

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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, 1999.

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:

Name of each exchange

Title of each class on which registered

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  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-K or any amendment to this Form 10-K.

On March 15, 2000, 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 \$1,000,000. For purposes of the forgoing statement, directors and officers of the registrant have been assumed to be affiliates.

## 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. 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 arrange 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 transportation 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 1999 was growing the Company through expansion of Carolina National Transportation, and controlling the cost of operations.

#### 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.

Approximately 86% of the Company's revenues from its trucking operations are allocated to the payment of independent contractors and sales agents.

During 1999, the Company utilized the services of approximately 30 sales

agents. One agent accounted for 18% and 15% of the Company's revenue for the years ended December 31, 1999 and December 31, 1998, respectively. The Company shipped freight for approximately 1,000 customers in 1999, no one of which accounted for more than of 10% of the Company's total revenues.

In 1998 and 1997, one other agent accounted for 12% and 14%, respectively, of the Company's total revenues. No customers in 1998 or 1997 accounted for more than 10% of the Company's revenues.

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, 1999, the Company had approximately thirty-five full-time employees. The Company's employees are not covered by a collective bargaining agreement.

### **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 for services rendered.

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 \$2 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.

### **Potential Changes in Fuel Taxes**

From time to time, various legislative proposals are introduced to increase federal, state, or local taxes, including taxes on motor fuels. The Company cannot predict whether, or in what form, any increase in such taxes

applicable to the Company will be enacted and, if enacted, whether or not the Company will be able to reflect the increases in prices to customer. Competition from non-trucking modes of transportation and from intermodal transportation would be likely to increase if state or federal taxes on fuel were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

### **Independent Contractor Status**

From time to time, various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors' classification to employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 "common-law" factors rather than any definition found in the Internal Revenue Code or Internal Revenue Service regulations. In addition, under Section 530 of the Revenue Act of 1978, taxpayers that meet certain criteria may treat similarly situated workers as employees, if they have received a ruling from the Internal Revenue Service or a court decision affirming their treatment, or if they are following a long-standing recognized practice.

Although management is unaware of any proposals currently pending to change the employee/independent contractor classification, the costs associated with potential changes, if any, in the employee/independent contractor classification could adversely affect the Company's results of operations if the Company were unable to reflect them in its fee arrangements with the independent contractors and agent or in the prices charged to its customer.

### **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.

### **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. Currently the State

environmental authorities are requiring further testing of the property. The Company believes it is in substantial compliance with state and federal environmental regulations relative to the trucking business. However, the Company is working with regulatory officials to eliminate any sources of contamination and determine extent of existing problems. Estimates of the costs to complete the future remediation of approximately \$141,000 are considered in the land valuation allowance at December 31, 1999 and 1998.

### **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 2000 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 administrative offices on a month to month basis for \$2,200 per month from Mr. Michael E. Kibler, President, Chief Executive Officer and a director of the Company, and Mr. Harold Antonson, Treasurer, Chief Financial Officer and a director of the Company.

Carolina National leases 2,400 sq. ft of office space in Mt. Pleasant, SC for \$2,700 per month. The current lease expires June 30, 2000. Management believes that the Company's leased properties are adequate for its current needs and can be retained or replaced at acceptable cost.

### **Item 3. Legal Proceedings**

Cam Regional Transport has filed a complaint against the Company which alleges breach of contract, claiming that Trailblazer Transportation, Inc., a subsidiary of the Company which filed bankruptcy, failed to abide by a purchase agreement entered into with Cam Regional Transport, Inc and Laurel Mountain Leasing, Inc. The complaint seeks damages of \$284,000 plus interest from November 1992. At this time, the Company and its legal counsel are unable to assess the outcome of this complaint. The Company intends to vigorously defend itself in this matter.

The Company is involved in other litigation in the normal course of its business. Management intends to vigorously defend these cases. In the

opinion of management, the litigation now pending will not have a material adverse effect on the consolidated financial position of the company.

**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 1999.

**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 NASD Electronic "bulletin board market" under the symbol USOO.

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. The prices since June 1998 are as reported from NASDAQ quotations provided by North American Quotations and reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

<u>Calendar Year</u>	<u>High</u>	<u>Low</u>
<u>1999</u>		
First Quarter	3/32	1/32
Second Quarter	1/8	1/64
Third Quarter	1/8	1/64
Fourth Quarter	9/64	3/64
<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

As of March 15, 2000, there were 3,281 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. SELECTED FINANCIAL DATA**

The selected consolidated financial data presented below have been derived from the Company's consolidated financial statements. The consolidated financial statements for the years ended December 31, 1999 and 1998 have been audited by the Company's independent certified public accountants, whose report on such consolidated financial statements is included herein under Item 8. The consolidated financial statements for the year ended December 31, 1997 were audited by PricewaterhouseCoopers, LLP whose report on such consolidated financial statements is included herein under Item 8. The information set forth below should be read in conjunction with the consolidated financial statements and notes thereto under Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(in thousands, except per share data)

	Fiscal Year Ended December 31,				
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
STATEMENT OF OPERATIONS DATA:					
Operating revenues	\$32,333	\$30,177	\$25,422	\$15,412	\$14,904
Other operating costs and expenses	3,481	3,408	3,806	2,394	2,147
Purchased transportation	24,846	23,417	19,676	11,694	11,318
Commissions	3,052	3,178	2,361	1,498	1,250
Operating income (loss)	954	174	(421)	(174)	189
Interest expense	661	744	435	282	205
Income (loss) before extraordinary item	412	173	(803)	(339)	679
Net income (loss)	412	173	(192)	341	(820)
Income (loss) per common share before					
Income (loss) from operations:					
Basic	\$0.03	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Diluted	\$0.03	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Extraordinary item					
Basic	\$0.00	\$0.00	\$0.06	\$0.05	\$0.00
Diluted	\$0.00	\$0.00	\$0.06	\$0.05	\$0.00
Earnings (loss) per share:					
Basic	\$0.03	\$0.01	(\$0.02)	\$0.04	(\$0.08)

Diluted	\$0.03	\$0.01	(\$0.02)	\$0.04	(\$0.08)
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Weighted average shares outstanding:

Basic	10,618,224	10,618,224	10,616,397	9,879,077	9,829,336
Diluted	10,618,224	10,618,224	10,616,397	9,879,077	9,829,336

BALANCE SHEET DATA:

Total assets	5,352	4,499	6,261	2,198	2,287
Long-term debt, including current portion	2,547	2,967	2,571	583	530
Working capital deficiency	(712)	(861)	(1,451)	(3,016)	(3,389)
Shareholders' deficiency	(3,968)	(4,298)	(4,399)	(4,020)	(4,697)

OTHER DATA:

Cash (used in) provided by operating activities	(370)	490	(3,630)	(445)	(1,401)
Cash provided by (used in) investing activities	74	58	(269)	149	592
Cash (used in) provided by financing activities	296	(848)	3,971	468	781

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

**Overview**

Purchased transportation represents the amount an independent contractor is paid to haul freight and is primarily based on a contractually agreed-upon percentage of revenue generated by the haul for truck capacity provided by independent contractors. Purchased transportation is the largest component of operating expenses and, on a consolidated basis, increases or decreases in proportion to the revenue generated through independent contractors. Commission to agents and brokers are primarily based on contractually agreed-upon percentages of revenue. Commissions to agents and brokers as a percentage of consolidated revenue will vary directly with revenue generated through independent commission sales agents.

A majority of the insurance and claims expense is based on a percentage of revenue and, as a result, will increase or decrease, on a consolidated basis with the Company's revenue. Potential liability associated with accidents in the trucking industry is severe and occurrences are unpredictable. A material increase in the frequency or severity of accidents or the unfavorable development of existing claims could adversely affect the Company's operating income.

The following table set forth the percentage relationships of expense items to revenue for the periods indicated:

	Fiscal Years		
	1999	1998	1997
Revenue	100.0%	100.0%	100.0%

Operating expenses:

Purchased transportation	76.8	77.6	77.4
Commissions	9.4	10.5	9.3
Insurance and claims	3.3	3.1	3.7
Salaries, wages and other	3.9	4.1	5.1
Other operating expenses	3.6	4.1	6.2
	-----	-----	-----
Total operating expenses	97.0	99.4	101.7
	-----	-----	-----
Operating income (loss)	3.0	0.6	(1.7)

## 1999 Compared to 1998

Revenue for the fiscal year 1999 was \$32.3 million, an increase of \$2.2 million, or 7.1%, over revenue for the 1998 fiscal year. The increase was attributable to continued growth at Carolina National Transportation, and the operations of a new agent at Keystone Lines.

Purchased transportation was 76.8% of revenue in 1999 compared with 77.6% in 1998. The decrease in the percentage of purchased transportation to revenue was primarily attributable to management having better control over the ancillary costs.

Commissions to agents were 9.4% of revenue in 1999 compared with 10.5% in 1998 primarily due to contracts with newer divisions negotiated a lower percentage rate.

Insurance and claims were 3.3% of revenue in 1999 compared with 3.1% in 1998 primarily due to higher premium costs associated with a new insurance carrier for Carolina National.

Salaries, wages and other expenses were 3.9% of revenue in 1999 and 4.1% in 1998. The slight decrease in salaries, wages and other expenses as a percentage of revenue was due to the Company's continued efforts to control overhead costs. Other operating expenses were 3.6% of revenue in 1999 and 4.1% in 1998. The decrease in other operating expenses as a percentage of revenue was also primarily attributable to the cost containment measures established by the Company.

Based on the changes in revenue and expenses discussed above, operating income increased by \$780,000 from \$174,000 in 1998 to \$964,000 in 1999.

Interest expense remained constant at \$0.7 million for fiscal year 1999 and 1998. An increase in the Company's interest rate on its revolving line of credit to a default rate of prime plus 4.75% was equally offset by a decrease in the average outstanding balance in 1999.

Non-operating income (expense), exclusive of interest expense, decreased from \$743,000 in 1998 to \$119,000 in 1999. The decrease was primarily attributable to the write off of old payables in 1998 as discussed in Note 13 to the consolidated financial statements.

Net income in 1999 was \$412,000 compared with \$173,000 in 1998. Income available to common shareholders was \$330,000, or \$0.03 per common share, in 1999 compared with \$101,000, or \$0.01 per common share, in the prior year.

## **1998 Compared to 1997**

Revenue for the fiscal year 1998 was \$30.2 million, an increase of \$4.8 million, or 18.7%, over revenue for the 1997 fiscal year. The increase was primarily attributable to the start-up of Carolina National Transportation, offset by a decrease in revenue of Keystone Lines caused by a loss of certain agent relationships.

Purchased transportation was 77.6% of revenue in 1998 compared with 77.4% in 1997. Commissions to agents were 10.5% of revenue in 1998 compared with 9.3% in 1997 primarily due to change in agent relationships and the Company's need to attract new agents with higher commission rates. Insurance and claims were 3.1% of revenue in 1998 compared with 3.7% in 1997 primarily due to favorable loss experience in 1998.

Salaries, wages and other expenses were 4.1% of revenue in 1998 and 5.1% in 1997. The decrease in salaries, wages and other expenses as a percentage of revenue was due to the Company's efforts to control overhead costs. Other operating expenses were 4.1% of revenue in 1998 and 6.2% in 1997. The decrease in other operating expenses as a percentage of revenue was also primarily attributable to the implementation of cost containment measures by the Company.

Based on the changes in revenues and expenses discussed above, operating income (loss) increased by \$595,000 from an operating loss of \$421,000 in 1997 to an operating income of \$174,000 in 1998.

Interest expense increased from \$0.4 million in 1997 to \$0.7 million in 1998. The Company's need for additional working capital to finance the Carolina National Transportation start-up resulted in an increase in the average balance of the revolving line of credit.

Non-operating income (expense), exclusive of interest expense, increased from \$54,000 in 1997 to \$743,000 in 1998. The increase was primarily attributable to the write off of old payables in 1998 as discussed in Note 13 to the consolidated financial statements.

In 1997, the Company recorded an extraordinary gain of \$610,000 (or \$.06 per common share) resulting from the bankruptcy of Trailblazer Transportation (a subsidiary of Keystone Lines, Inc.)

Net income in 1998 was \$173,000 compared with a net loss of \$192,000 in 1997. Income available to common shareholders was \$101,000, or \$0.01 per common share, in 1998 compared with a loss available to common shareholders of \$254,000, or \$0.02 per common share, in the prior year.

## **Future Prospects**

The Company has experienced operating losses and negative cash flows in recent years and currently has a net working capital deficiency and shareholders' deficiency. In addition, the company is in default of its revolving line of credit agreement and the lender has demanded payment of all outstanding balances no later than April 28, 2000. If the Company is unable to refinance its line of credit by that date, the Company would not have sufficient funds to pay its obligations including advances on its existing line of credit, as they are due. The report of the Company's Independent Certified Public Accountants contains an explanatory paragraph indicating that

these factors express substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is ultimately dependent on its ability to refinance its outstanding debt with a new lender, increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. In addition, the Company needs to reduce the level of outstanding indebtedness which will, in turn, reduce the amount of interest expense. Although the reduction of expenses, including interest, can contribute to future profitability, achieving profitability without an increase in sales would require a greater level of expense reductions which in all likelihood could only be accomplished through a significant reduction and restructuring of the nature and scope of operations.

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.

### **Liquidity and Capital Resources**

As of December 31, 1999, the Company's financial position remained poor. The Company had a net deficiency in shareholders' equity of \$4.0 million. Working capital deficiency at December 31, 1999 was (\$0.7) million, compared to (\$0.8) million at the end of 1998.

Accounts receivable at the end of 1999 were \$5.0 million as opposed to \$4.0 million in 1998. This is due to the increase in revenue generated in 1999.

Accounts payable and other accrued expenses at the end of 1999 were \$2.7 million, compared to \$2.6 million at the end of 1998. The increase is due primarily to an increase in accrued interest.

The bank overdraft and balance of the revolving line of credit has increased by \$0.7 million from 1998 due to increased business.

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 72% of Keystone's, Gulf Line's and Carolina National's eligible accounts receivable. At December 31, 1999, the outstanding borrowings were \$3.1 million.

During 1999, the Company's lender issued several letters of default with respect to covenant violations including violation of the minimum net worth requirements and total debt service coverage ratio requirements. As a result of the default status, the lender has increased the interest rate to the prime rate plus 4.75% and reduced the percent of eligible accounts receivable from 80% to 72%.

In December 1999, the lender issued a notice of acceleration requiring payment of the outstanding balance of the line of credit no later than April 28, 2000. The Company is currently in discussion with another lender and has obtained a letter of commitment for \$2 million of financing. Advances under the new line of credit agreement will be limited to 70% of eligible accounts receivable. Advances will bear interest at the lender's prime rate plus 0.5%. The line of credit will be secured by substantially all of the Company's assets and require personal guarantees from the Company's Chief Executive

Officer and Chief Financial Officer.

The Company intends to complete the refinancing of the revolving line of credit no later than April 15, 2000. However, as the Company has not finalized this new financing, there is no assurance that the Company will be successful in refinancing its line of credit. If the Company is unsuccessful and Finova demands repayment, there is substantial doubt that the Company will be able to continue as a going concern. The difference between the amount currently outstanding on the current line of credit agreement and the amount of the commitment will be financed through subordinated debt from the Company's Chief Executive Officer and Chief Financial Officer or entities controlled by them.

Related party loans from AIP and Messrs. Kibler and Antonson have decreased from \$2.7 million at December 31, 1998 to \$2.4 million at December 31, 1999.

### **Environmental Liabilities**

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 as 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 continues to monitor soil contamination and may be required to remediate the property in the near future.

### **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.

### **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. SFAS No. 133 has been amended by SFAS No. 137, which delayed the effective date to periods beginning after June 15, 2000. The Company, to date, has not engaged in derivative or hedging activities.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 is effective for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for

internal use, including the requirements to capitalize and amortize specific costs. The adoption of the standard did not have a material effect on the Company's capitalization policy.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 is effective years beginning after December 15, 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

#### **Item 7a. Quantitative and Qualitative Disclosures about Market Risk**

The Company has a credit agreement with FINOVA Capital Corporation that provides \$3,300,000 of borrowing capacity to finance operations. Borrowings under the agreement bear interest at the prime rate plus 2.75%. During 1999, the average outstanding balance under the credit agreement was \$2,162,000. During 1999, FINOVA issued a letter of default and increased the interest rate on outstanding advances under the credit agreement to the prime rate plus 4.75%. Based on the default status of the Company with FINOVA, the fair value of the outstanding borrowings as of December 31, 1999 was estimated to approximate carrying value.

In December 1999, the lender issued a notice of acceleration requiring payment of the outstanding balance of the line of credit no later than April 28, 2000.

#### **Item 8. Financial Statements and Supplementary Data.**

##### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of  
US 1 Industries, Inc.  
Gary, Indiana

We have audited the accompanying consolidated balance sheets of US 1 Industries, Inc. and Subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, shareholders' deficiency, 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 of 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 evaluating the overall presentation of the financial statements. We believe that our audits provide a 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, 1999 and 1998, 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 consolidated financial statements, the Company has experienced operating losses and negative cash flows in recent years and has a net working capital deficiency and shareholders' deficiency. In addition, the Company is in default of its revolving line of credit agreement and its lender has demanded payment of the outstanding balance no later than April 28, 2000. 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

BDO Seidman, LLP

Chicago, Illinois  
March 10, 2000

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

We have audited the accompanying consolidated statements of operations, shareholders' equity and cash flows of US 1 Industries, Inc. and subsidiaries (the "Company") for the year ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of the operations and cash flows of US 1 Industries, Inc. and subsidiaries for the year ended December 31, 1997 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.

PricewaterhouseCoopers LLP

March 27, 1998

**US 1 INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1999 AND 1998**

ASSETS

	<u>1999</u>	<u>1998</u>
CURRENT ASSETS:		
Accounts receivable-trade, less allowance for doubtful accounts of \$66,648 and \$95,083 respectively	\$4,972,846	\$4,041,966
Other receivables	105,770	59,654
Deposits	162,173	132,429
Prepaid expenses	9,245	27,798
	-----	-----
Total current assets	5,250,034	4,261,847
FIXED ASSETS:		
Equipment	100,738	258,445
Less accumulated depreciation and amortization	52,756	(75,316)
	-----	-----
Net fixed assets	47,982	183,129
	-----	-----
ASSETS HELD FOR SALE:		
Land	195,347	195,347
Valuation allowance	(141,347)	(141,347)
	-----	-----
Net assets held for sale	54,000	54,000
	-----	-----
TOTAL ASSETS	\$ 5,352,016	\$ 4,498,976
	=====	=====

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

**US 1 INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1999 AND 1998**

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

	<u>1999</u>	<u>1998</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 1,341,134	\$ 1,445,889
Bank overdraft	345,719	260,404
Accrued expenses	215,505	183,400
Short-term debt	3,173,990	2,565,006
Insurance and claims	204,592	181,524
Accrued compensation	17,314	17,591
Accrued interest	613,567	392,883
Fuel and other taxes payable	49,948	75,695
	-----	-----
Total current liabilities	5,961,769	5,122,392
	-----	-----
LONG-TERM DEBT TO RELATED PARTIES	2,451,028	2,849,262
COMMITMENTS AND CONTINGENCIES		
REDEEMABLE PREFERRED STOCK:		
Authorized 5,000,000 shares; no par value, Series A shares outstanding:		
1999 and 1998 - 1,094,224		
Liquidation preference \$0.3125 per share	907,540	825,254
SHAREHOLDERS' DEFICIENCY:		
Common stock, authorized 20,000,000 shares; no par value; shares outstanding:		
1999 and 1998 - 10,618,224	40,844,296	40,844,296
Accumulated deficit	(44,812,617)	(45,142,228)
	-----	-----
Total shareholders' deficiency	(3,968,321)	(4,297,932)
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY	\$ 5,352,016	\$ 4,498,976
	=====	=====

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, 1999, AND 1998**

	1999	1998	1997
OPERATING REVENUES	\$32,333,528	\$30,176,818	\$25,421,806
OPERATING EXPENSES:			
Purchased transportation	24,846,421	23,416,624	19,676,213
Commissions	3,052,406	3,177,908	2,360,989
Insurance and claims	1,070,564	938,044	941,700
Salaries, wages, and other	1,248,089	1,223,113	1,285,778
Other Operating expenses	<u>1,162,189</u>	<u>1,247,334</u>	<u>1,578,486</u>
Total operating expenses	<u>31,379,669</u>	<u>30,003,023</u>	<u>25,843,166</u>
OPERATING INCOME (LOSS)	953,859	173,795	(421,360)
NON OPERATING INCOME (EXPENSE):			
Interest income	9,840	7,702	2,430
Interest expense	(660,509)	(743,953)	(435,042)
Write off of old payables		530,674	
Other income (expense), net	<u>108,707</u>	<u>204,419</u>	<u>51,462</u>
Total non operating expense	(541,962)	( 1,158)	(381,150)
INCOME (LOSS)			
BEFORE EXTRAORDINARY GAIN	411,897	172,637	(802,510)
EXTRAORDINARY GAIN:			
Forgiveness of debt	<u>0</u>	<u>0</u>	<u>610,318</u>
NET INCOME (LOSS)	411,897	172,637	(192,192)
DIVIDENDS ON PREFERRED SHARES	<u>82,286</u>	<u>72,000</u>	<u>61,712</u>
NET INCOME (LOSS) AVAILABLE TO COMMON SHARES	<u>329,611</u>	<u>\$100,637</u>	<u>(\$253,904)</u>
INCOME (LOSS) PER COMMON SHARE:			
Income (loss) from operations:			
Basic	\$0.03	\$0.01	(\$0.08)
Diluted	\$0.03	\$0.01	(\$0.08)
Extraordinary gain:			
Basic	\$0.00	\$0.00	\$0.06
Diluted	\$0.00	\$0.00	\$0.06
Net Income (loss):			
Basic	\$0.03	\$0.01	(\$0.02)
Diluted	\$0.03	\$0.01	(\$0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING -			
BASIC AND DILUTED	10,618,224	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' DEFICIENCY  
YEARS ENDED DECEMBER 31, 1999, 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(loss)			(192,192)	(192,192)
Balance at				
December 31, 1997	10,618,224	\$40,844,296	(\$45,242,865)	(\$4,398,569)
Dividends on Preferred Stock			(72,000)	(72,000)
Net income			172,637	172,637
Balance at				
December 31, 1998	10,618,224	\$40,844,296	(\$45,142,228)	(\$4,297,932)
Dividends on Preferred Stock			(82,286)	(82,286)
Net Income			411,897	411,897
Balance at				
December 31, 1999	10,618,224	\$40,844,296	(\$44,812,617)	(\$3,968,321)

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, 1999, 1998 AND 1997**

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 411,897	\$ 172,637	
(\$192,192)			
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	30,795	74,963	
9,533			
Provision on accounts receivable			
145,298			
Write off of old payables		(530,674)	
Loss on disposal of equipment	30,177	17,488	
1,160			
Extraordinary gain - forgiveness of debt			
(610,318)			
Gain on sale of property		(44,800)	
Changes in operating assets and liabilities:			
Accounts receivable-trade	(930,880)	1,024,290	
(3,709,607)			
Other receivables	(46,116)	277,265	
(200,271)			
Prepaid expenses	18,553	55,933	
32,745			
Deposits	(29,744)	21,639	
(176)			
Accounts payable	(104,755)	(758,417)	
720,143			
Accrued expenses	32,105	207,570	
(14,644)			
Insurance and claims	23,068	(60,083)	
(10,546)			
Accrued interest	220,684	252,059	
108,396			
Accrued compensation	(277)	(20,711)	
(8,578)			
Fuel and other taxes payable	(25,747)	(198,206)	
<u>99,524</u>			
Net cash (used in) provided by operating activities	<u>(370,240)</u>	<u>490,953</u>	
<u>(3,629,533)</u>			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(5,183)	(2,566)	
(41,496)			
Purchase of land			
(227,879)			
Proceeds from sale of property and equipment	<u>79,358</u>	<u>61,055</u>	
Net cash provided by (used by) investing activities	<u>74,175</u>	<u>58,489</u>	
<u>(269,375)</u>			
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net borrowings (repayments) under line of credit	630,745	(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	(64,277)	(123,308)	
(10,000)			

Net repayments of proceeds from related party loans	(355,718)	287,236
926,608		
Increase (decrease)in bank overdraft	85,315	(269,729)
348,991		
Proceeds from issuance of mortgages to related parties		
	-----	-----
<u>500,000</u>		
Net cash provided by (used in)financing activities	<u>296,065</u>	<u>(847,521)</u>
<u>3,971,446</u>		
NET INCREASE (DECREASE)IN CASH		(298,079)
72,538		
CASH, BEGINNING OF YEAR	-----	<u>298,079</u>
<u>225,541</u>		
CASH, END OF YEAR	\$ <u>0</u>	\$ <u>0</u>
<u>\$298,079</u>		
<hr/>		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION--		
Cash paid during year for interest	\$439,825	\$491,894
\$326,646		
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Note payable incurred for purchase of equipment	\$ 0	\$232,700
0		\$

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, 1999, AND 1998**

**1. OPERATIONS**

The Company is primarily an interstate truckload carrier of general commodities, which uses independent agents and drivers to contract for and haul freight for its customers in 48 states with a concentration in the Southeastern United States. One agent accounted for 18% and 15% of the Company's revenue for the years ended December 31, 1999 and December 31, 1998, respectively. Another agent represented 12% and 14% of sales for the year ended December 31, 1998 and 1997, respectively.

*Going Concern*—The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced operating losses and negative cash flows in recent years and currently has a net working capital deficiency and shareholders' deficiency. In addition, the Company is in default of its revolving line of credit agreement and the lender has demanded payment of all outstanding balances no later than April 28, 2000. If the Company is unable to refinance its line of credit by that date, the Company would not have sufficient funds to pay its obligations including advances on its existing line of credit, as they are due. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is ultimately dependent on its ability to refinance its outstanding debt with a new lender, increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. In addition, the Company needs to reduce the level of outstanding indebtedness which will, in turn, reduce the amount of interest expense. Although the reduction of expenses, including interest, can contribute to future profitability, achieving profitability without an increase in sales would require a greater level of expense reductions which in all likelihood could only be accomplished through a significant reduction and restructuring of the nature and scope of operations. Management is in the process of negotiating a line of credit agreement with a new lender (see Note 7) and continues its efforts to improve profitability through expansion of the Company's business in new markets. However, there is no assurance that the Company will be successful in refinancing its line of credit or improving the Company's operating results. 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 intercompany 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.

*Fixed Assets*--Fixed assets are stated at cost and 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. See Note 12.

**US 1 INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Long-Lived Assets* - The Company assesses the realizability of its long-lived assets in accordance with statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of."

*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. SFAS 133 has been amended by SFAS 137, which delayed the effective date to periods beginning after June 15, 2000. The Company, to date, has not engaged in derivative and hedging activities.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 is effective for years beginning after December 15, 1998. SOP 98-1 provides guidance over accounting for computer software developed or obtained for internal use, including the requirements to capitalize and amortize specific costs. The adoption of the standard did not have a material effect on the Company's capitalization policy.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 is effective years beginning after December 15, 1998. SOP 98-5 requires costs of start-up activities and organization costs to be expensed as incurred. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

*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.

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

*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.

Numerator	1999	1998	
1997			
Income (loss) before extraordinary gain	\$ 411,897	\$172,637	
(\$802,510)			
Extraordinary gain	0	0	
610,318	-----	-----	-----
---			
Net income (loss)	\$ 411,897	\$172,637	
(\$192,192)			
Dividends on preferred shares	(\$ 82,286)	(\$ 72,000)	(\$
61,712)	-----	-----	-----
---			
Income (loss) available to common shareholders for basic and diluted EPS	\$ 329,611	100,637	
(\$253,904)			
Denominator			
Weighted average common shares outstanding for basic and diluted EPS	10,618,224	10,618,224	
10,616,397			

As of December 31, 1998 and 1997, the Company had options outstanding that are not included in the computation of diluted EPS because the options were considered antidilutive for the periods presented.

*Business Segments* - Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" requires public enterprises to report certain information about reporting segments in financial statements. The Company presents its operations in one business segment.

*Reclassifications* - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

### **3. EXTRAORDINARY GAIN**

During the fourth quarter of 1997, the bankruptcy of Trailblazer Transportation (a subsidiary of Keystone Lines, Inc.) was finalized and, accordingly, the Company recorded an extraordinary gain of \$610,318 on the forgiveness of debt.

### **4. REDEEMABLE PREFERRED 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 A preferred stock is redeemable at the option of the Company or the holders at any time.

As of December 31, 1999, series A cumulative preferred stock dividends are in arrears by \$360,427. The Company's current line of credit prohibits the payment of dividends.

## **US 1 INDUSTRIES, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)**

### **5. RELATED PARTY TRANSACTIONS**

One of the Company's subsidiaries provides safety, management, and accounting services to companies controlled by the Chief Executive Officer and Chief Financial Officer of the Company. These services are priced to cover the cost of the employees providing the services. Revenues related to those services totaled \$77,640, \$70,607, and \$149,442 in 1999, 1998, and 1997, respectively.

One of the Company's insurance providers, American Inter-Fidelity Exchange (AIFE) is managed by a Director of the Company and the Company has an investment in the provider. In addition, the Director also manages an affiliated insurance carrier, Indiana Truckers Exchange (ITE). For the years ended December 31, 1999, 1998, and 1997, cash paid for related party insurance premiums and deductibles amounted to \$532,586, \$751,123, and \$770,704, respectively. The Company also has long term notes payable to AIFE and ITE as described in Note 8.

The Company has notes payable due to its Chief Executive Officer, Chief Financial Officer, and August Investment Partnership, an affiliated entity through common ownership, as described in Note 8.

### **6. 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 Chief Executive Officer and Chief Financial Officer. No formal lease agreement with

the Company existed at December 31, 1999. The Company leases office space in Mt. Pleasant, South Carolina for \$ 2,700 per month. The lease agreement expires in June, 2000. Rent expense for the years ended December 31, 1999, 1998, and 1997 was approximately \$59,000, \$59,000, and \$80,000, respectively.

## 7. SHORT-TERM DEBT

Short-term debt at December 31, 1999 and 1998 comprises:

	December 31, 1999	December 31, 1998
	-----	-----
Line of credit	\$3,077,606	\$2,446,861
Current portion of long-term debt	96,384	118,145
	-----	-----
Total	\$3,173,990	\$2,565,006
	=====	=====

Under its revolving line of credit agreement the Company may borrow up to a maximum of \$3,300,000. Under the agreement borrowings are limited to 80% of eligible accounts receivable and bear interest at the prime rate (8.50% and 7.75% at December 31, 1999 and 1998, respectively) plus 2.75%. Advances under the line of credit agreement are collateralized by the Company's accounts receivable, property and other assets.

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.

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

During 1999, the Company's lender issued several letters of default with respect to covenant violations including violation of the minimum net worth requirements and total debt service coverage ratio requirements. As a result of the default status, the lender has increased the interest rate to the prime rate plus 4.75% and reduced the percent of eligible accounts receivable from 80% to 72%.

In December 1999, the lender issued a notice of acceleration requiring payment of the outstanding balance of the line of credit no later than April 29, 2000. The Company is currently in discussion with another lender and has obtained a letter of commitment for \$2 million of financing. Advances under the new line of credit agreement will be limited to 70% of eligible accounts receivable. Advances will bear interest at the lender's prime rate plus 0.5%. The line of credit will be secured by substantially all of the Company's assets and require personal guarantees from the Company's Chief Executive Officer and Chief Financial Officer.

The Company intends to complete the refinancing of the revolving line of credit no later than April 15, 2000. However, as the Company has not finalized this new financing, there is no assurance that the Company will be successful in refinancing its line of credit. If the Company is unsuccessful

and the current lender demands repayment, there is substantial doubt that the Company will be able to continue as a going concern. The difference between the amount currently outstanding on the line of credit agreement and the amount of the commitment will be financed through subordinated debt from the Company's Chief Executive Officer and Chief Financial Officer or entities controlled by them.

#### 8. LONG-TERM DEBT TO RELATED PARTIES

Long-term debt at December 31, 1999 and 1998 comprises:

	1999	1998
Note payable to August Investment Partnership, interest at prime + .75%, interest only payments required, principal balance due January 2001	\$ 250,000	\$ 250,000
Mortgage note payable to the Chief Executive Officer and Chief Financial Officer collateralized by land, interest at prime + .75%, interest only payments required, principal balance due July 2003	500,000	500,000
Mortgage note payable to ITE paid in 1999		56,428
Note payable, collateralized by equipment, monthly payments of \$3,985 including interest at 7.8% through February, 2001	45,115	109,392
Mortgage note payable to ITE, Monthly payments of \$2,850 including Interest at 9% through March 2002	68,443	57,289
Mortgage note payable to AIFE, monthly payments of \$2,150 including interest at 9% through March 2002	51,689	43,256

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

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 the Chief Executive Officer And Chief Financial Officer, interest at prime + .75%, interest only payments required, principal balance due January, 2001	1,532,165	1,851,042
	-----	-----
Total debt	2,547,412	2,967,407
Less current portion	96,384	118,145
	-----	-----
Total long-term debt	\$ 2,451,028	\$ 2,849,262
	=====	=====

Interest expense on related party notes was approximately \$261,000, \$325,000 and \$273,000 for the years ended December 31, 1999, 1998, and 1997 respectively.

Scheduled maturities of the long-term debt at December 31, 1999 are due as follows:

2000	\$ 96,384
2001	1,938,243
2002	12,785
2003	<u>500,000</u>
	\$2,547,412
	=====

## 9. STOCK OPTIONS

The Company has a stock option plan which allows the Board of Directors to grant options to officers and certain key employees to purchase common stock at the fair market value on the date of the grant. At December 31, 1999 and 1998, 96,500 share were available for future option grants under the stock option plan. There were no options outstanding under the stock option plan as of December 31, 1999 and 1998.

During 1997, the Board of Directors granted options to purchase 80,000 shares of the Company's common stock to an unaffiliated investor at an exercise price of \$.25 per share. These options were immediately exercisable and expired on December 31, 1999.

## 10. INCOME TAXES

The effective tax rate differs from the U.S. statutory federal income tax rate of 34% as described below:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Income tax expense (benefit)			
At statutory rate	140,000	59,000	(65,000)
(Decrease)Increase In Valuation Allowance	(169,000)	(71,000)	78,000
State income taxes			
Net of federal income tax	<u>29,000</u>	<u>12,000</u>	<u>(13,000)</u>
Income tax expense (benefit)	-	-	-

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

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, 1999 and 1998 are as follows:

1999	1998
-----	-----

Deferred tax assets:		
Accounts receivable and other	\$ 45,000	\$ 32,000
Estimated fuel and other taxes	19,000	47,000
Insurance and claims	82,000	68,000
Litigation reserves	17,000	17,000
Land valuation allowance	48,000	48,000
Net operating loss carry forwards	19,787,000	19,938,000
	-----	-----
Total deferred tax assets	19,998,000	20,150,000
Less valuation allowance	(19,998,000)	(20,150,000)
	-----	-----
Total net deferred tax asset	\$ ---	\$ ---
	=====	=====

The Company has provided a valuation allowance to write-down deferred tax assets due to uncertainty of its ability to utilize them in future periods. During 1999 and 1998, the valuation allowance was decreased by approximately \$152,000 and \$59,000 respectively, to reflect the utilization of net operating loss carryforwards.

The Company has net operating loss carryforwards of approximately \$59 million at December 31, 1999. These carryforwards are available to offset taxable income in future years and substantially all of these carryforwards will expire in the years 2003 through 2008.

#### 11. COMMITMENTS AND CONTINGENCIES

Cam Regional Transport has filed a complaint against the Company which alleges breach of contract, claiming that Trailblazer Transportation, Inc., a subsidiary of the Company which filed bankruptcy, failed to abide by a purchase agreement entered into with Cam Regional Transport, Inc. and Laurel Mountain Leasing, Inc. The complaint seeks damages of \$284,000 plus interest from November 1992. At this time, the Company and its legal counsel are unable to assess the outcome of this complaint. The Company intends to vigorously defend itself in this matter.

The Company is involved in other litigation in the normal course of its business. Management intends to vigorously defend these cases. In the opinion of management, the litigation now pending will not have a material adverse effect on the consolidated financial position of the Company.

The Company has entered into an agreement with certain key employees of Carolina National Transportation, Inc. ("Carolina"), a wholly owned subsidiary of the Company, in which these employees will receive up to 40% ownership in Carolina. These key employees will earn the 40% ownership interest in Carolina over a three year period beginning in the year in which Carolina achieves positive net worth. Carolina has a negative net worth of \$482,000 and \$744,000 at December 31, 1999 and 1998, respectively.

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**

#### 12. ENVIRONMENTAL MATTERS

The Company owns a piece of 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 future remediation of approximately \$141,000 are considered in the land valuation allowance at December 31, 1999 and 1998.

**13. OTHER MATTERS**

- a) In 1999 and 1998, other income(expense),net, in the consolidated statement of operations is comprised primarily of a write off net payables from fiscal years 1996 and 1997 relating to revisions of estimates of amounts due from or payable to drivers and agents.
- b) During 1998, the Company has written off approximately \$531,000 in vendor accounts payable which are no longer considered by management and the Company's legal Counsel to be valid obligations of the Company. These payables relate to fiscal years prior to 1994 and no claims have been made against these amounts since September 1993.

**Item 9. Changes in and Disagreements with Accountants' on Accounting and Financial Disclosure.**

None.

**PART III**

**Item 10. Directors and Executive Officers of the Registrant.**

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the company as of March 15, 2000 were as follows

NAME	AGE	POSITION
----	---	-----
Michael E. Kibler	59	President, Chief Executive Officer, and Director
Harold E. Antonson	60	Chief Financial Officer, treasurer, and Director
Richard Courtney	58	Vice President, Secretary and Director
Lex Vendetti	47	Director
Robert I. Scissors	66	Director
Gage Blue	29	Director
Brad James	44	Director

<u>Name</u>	<u>Office and Experience</u>
Michael E. Kibler	Mr. Kibler is President and Chief Executive Officer of the Company and has held these positions since September 13, 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 E. Antonson	Mr. Antonson is Chief Financial Officer of the Company, a position he has held since March 1998. Mr. Antonson is a certified public accountant. Prior to joining the Company, he was Secretary/Treasurer of American Inter-fidelity Exchange. Mr Antonson is also a partner in August Investment Partnership. Mr. Antonson was elected a director and Treasurer of the Company in November 1999.
Lex Vendetti	Mr. Vendetti has served as a Director of the Company since 1993. Mr. Vendetti has been the General Manager of American Interfidelity, an insurance reciprocal located in Indiana that is the subject of an order of rehabilitation by the Indiana Department of Insurance, since 1995.
Robert Scissors	Mr. Scissors has been a Director of the Company since 1993. Mr. Scissors began his career in the Insurance Industry in 1957. Later, in

1982, Mr. Scissors joined a brokerage firm called Alexander/Alexander where he worked until retiring in 1992. Mr. Scissors currently serves as an insurance consultant and broker.

Gage Blue

Mr. Blue was elected Director in 1999. Mr. Blue is Vice President of Operations for Carolina National, a subsidiary of USI Industries, which began operations in 1996. Mr. Blue has held the position of Vice President of Operations since December 1996.

Brad James

Mr. James is the President of Seagate Transportation Services, Inc. Mr. James graduated from Bowling Green University with a Bachelors Degree in Science in Business Administration. He has been in the trucking industry since 1977. Mr. James was elected Director of the Company in 1999.

Richard Courtney

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., an affiliate of the Company. Mr. Courtney has served as a director of the Company since 1994.

**Item 11. Executive Compensation**

The following Summary Compensation Table sets forth compensation paid by the Company during the years ended December 31, 1999, 1998 and 1997 to its Chief Executive Officer. No other officer earned in excess of \$ 100,000.

Summary Compensation Table

Name and Position	Year	Annual Compensation		
		Salary	Bonus	Other
Michael Kibler	1999	33,048	0	0
President	1998	33,048	0	0
	1997	33,048	0	0

**EMPLOYEE STOCK OPTIONS**

The company's 1987 Stock Option Plan (Nonqualified) (the "Option Plan") authorizes the Board of Directors or a committee thereof to grant to officers, including officers who are also directors, and employees of the Company options to purchase from the Company shares of Common Stock. The Option Plan originally covered an aggregate of 570,000 shares of Common Stock. At December 31, 1999 there were no options outstanding under the Option Plan and 96,500 shares remained available for future grants of options thereunder.

**Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Security Ownership of Management

The following table sets forth the number and percentage of shares of Common Stock that as of March 15, 2000 are deemed to be beneficially owned by each director of the company and director nominee, by each executive officer of the Company and by all directors and executive officers of the company as a group

Name and position	Number of Shares of Common Stock Beneficially Owned	Percentage of Class
Michael E Kibler Director, President and Chief Executive Officer	3,489,507 (1,2)	32.9%
Richard Courtney Director, Vice President and Secretary	3,434,507 (1)	32.3%
Robert I. Scissors, Director	36,770	0
Lex L. Vendetti Director	20,000	0
Harold E. Antonson Chief Financial Officer, Treasurer and Director	3,489,507 (1,3)	32.9%
All Directors and Executive Officers	3,735,919	35.2%

- (1) As partners of August Investment Partnership (AIP), Messrs. Kibler, Antonson, Courtney, and Lavery may be deemed to be beneficial owners of 3,067,840 shares of common stock owned by AIP
- (2) As Director of Eastern Refrigerated Express Inc, (an entity under common control) Messrs. Kibler, Antonson, and Courtney may be deemed to be beneficial owner of 366,667 Shares of Common Stock owned by Eastern.
- (3) Mr. Antonson disclaims beneficial ownership of 197,500 shares of Common Stock owned by American Inter-Fidelity Exchange, of which Mr Antonson is Secretary and Treasurer

Security Ownership of Certain Beneficial Owners

The following table sets forth the number and percentage of shares of Common Stock beneficially owned as of March 15, 2000 by any person who is known to the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock:

Name and Address of Beneficial Owner -----	Number of Shares of Common Stock Beneficially Owned -----	Percentage of Class -----
Harold E. Antonson 8400 Louisiana Street Merrillville, IN 46410	3,489,507 (1,2,3)	32.9%
August Investment Partnership 8400 Louisiana Street Merrillville, IN 46410	3,067,840	28.9%
Richard Courtney 8400 Louisiana Street Merrillville, IN 46410	3,434,507 (1,3)	32.3%
Brad A. James 8400 Louisiana Street Merrillville, IN 46410	3,067,840 (1)	28.9%
Michael Kibler 8400 Louisiana Street Merrillville, IN 46410	3,489,507 (1,3)	33.0%
John K. Lavery 8400 Louisiana Street Merrillville, IN 46410	3,438,507 (1,3)	32.4%

(1) As partners of AIP, Messrs. Kibler, Courtney, Antonson, and Lavery may be deemed to be beneficial owners of the shares of Common Stock owned by AIP.

(2) Mr. Antonson disclaims beneficial ownership of 197,500 shares of Common Stock owned by American Inter-Fidelity Exchange, of which Mr. Antonson is Secretary and Treasurer.

(3) As directors of Eastern Refrigerated Express, Inc. Messrs. Antonson, Courtney, Kibler and Lavery may be deemed to be beneficial owners of 366,667 shares of Common Stock owned by Eastern.

**Item 13. Certain Relationships and Related Transactions.**

The company leases office space for its headquarters in Gary, Indiana, for \$2,200 per month from Michael E. Kibler, the president and Chief Executive Officer and a director of the Company, and Harold E. Antonson, the Chief Financial Officer, treasurer and a director of the Company. Messrs. Kibler and Antonson own the property as joint tenants.

One of the Company's subsidiaries provides safety, management, and accounting services to companies controlled by the President and Chief Financial Officer of the Company. These services are priced to cover the cost

of the employees providing the services. Revenues related to those services totaled \$77,640 and \$149,442 in 1999, 1998, and 1997 respectively.

One of the Company's insurance providers, American Inter-Fidelity Exchange (AIFE) is managed by a Director of the Company and the Company has an investment in the Provider. In addition, the Director also manages an affiliated insurance carrier, Indiana Truckers Exchange (ITE). For the years ended December 31, 1999, 1998 and 1997 cash paid for related party insurance premiums and deductibles amounted to \$532,586, \$751,123 and \$770,704 respectively. The Company also has long term notes payable to AIFE and ITE as described in Note 8 to the consolidated financial statements.

The Company has notes payable due to its Chief Executive Officer, Chief Financial Officer, and August Investment Partnership, an affiliated entity through common ownership, as described in Note 8 to the consolidated financial statements.

#### PART IV

#### Item 14. 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>
Reports of Independent Certified Public Accountants	11 and 12
Consolidated Balance Sheets as of December 31, 1999 and 1998	13
Consolidated Statements of Operations for the years ended December 31, 1999, 1998 and 1997	15
Consolidated Statements of Shareholders' Deficiency for the years ended December 31, 1999, 1998, and 1997	16
Consolidated Statements of Cash Flows for the years ended December 31, 1999, 1998, and 1997	17
Notes to Consolidated Financial Statements	18

##### (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 27.1 Financial Data Schedule

**(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: \_\_\_\_\_

Harold Antonson  
Chief Financial Officer & Treasurer  
(Principal Financial & Accounting 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: \_\_\_\_\_

\_\_\_\_\_  
Gage Blue, Director

Date: \_\_\_\_\_

\_\_\_\_\_  
Brad James, Director

Date: \_\_\_\_\_

\_\_\_\_\_  
Harold Antonson, Director