flows came primarily from the line of credit and loans made by Messrs Kibler and Antonson. Negative cash flows from operations increased from a negative cash flow of \$3.6 million in 1997 to \$0.5 million in 1998. Cash flows used in investing activities increased by \$0.02 million in 1998 due to the sale of property in 1998.

The Company's principal source of liquidity is its \$3.3 million line of credit with FINOVA. The availability of the line of credit is based on 80% of Keystone's, Gulf Line's and Carolina National's eligible accounts receivable.

At December 31, 1998, the outstanding borrowings were \$2.5 million.

Related party loans from AIP and Messrs. Kibler and Antonson have increased from \$2,349,304 at December 31, 1997 to \$2,701,042 at December 31, 1998.

Shareholders and potential investors in the Company are cautioned that the Company's financial condition remains precarious and that an increase in operating performance is essential to its long term survival.

The Company is not a party to any Super-fund litigation and otherwise does not have any known environmental claims against it. However, the Company does have one property where soil contamination problems existed or are known to exist currently. The Company has preliminarily evaluated its potential liability at this site and believes that it has reserved appropriately for its remediation or that the fair market value of the property exceeds its net book value by an amount in excess of any remediation cost. There can be no assurance, however, that the cost of remediation would not exceed the expected amounts. The Company has no current plans to remediate the property.

Inflation

Changes in freight rates charged by the Company to its customers are generally reflected in the cost of purchased transportation and commissions paid by the Company to independent contractors and agents, respectively. Therefore, management believes that future operating results of the Company will be affected primarily by changes in volume of business. However, due to the highly competitive nature of the truckload motor carrier industry, it is possible that future freight rates and cost of purchased transportation may fluctuate, affecting the Company's profitability.

Year 2000 Issue

Many existing computer systems and related software applications, and other control devices, use only two digits to identify a year in a date field, without considering the impact of the upcoming change in the century. Such systems, applications and/or devices could fail or create erroneous results unless corrected so that they can process data related to the Year 2000. The company relies on such computer systems, applications and devices in operating and monitoring all major aspects of its business, including, but not limited to, its financial systems (such as general ledger, accounts payable, and payroll modules), customer services, internal networks and telecommunications equipment, and end products. The Company also relies, directly, and indirectly, on the external systems of various independent business enterprises, such as its customers, suppliers, creditors, financial organizations, and of governments, both domestically and internationally, for the accurate exchange of data and related information.

The Company is currently in the process of evaluating the potential impact of the Year 2000 issue on its business and the related expenses that would foreseeably be incurred in attempting to remedy such impact (including testing and implementation of remedial action). As of December 31 1998 the company has spent \$10,000 re-writing its computer programs to comply with the year 2000 needs and expects to spend an additional \$15,000 to \$30,000 during 1999 re-writing and purchasing new software to bring itself into compliance.

We believe our worst case scenario would be that we would have to manually bill its customers and revert to a manual accounting system if the issue is not corrected by year 2000. Management's current estimate is that the costs associated with the Year 2000 issue should not have a material adverse affect on the results of operations or financial position of the Company in any given year. However, despite the Company's effort to address the Year 2000 impact on its internal systems, the Company is not sure that it has fully identified such impact or that it can resolve it without disruption of its business and without incurring significant expenses. In addition, even if the internal systems of the Company are not materially affected by the Year 2000 issue, the Company could be affected as a result of any disruption in the operation of the various third-party enterprises with which the Company interacts.

Recently Issued Accounting Standards

In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company, to date, has not engaged in derivative and hedging activities. Reference is made to Note 2 of the consolidated financial statements.

Item 7. Financial Statements and Supplementary Data.

To the Shareholders and
Board of Directors of US 1 Industries, Inc.

We have audited the accompanying consolidated balance sheets of US 1 Industries, Inc. and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended. 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 generally accepted auditing standards. Those standards require that we plan and perform the audits 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 the overall financial statement

presentation. We believe our audits provide as reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of US 1 Industries, Inc. and subsidiaries at December 31, 1998 and 1997 and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

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 experienced operating losses and negative cash flows in recent years and has a net capital deficiency. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard 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.

Coopers & Lybrand L.L.P.

Chicago, Illinois
March 27, 1998

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

ASSETS

	<u>1998</u>	<u>1997</u>
CURRENT ASSETS:		
Cash	\$	\$ 298,079
Accounts receivable-trade, less allowance for doubtful accounts of \$ 95,083 and \$195,298	4,041,966	5,066,256
Other receivables	59,654	336,919
Deposits	132,429	154,068
Prepaid expenses	27,798	83,731

Total current assets	----- 4,261,847 -----	----- 5,939,053 -----
FIXED ASSETS:		
Equipment	258,445	52,996
Less accumulated depreciation and amortization	(75,316)	(12,682)
Net fixed assets	----- 183,129 -----	----- 40,314 -----
ASSETS HELD FOR SALE:		
Land	195,347	423,226
Valuation allowance	(141,347)	(141,347)
Net assets held for sale	----- 54,000 -----	----- 281,879 -----
TOTAL ASSETS	----- \$ 4,498,976 =====	----- \$ 6,261,246 =====

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

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

	<u>1998</u>	<u>1997</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 1,445,889	\$ 2,734,980
Bank overdraft	260,404	530,133
Accrued expenses	183,400	137,454
Short-term debt	2,565,006	3,292,945
Insurance and claims	181,524	241,607
Accrued compensation	17,591	38,302
Accrued interest	392,883	140,824
Estimated fuel and other taxes	75,695	273,901
	-----	-----
Total current liabilities	5,122,392	7,390,146
	-----	-----
LONG-TERM DEBT	2,849,262	2,516,415
REDEEMABLE PREFERRED STOCK:		
authorized 5,000,000 shares; no par value, Series A shares outstanding:		
1998 - 1,094,224; 1997 - 1,094,224.		
Liquidation preference \$0.3125 per share	825,254	753,254
SHAREHOLDERS' EQUITY (DEFICIENCY):		
Common stock, authorized 20,000,000 shares; no par value; shares outstanding:		
1997 and 1998 - 10,618,224		
Accumulated deficit	(45,142,228)	(45,242,865)
	-----	-----
Total shareholders' equity (deficiency)	(4,297,932)	(4,398,569)
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)	\$ 4,498,976	\$ 6,261,246
	=====	=====

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

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
YEARS ENDED DECEMBER 31, 1998, AND 1997

	1998	1997
OPERATING REVENUES	\$ 30,176,818	\$25,421,806
OPERATING EXPENSES:		
Purchased transportation	23,416,624	19,676,213
Insurance and claims	938,044	941,700
Salaries, wages, and other	1,223,113	1,285,778
Commissions	3,177,908	2,360,989
Operating supplies and expenses	907,716	1,220,978
Operating taxes and licenses	106,929	130,853
Communications and utilities	98,924	137,606
Rents	58,802	79,516
Depreciation and amortization	74,963	9,533
Total operating expenses	30,003,023	25,843,166
OPERATING INCOME (LOSS)	173,795	(421,360)
NON OPERATING INCOME (EXPENSE):		
Interest income	7,702	2,430
Interest expense	(743,953)	(435,042)
Write off of old payables	530,674	
Other income (expense), net	204,419	51,462
Total non operating income (expense)	(1,158)	(381,150)
(LOSS) FROM CONTINUING OPERATIONS		
BEFORE EXTRAORDINARY GAIN	172,637	(802,510)
EXTRAORDINARY GAIN:		
Forgiveness of debt	0	610,318
NET INCOME (LOSS)	172,637	(192,192)
DIVIDENDS ON PREFERRED SHARES	72,000	61,712
NET INCOME (LOSS) AVAILABLE TO COMMON SHARES	100,637	(\$253,904)
INCOME (LOSS) PER COMMON SHARE:		
Loss from continuing operations:		
Basic	(\$0.00)	(\$0.08)
Diluted	(\$0.00)	(\$0.08)
Net Income (Loss):		
Basic	\$0.01	(\$0.02)
Diluted	\$0.01	(\$0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING -		
BASIC AND DILUTED	10,618,224	10,616,397

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

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
YEARS ENDED DECEMBER 31, 1998, and 1997

	Shares	Common Stock Amount	Accumulated Deficit	Total
Balance at				
December 31, 1996	10,573,780	\$40,824,296	(\$44,988,961)	(\$4,164,665)
Issuance of Common Stock	44,444	20,000		20,000
Dividends on Preferred Stock			(61,712)	(61,712)
Net income (loss)			(192,192)	(192,192)
Balance at				
December 31, 1997	10,618,224	\$40,844,297	(\$45,242,865)	(\$4,398,568)
Dividends on Preferred Stock			(72,000)	(72,000)
Net income			172,637	172,637
Balance at				
December 31, 1998	10,618,224	\$40,844,297	(\$45,142,228)	(\$4,297,931)

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

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 172,637	(\$192,192)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	74,963	9,533
Gain on sale of property	(44,800)	0
Provision (recovery) on accounts receivable	0	145,298
Loss on disposal of equipment	17,488	1,160
Extraordinary gain - forgiveness of debt		(610,318)
Changes in operating assets and liabilities:		
Accounts receivable-trade	1,024,290	(3,709,607)
Other receivables	277,265	(200,271)
Prepaid expenses	55,933	32,745
Deposits	21,639	(176)
Accounts payable	(1,289,091)	720,143
Accrued expenses	207,570	(14,644)
Insurance and claims	(60,083)	(10,546)
Accrued interest	252,059	108,396
Accrued compensation	(20,711)	(8,578)
Estimated fuel and other taxes	(198,206)	99,524
Net cash provided by (used in) operating activities	490,953	(3,629,533)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(2,566)	(41,496)
Purchase of Land		(227,879)
Proceeds from sale of Land	61,055	
Net cash provided by (used by) investing activities	58,489	(269,375)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) under line of credit	(741,720)	2,135,847
Proceeds from issuance of common stock		20,000
Proceeds from short term loan on property		50,000
Repayment of long-term loans	(123,308)	(10,000)
Net proceeds from related party loans	287,236	926,608
Increase (Decrease) in bank overdraft	(269,729)	348,991
Proceeds from issuance of mortgages to related parties		500,000
Net cash provided by (used in) financing activities	(847,521)	3,971,446
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(298,079)	72,538
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	298,079	225,541
CASH AND CASH EQUIVALENTS, END OF YEAR	0	\$298,079
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION--		
Cash paid during year for interest	\$491,894	\$326,646

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND

FINANCING ACTIVITIES

Note payable incurred for purchase of equipment	\$232,700
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The accompanying notes are an integral part of the consolidated financial statements.

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 1998, AND 1997

1. OPERATIONS

The Company is primarily an interstate truckload carrier of general commodities, which uses independent agents and contractor equipment to contract for and haul freight for its customers in all 48 states with a concentration in the Southeastern United States. One agent accounted for 12% of the Company's revenue for the year ended December 31, 1998. The same agent represented 14% of sales for the year ended December 31, 1997.

Going Concern--The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying consolidated financial statements, the Company experienced operating losses and negative cash flows in recent years. At December 31, 1998 and 1997, the Company's current liabilities exceeded its current assets by \$0.8 million and \$1.4 million, respectively. At December 31, 1998 the shareholder deficit was \$4.0 million. The Company's future depends on increasing the operating income rate to a level where there is a reasonable margin of profit after paying the interest expense. Management is exploring various options to increase margins as well as convert some debt to Equity in order to reduce the related interest expense. The shareholders' deficit and negative working capital, and unprofitable operations continue to raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation--The consolidated financial statements include the accounts of US 1 Industries, Inc. and its subsidiaries. All significant inter-company accounts and transactions have been eliminated.

Revenue Recognition--Revenue for freight in transit is recognized upon delivery. Amounts payable for purchased transportation, commissions and insurance expense are accrued when the related revenue is recognized.

Cash and Cash Equivalents--The Company considers as cash equivalents all highly liquid investments with an original maturity of three months or less.

Fixed Assets--Fixed assets are stated at cost. Equipment is depreciated using the straight-line method over the estimated useful lives of the related assets, which range from three to eight years.

Assets Held for Sale--Such assets comprise real estate, not required for the Company's operations, which is carried at the lower of historical cost or estimated net realizable value.

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Accounting 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 dates of financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recently Issued Accounting Standards--In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company, to date, has not engaged in derivative and hedging activities.

Income Taxes--Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. In addition, the amount of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be fully utilized.

Fair Value of Financial Instruments--The carrying value of cash and cash equivalents approximates fair value. For debt instruments, it is not practicable to determine the fair value at December 31, 1998 due to several factors which include; related party considerations, the current financial status of US 1, and the lack of valuation information regarding certain collateral.

Earnings Per Common Share--In February 1997, the Financial Accounting Standards board issued Statement No. 128, "Earnings per Share," which became effective for both interim and annual financial statement periods ending after December 15, 1997. As required by this statement, the Company adopted the new standards for computing and presenting earnings per share ("EPS") for 1997. Following are the reconciliations of the numerators and denominators of the basic and diluted EPS. The average market price of the common stock was greater than the exercise price of the outstanding options, however, as the Company had a net loss in 1997, the potentially dilutive securities (options) were antidilutive.

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Numerator	1998	1997
Loss from continuing operations	(\$740,642)	(\$802,510)
Dividends on preferred shares	(72,000)	(61,712)
	-----	-----
Loss available to common shareholders for basic and diluted EPS	(\$812,642)	(\$864,222)
Discontinued Operations		
Extraordinary gain	913,279	610,318
	-----	-----
Net income (loss) available to common shareholders for basic and diluted EPS	(\$100,637)	(\$253,904)
Denominator		
Weighted average common shares outstanding for basic and diluted EPS	10,616,397	10,616,397

2. EXTRAORDINARY GAIN

During the fourth quarter of 1997, the bankruptcy of Trailblazer Transportation was finalized and, accordingly, the Company recorded a gain of \$610,318 (\$0.06 per share - basic and diluted) on the forgiveness of debt.

3. REDEEMABLE PREFERRED STOCK AND COMMON STOCK

The Series A preferred shares are not convertible into common stock, are non-voting, and earn dividends at the rate of \$0.0375 per share per annum (increasing by \$0.0063 on each of January 1, 1995, 1996 and 1997, and by \$0.0094 on January 1, 1998 and on each January 1 thereafter until redeemed) payable quarterly on the first day of February, May, August, and November. The Series C preferred stock is redeemable at the option of the Company or the holders at any time.

As of December 31, 1998, series A cumulative preferred stock dividends are in arrears by \$278,141. The Company's current line of credit prohibits the payment of dividends.

4. RELATED PARTY TRANSACTIONS

TC Services, Inc. provides safety, management, and accounting services to companies owned by members of AIP. These services are priced to cover the cost of the employees providing the services. Revenues related to those services totaled \$70,607 and \$149,422 in 1998 and 1997, respectively.

The Company's primary insurance provider ("AIFE") is managed by a Director of the Company. (AIFE) is also under common control with an affiliated insurance recipicol , Indiana Truckers Exchange (ITE). For the years ended December 31, 1998 and 1997, cash paid for related party insurance premiums and deductibles amounted to \$751,123 and \$770,704, respectively.

The long term notes payable to AIFE at December 31, 1997 was \$221,475 and \$43,256 at December 31, 1998. Long term notes payable to ITE was \$113,717 at December 31, 1998, as disclosed in note 8. The amount due ITE at December 31,1997 was combined with and included in the amount due AIFE at December 31, 1997.

Related party loans from AIP and Messrs. Kibler and Antonson and Enterprise Truck Line, Inc. (a company controlled by Messrs. Kibler and Antonson) have increased from \$2,349,304 at December 31, 1997 to \$2,701,042 at December 31, 1998.

5. LEASES

The Company leases office space on a month-to-month basis for its headquarters in Gary, Indiana for \$ 2,200 per month from the Company's President and another General Partner of AIP. No formal lease agreement with the Company existed at December 31, 1998. The Company leases office space in Mt. Pleasant, South Carolina for \$ 2,700 per month. The lease agreement expires in July, 1999.

6. SHORT-TERM DEBT

Short-term debt at December 31, 1998 and 1997 comprises:

	December 31, 1998	December 31, 1997
	-----	-----
Line of credit	\$2,446,861	\$3,188,581
Current portion of long-term debt	118,145	54,364
Note on Kansas City Property		50,000
	-----	-----
Total	\$2,565,006	\$3,292,945
	=====	=====

Under its revolving line of credit agreement the Company may borrow up to a maximum of \$3,300,000. Borrowings are limited to 80% of eligible accounts receivable and bear interest at the prime rate (7.75% and 8.50% at December 31, 1998 and 1997, respectively) plus 2.75% at both December 31, 1998 and 1997. Advances under the line of credit agreement are collateralized by the Company's accounts receivable, property and other assets. At December 31, 1998, the outstanding borrowings were \$2.5 million. The line of credit expires in May 2002.

The line of credit is subject to termination upon various events of

default, including failure to remit timely payments of interest, fees and principal, any adverse change in the business of the Company or the insecurity of the lender concerning the ability of the Company to repay its obligations as and when due or failure to meet certain financial covenants. Financial covenants include: minimum net worth requirements, total debt service coverage ratio, capital expenditure limitations, restrictions on compensation levels of key officers, and prohibition of additional indebtedness without prior authorization. As of December 31, 1998, the Company was in violation of the total debt service coverage ratio.

8. LONG-TERM DEBT

Long-term debt at December 31, 1998 and 1997 comprises:

	1998	1997
Note payable to August Investment Partnership interest at prime + .75%, interest only payments required, principal balance due January 2000	\$ 250,000	\$ 250,000
Mortgage note payable to Antonson/Kibler collateralized by land, interest at prime + .75%, interest only payments required, principal balance due July 2000	500,000	500,000
Mortgage note payable to ITE, collateralized by land, interest at 9%, monthly repayments of \$5,000, including interest, remaining principal balance due March, 2002	56,428	120,930
Note payable collateralized by equipment monthly payments of \$ 5679 interest at 7.8% through February, 2001	109,392	
Mortgage note payable to ITE interest at 9% Monthly repayment of \$2850 are to begin on August 15, 1999	57,289	57,289
Mortgage note payable to AIFE interest at 9% Monthly installments of \$2150 are to begin on August 15, 1999	43,256	43,256
Mortgage note payable to August Investment Partnership, interest at prime + .75%, interest only payments required, principal balance due January, 2001	100,000	100,000
Note payable to Antonson/Kibler interest at prime + .75%, interest only payments required, principal balance due January, 2001	1,851,042	1,499,304
	-----	-----
Total debt	2,967,407	2,570,779

Less current portion	118,145	54,364
	-----	-----
Total long-term debt	\$ 2,849,262	\$2,516,415
	=====	=====

Scheduled maturities of the long-term debt at December 31, 1998 are due as follows:

1999	\$ 118,145
2000	2,248,717
2001	0
2002	100,545
2003	500,000
Beyond	
	\$2,967,407
	=====

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

9. STOCK OPTIONS

During 1998, options which were immediately exercisable to purchase 80,000 shares of common stock at \$0.25 per share were granted to an unaffiliated investor. These options expire at December 31, 1999. These options were outstanding, and exercisable at December 31, 1998.

10. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. A valuation allowance for the net deferred tax asset has been recognized due to the uncertainty of realizing the benefit of the loss carry forwards and future deductible temporary differences. The components of deferred tax assets as of December 31, 1998 and 1997 are as follows:

	1998	1997
	-----	-----
Deferred tax assets:		
Accounts receivable and other	\$ 32,401	\$ 66,401
Estimated fuel and other taxes	47,155	47,155
Insurance and claims	68,390	68,390
Litigation reserves	17,170	17,170
Land valuation allowance	48,058	48,058
Net operating loss carry forwards	19,937,987	19,962,684
	-----	-----
Total deferred tax assets	20,151,161	20,209,858
Less valuation allowance	(20,151,161)	(20,209,858)
	-----	-----
Total net deferred tax asset	\$ ---	\$ ---
	=====	=====

The Company has net operating loss carry forwards of approximately \$59 million and \$59 million at December 31, 1998 and 1997, respectively. These carry-forwards are available to offset taxable income in future years and will expire in the years 2003 through 2008.

11. COMMITMENTS AND CONTINGENCIES

Over the past few years, the Company has had a significant number of lawsuits instituted or threatened against it as a result of its poor financial condition and its inability to meet certain financial obligations. For the most part, these resulting suits have been settled through cash payments of a reduced amount or through the institution of payment plans. The undisputed claims that have not been settled are reflected as liabilities in the Company's financial statements and are included in accrued expenses in the accompanying consolidated balance sheets. The Company's significant litigation activity that is currently pending includes the following:

McCormick v. Trailblazer. Mr. McCormick, the owner of C.A. White Trucking Company ("White"), filed an action on October 1, 1993, alleging that Trailblazer (formerly a subsidiary of Keystone Lines, Inc.) failed to make required payments under an employment contract. Trailblazer did not make the payments as a result of a dispute related to undisclosed liens on assets purchased from White. The Company has lost this suit, however, Trailblazer was closed in 1994 and has no funds to pay the judgment. The judgment was for approximately \$59,000. The suit has since been brought against US 1. The suit has been dismissed from Federal Court during the second quarter of 1997. However, McCormick has refiled the case in Texas State Court during the third quarter of 1997.

Simpson V. Keystone Lines--Mr. Simpson, an independent owner-operator leased to Keystone Lines, is claiming an amount in excess of \$25,000 for injuries he sustained to his back while working for the Company. The Company is vigorously defending against this claim on the basis that Mr. Simpson was not an employee and is not entitled to a workers compensation claim. The company has contingent insurance coverage in the event a judgement is entered against the company.

Cam Regional Transport, Inc., Miller, Pry v. Trailblazer, Transcon Incorporated. The owners of Cam Regional Transport, Inc., filed an action in 1994, alleging that Trailblazer failed to make required payments under an employment contract and purchase agreement alleging damages of \$293,000. Trailblazer ceased to make the payments as a result of a dispute related to their employment and inability to obtain title to the assets purchased. The Company is vigorously defending the action.

The Company believes it has adequately provided for the above claims, however, additional liability is possible and the ultimate disposition of these claims may have a material adverse effect to the Company's results of operations, cash flows and financial position.

The Company carries insurance for public liability and property damage, and cargo loss and damage through various programs. The Company's insurance liabilities are based upon the best information currently available and are subject to revision in future periods as additional information becomes available. Management believes it has adequately provided for insurance claims.

US 1 INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

12. ENVIRONMENTAL MATTERS

The Company owns a property in Phoenix where soil contamination problems exist. The Company has been working with regulatory officials to eliminate new contamination sources and determine the extent of existing problems. Estimates of the cost to complete the required remediation of approximately \$141,347 are considered in the land valuation allowance at December 31, 1998 and 1997.

Item 8. Changes in and Disagreements with Independent Auditors' on Accounting and Financial Disclosure.

During 1998 BDO Siedman replaced Coopers Lybrand as the company's auditors. There is no disagreements with either firm on accounting or financial disclosure.

PART III

Item 9. Directors and Executive Officers of the Registrant.

In response to the information called for by Item 401 of Regulation S-K with respect to directors of the Company, the material set forth under "ELECTION OF DIRECTORS -- Nominees for Board of Directors" in the Company's proxy statement for the annual meeting of shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated herein by reference.

In response to the information called for by Item 401 of Regulation Item 401 of Regulation S-K with respect to executive officers of the Company, the material set forth under "Executive Officers of the Registrant" in Part I of this Form 10-K Annual Report for the year ended December 31, 1998, is incorporated herein by reference.

Item 10. Executive Compensation

In response to the information called for by Item 402 of Regulation S-K with respect to directors of the Company, the information under "COMPENSATION OF DIRECTORS" in the Company's proxy statement for the annual meeting of shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated herein by reference.

In response to the information called for by Item 402 of Regulation S-K with respect to executive officers of the Company, the information under "EXECUTIVE COMPENSATION" (exclusive of the "Report of Compensation Committee" and the "Performance Graph") in the Company's proxy statement for the annual meeting of shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

In response to the information called for by Item 403 of Regulation S-K, the information under "SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS" in the Company's proxy statement for the annual meeting of shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions.

In response to the information called for by Item 404 of Regulation S-K, the information under "CERTAIN BUSINESS RELATIONSHIPS" in the Company's proxy statement for the annual meeting of shareholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, is incorporated herein by reference.

PART IV

Item 13. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1) List of Financial Statements

The following is a list of financial statements filed herewith:

	<u>Page Number</u>
Report of Independent Accountants	11
Consolidated Balance Sheets as of December 31, 1998 and 1997	12
Consolidated Statements of Operations for the years ended December 31, 1998 and 1997	14
Consolidated Statements of Shareholders' Equity (Deficiency) for the years ended December 31, 1998 and 1997	15
Consolidated Statements of Cash Flows for the years ended December 31, 1998 and 1997	16
Notes to Consolidated Financial Statements	17

(a)(2) List of Financial Statement Schedules

Schedules are not included because of the absence of the conditions under which they are required or because the required information is included in the consolidated financial statements or notes thereto.

(a)(3) List of Exhibits

The following exhibits, numbered in accordance with Item 601 of Regulation S-K, are filed as part of this report:

- Exhibit 3.1 Articles of Incorporation of the Company.
(incorporated herein by reference to the Company's Proxy Statement of November 9, 1993).
- Exhibit 3.2 By-Laws of the Company.
(incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- Exhibit 10.1 Loan and Security Agreement with FINOVA and Keystone Lines and L.R.S. Transportation, Inc.
- Exhibit 10.2 Loan agreements with August Investment Partnership and US 1 Industries.
- Exhibit 10.3 Loan agreements with Michael Kibler/Harold Antonson and US 1 Industries.
- Exhibit 10.4 Loan agreements with AIFE/ITE and US 1 Industries.
- Exhibit 10.5 First Amendment of Loan and Security Agreement with FINOVA and Keystone Lines and L.R.S. Transportation, Inc.
- Exhibit 10.6 Second Amendment of Loan and Security Agreement with FINOVA and Keystone Lines and L.R.S. Transportation, Inc.
- Exhibit 10.7 Mortgage and Loan agreements with Michael Kibler/Harold Antonson and US 1 Industries, Inc.
- Exhibit 21.1 Subsidiaries of Registrant
- Exhibit 23.1 Consent of Coopers & Lybrand LLP

(b) Reports on Form 8-K

NONE

SIGNATURES

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

US 1 INDUSTRIES, INC.

Date: _____

By: _____

Michael E. Kibler
President & Chief Executive Officer
(Principal Executive Officer)

Date: _____

By: _____

Richard Courtney
Vice President & Secretary

Date: _____

By: _____

Harold Antonson
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: _____

Richard Courtney, Director

Date: _____

Michael E. Kibler, Director

Date: _____

Robert I. Scissors, Director

Date: _____

Lex L. Vendetti, Director

Date: _____

Steve Green, Director