

TRISM INC /DE/
Form 10-Q
November 16, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-23210

TRISM, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

13-3491658

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

4174 Jiles Road, Kennesaw, Georgia K0144
(Address of principal executive offices) (Zip Code)

(770) 795-4600

Registrant's telephone number, including area code

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 whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed

by a court.

Yes No

As of November 16, 2001; 1,999,649 shares of TRISM, Inc.'s common stock, par value \$.01 per share, were outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

| <u>Item</u> | | <u>Page</u> |
|-------------|---|-------------|
| 1. | Financial Statements | 3 |
| 2. | Management's Discussion and Analysis of Results of Operations | 18 |
| 3. | Quantitative and Qualitative Disclosures about Market Risk | 24 |

PART II - OTHER INFORMATION

| <u>Item</u> | | <u>Page</u> |
|-------------|---|----------------|
| 1. | Legal Proceedings | Not Applicable |
| 2. | Changes in Securities and Use of Proceeds | Not Applicable |
| 3. | Defaults upon Senior Securities | 25 |
| 4. | Submission of Matters to a Vote of Security Holders | Not Applicable |
| 5. | Other Information | Not Applicable |
| 6. | Exhibits and Reports on Form 8-K | 25 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

TRISM, Inc.**Consolidated Balance Sheets**

As of September 30, 2001 and December 31, 2000

(In thousands, except share amounts, unaudited)

| ASSETS | <u>September 30, 2001</u> | <u>December 31, 2000</u> |
|--|---------------------------|--------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 404 | \$ 194 |
| Restricted cash and insurance deposits | 5,436 | 2,500 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,759 and \$1,627 at September 30, 2001 and December 31, 2000, respectively | 17,358 | 36,002 |
| Other receivables | 1,739 | 622 |
| Materials and supplies | 507 | 850 |
| Prepaid insurance | 1,073 | 7,942 |
| Other prepaid expenses | 2,507 | 3,716 |
| | <hr/> | <hr/> |
| Total current assets | 29,024 | 51,826 |
| Property and equipment, at cost | 15,282 | 117,040 |
| Less: accumulated depreciation and amortization | (7,125) | (12,315) |
| | <hr/> | <hr/> |
| Net property and equipment | 8,157 | 104,725 |
| Property and equipment held for disposal | 69,440 | 0 |
| Other assets, net | 1,947 | 1,739 |
| | <hr/> | <hr/> |
| Total assets | \$ 108,568 | \$ 158,290 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,231 | \$ 15,831 |
| Bank overdraft | 0 | 1,261 |
| Accrued expenses and insurance reserves | 11,259 | 18,330 |
| Current maturities of long-term debt: | | |
| Principal payments | 9,844 | 14,222 |
| Residual obligations on equipment debt | 10,532 | 4,975 |
| Long term debt classified as current: | | |
| Revolving credit facility | 23,276 | 25,440 |
| Equipment debt | 29,909 | 35,004 |
| Senior subordinated notes | 30,000 | 30,000 |
| | <hr/> | <hr/> |
| Total current liabilities | 130,051 | 145,063 |
| Insurance reserves | 3,900 | 7,080 |
| | <hr/> | <hr/> |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | |
|--|------------|------------|
| Total liabilities | 133,951 | 152,143 |
| Stockholders' equity: | | |
| Common stock; \$.01 par; 5,000,000 shares authorized; 2,000,000 shares issued and 1,999,649 outstanding | 20 | 20 |
| Additional paid-in capital | 19,980 | 19,980 |
| Accumulated deficit | (45,383) | (13,853) |
| Treasury stock, at cost, 351 shares | - | - |
| | <hr/> | <hr/> |
| Total stockholders' equity (deficit) | (25,383) | 6,147 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$ 108,568 | \$ 158,290 |
| | <hr/> | <hr/> |

See notes to unaudited consolidated financial statements.

Financial Statements continued

TRISM, Inc.
Consolidated Statements of Operations

For the three months ended September 30, 2001 and 2000
(In thousands, except share and per share amounts, unaudited)

| | Three Months Ended <u>September 30, 2001</u> | Three Months Ended <u>September 30, 2000</u> |
|-------------------------------------|---|---|
| Revenues | \$ 34,235 | \$ 67,195 |
| Operating expenses: | | |
| Salaries, wages and fringe benefits | 16,223 | 21,977 |
| Operating supplies and expenses | 6,650 | 11,853 |
| Contractor equipment | 3,869 | 9,498 |
| Operating taxes and licenses | 3,280 | 5,790 |
| Claims and insurance | 4,264 | 2,855 |
| Depreciation and amortization | 2,092 | 3,599 |
| General supplies and expenses | 1,957 | 3,255 |
| Brokerage carrier expense | 1,377 | 5,923 |
| Communications and utilities | 997 | 1,029 |
| Revenue equipment rents | 240 | 1,164 |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | |
|--|------------|------------|
| Gain on disposition of assets | (315) | (29) |
| | <hr/> | <hr/> |
| Total operating expenses | 40,634 | 66,914 |
| | <hr/> | <hr/> |
| Operating income (loss) | (6,399) | 281 |
| Interest expense, net | 2,838 | 2,319 |
| Other expense, net | 402 | (3) |
| | <hr/> | <hr/> |
| Loss from continuing operations | (9,639) | (2,035) |
| | <hr/> | <hr/> |
| Income from discontinued operations of logistics segment, net of income tax of \$0. | 310 | 84 |
| Gain on disposal of logistics segment, net of income tax of \$0. | 316 | - |
| | <hr/> | <hr/> |
| Net loss | \$ (9,013) | \$ (1,951) |
| | <hr/> | <hr/> |
| Basic and diluted earnings (loss) per share: | | |
| Loss from continuing operations | \$ (4.82) | \$ (1.02) |
| Discontinued operations | 0.15 | 0.04 |
| Gain on disposal of logistics segment | 0.16 | - |
| Net loss | \$ (4.51) | \$ (0.98) |
| | <hr/> | <hr/> |
| Weighted average number of shares used in computation of basic and diluted earnings (loss) per share | 1,999,649 | 1,999,649 |
| | <hr/> | <hr/> |

See notes to unaudited consolidated financial statements.

Financial Statements continued

TRISM, Inc.
Consolidated Statements of Operations
For the nine months ended September 30, 2001 and 2000
(In thousands, except share and per share amounts, unaudited)

Reorganized

Predecessor

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | <u>Company</u> | <u>Company</u> | |
|---|----------------------|--------------------------|-----------|
| | Nine | Seven and | |
| | Months Ended | one half | |
| | <u>September 30,</u> | <u>September 30,</u> | |
| | <u>2001</u> | <u>2000</u> | |
| | | <u>February 15, 2000</u> | |
| Revenues | \$ 153,765 | \$ 170,538 | \$ 30,222 |
| Operating expenses: | | | |
| Salaries, wages and fringe benefits | 58,294 | 55,721 | 10,829 |
| Operating supplies and expenses | 27,727 | 28,455 | 5,199 |
| Contractor equipment | 19,654 | 24,863 | 3,436 |
| Operating taxes and licenses | 13,551 | 14,778 | 2,700 |
| Impairment loss on revenue equipment | 13,309 | 0 | 0 |
| Claims and insurance | 12,654 | 7,215 | 1,417 |
| Depreciation and amortization | 10,278 | 8,910 | 2,236 |
| General supplies and expenses | 8,860 | 8,160 | 1,437 |
| Brokerage carrier expense | 8,820 | 13,579 | 1,813 |
| Communications and utilities | 3,100 | 2,194 | 551 |
| Revenue equipment rents | 603 | 3,519 | 994 |
| (Gain) loss on disposition of assets | 12 | (100) | 3 |
| | <hr/> | <hr/> | <hr/> |
| Total operating expenses | 176,862 | 167,294 | 30,615 |
| | <hr/> | <hr/> | <hr/> |
| Operating income (loss) | (23,097) | 3,244 | (393) |
| Interest expense, net | 8,547 | 5,722 | 686 |
| Other expense, net | 646 | 46 | 38 |
| Reorganization items: | | | |
| Loss on adjustment of assets to fair market value | - | - | 39,450 |
| Financial restructuring costs | - | - | 200 |
| | <hr/> | <hr/> | <hr/> |
| Loss from continuing operations | (32,290) | (2,524) | (40,767) |
| Income from discontinued operations of logistics segment, net of income tax of \$0. | 443 | 254 | 135 |
| Gain on disposal of logistics segment, net of income tax of \$0. | 316 | - | - |
| | <hr/> | <hr/> | <hr/> |
| Loss before extraordinary item | (31,531) | (2,270) | (40,632) |
| Extraordinary gain on extinguishment of debt | - | - | 42,682 |
| | <hr/> | <hr/> | <hr/> |
| Net income (loss) | \$ (31,531) | \$ (2,270) | \$ 2,050 |
| | <hr/> | <hr/> | <hr/> |
| Basic and diluted earnings (loss) per share: | | | |
| Loss from continuing operations | \$ (16.15) | \$ (1.26) | \$ (7.15) |
| Discontinued operations | 0.22 | 0.12 | 0.02 |
| Gain on disposal of logistics segment | 0.16 | - | - |
| Extraordinary item | - | - | 7.49 |
| | <hr/> | <hr/> | <hr/> |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | | |
|--|------------|-----------|-----------|
| Net income (loss) | \$ (15.77) | \$ (1.14) | \$ 0.36 |
| Weighted average number of shares used in computation of basic and diluted earnings (loss) per share | 1,999,649 | 1,999,649 | 5,702,000 |

See notes to unaudited consolidated financial statements.

Financial Statements continued

TRISM, Inc.
Consolidated Statements of Cash Flows

For the nine months ended September 30, 2001 and 2000
(In thousands, unaudited)

| | Reorganized Company | Predecessor Company |
|--|---|---|
| | Nine Months Ended September 30, 2001 | Seven and one half Months Ended September 30, 2000 |
| | | One and one half Months Ended February 15, 2000 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (31,531) | \$ (2,270) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,278 | 8,910 |
| Loss (gain) on disposition of assets, net | 12 | (100) |
| Impairment loss on revenue equipment | 13,309 | - |
| Provision for losses on accounts receivable | 683 | 848 |
| Changes in assets and liabilities: | | |
| Restricted cash and insurance deposits | (2,936) | - |
| Accounts receivable | 16,844 | (6,077) |
| Materials and supplies | 343 | - |
| Prepaid expenses | 8,078 | 4,025 |
| Accrued expenses and insurance reserves | (10,251) | (1,406) |
| Accounts payable | (600) | (17) |
| Other | (181) | (92) |
| Net cash provided by operating activities before reorganization items | 4,048 | 3,821 |
| | | 4,544 |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | | |
|--|---------|----------|----------|
| Cash flows from operating activities relating to reorganization items: | | | |
| Loss on adjustment of assets to fair market value | - | - | 39,450 |
| Extraordinary gain, net | - | - | (42,682) |
| Financial restructuring costs, net | - | (1,217) | 162 |
| Net cash provided by operating activities | 4,048 | 2,604 | 1,474 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of assets | 5,426 | 2,497 | 522 |
| Purchases of property and equipment | (1,286) | (1,680) | (223) |
| Net cash provided by investing activities | 4,140 | 817 | 299 |
| Cash flows from financing activities: | | | |
| Net proceeds (repayments) under revolving credit agreement | (2,164) | 9,824 | 1,020 |
| Repayment of long-term debt and capital lease obligations | (4,553) | (12,576) | (3,797) |
| Increase (decrease) in bank overdrafts | (1,261) | 952 | 920 |
| Payment of deferred financing costs | - | (2,599) | (82) |
| Net cash used in financing activities | (7,978) | (4,399) | (1,939) |
| Increase (decrease) in cash and cash equivalents | 210 | (978) | (166) |
| Cash and cash equivalents, beginning of period | 194 | 2,080 | 2,246 |
| Cash and cash equivalents, end of period | \$ 404 | \$ 1,102 | \$ 2,080 |
| Supplemental cash flow information: | | | |
| Capital lease equipment purchases | \$ - | \$ 112 | \$ - |
| Conversion of operating leases to installment debt | \$ 637 | \$ 2,722 | \$ - |

See notes to unaudited consolidated financial statements.

Financial Results and Liquidity

Trism, Inc. (the "Company"), has incurred net losses of \$31.5 million, \$11.8 million, \$18.4 million and \$7.4 million during the nine months ended September 30, 2001 and the years ended December 31, 2000, 1999 and 1998, respectively. The Company has been, and continues to be, faced with a variety of operating challenges, including, among others, fleet utilization, an increase in insurance costs, and the inability to attract and retain qualified driving employees. These factors have significantly impacted, and continue to significantly impact, the Company's liquidity.

The Company is presently in default of certain covenants related to its Senior Subordinated Notes Due 2005 (the "New Notes") and has not made interest payments relating to such notes which were due March 15, 2001 and September 15, 2001. Under the terms of the New Notes, the thirty-day grace period with respect to such interest payments has passed and this constituted Events of Default under the terms of the indenture pursuant to which the New Notes were issued, which gives the noteholders the right to accelerate the New Notes. The total arrearage as of November 14, 2001 is \$4.7 million, including interest at 13% on the past due amount. In addition, beginning in October 2000 the Company has been in default of certain covenants relating to its revolving credit facility (the "Revolver"). Since that time, the Company has negotiated several forbearance agreements with the lender for the Revolver, the terms of which have included payment of fees totaling \$1.1 million, in exchange for such forbearance, as well as an increase in interest rates under the Revolver and a reduction in borrowing capacity. The most recent forbearance expires on November 30, 2001. The Company is presently negotiating with its lender for a continued extension of the forbearance agreements, however, such extension is not assured at this time. The Company is also in technical default on certain of its equipment debt and is several months behind in making certain of its equipment debt payments. As a result, in July 2001, one lender repossessed thirteen of the two-hundred-forty tractors that they financed. Partial payments have been made to the lender and repossessions have been discontinued.

On March 9, 2001, the Company announced the Board of Directors has engaged the Carreden Group, Inc., investment bankers located in New York City, as financial advisor to explore strategic alternatives. With the assistance of Carreden Group, the Company is currently exploring alternative financing to replace the Revolver and is also engaged in preliminary discussions with potential purchasers of substantially all of the Company's assets who have indicated their interests in pursuing such a transaction. There can be no assurances that the Company will be successful in accomplishing either of these objectives. Moreover, the consummation of either of these alternatives may require a restructuring of the Company's existing indebtedness. In order to effect any such sale or restructuring of its indebtedness, it may be necessary for the Company to file for protection under Chapter 11 of the Bankruptcy Code.

On April 18, 2001, the Board of Directors authorized the retention of Transport Management, a trucking management firm, to assist in the management of the Company.

As a result of the continued decline in the profitability of the general freight services, the Company has downsized the Heavy Haul segment. To facilitate the downsizing, the Company announced the closure of Trism Specialized Carriers ("TSC") on August 22, 2001. TSC completed delivery of all shipments in transit to their destination points. The Company will continue some over-dimensional services in the Heavy Haul segment through Tri-State Motor Transit Co. ("TSMT"), which also operates in the Company's Secured Materials segment.

The Company is in the process of returning 892 tractors to equipment lenders and selling 2,737 trailers with a carrying value of \$39.4 million and \$19.2 million respectively as of September 30, 2001. The majority of this equipment had been operated by TSC. However, management has identified excess equipment in the Secured Materials segment that has been included in the above amounts. Trailers are being sold through an equipment broker the Company has engaged and the proceeds will be applied to the Revolver. Management estimates based on the current market for used trailers, that the proceeds from such sales will not be sufficient to recover the carrying value of the trailers. As a result the Company has recorded an impairment loss of approximately \$1.2 million for trailers during the nine months ended September 30, 2001. Tractors are being returned to the equipment lenders for disposal and proceeds will be applied to equipment debt. Management estimates based on the current market for used tractors, that the proceeds from such

sales will not be sufficient to recover the carrying value of the tractors. As a result, the Company recorded an impairment loss of approximately \$12.0 million for tractors during the nine months ended September 30, 2001. Based on the balance of equipment debt and the application of the anticipated proceeds from the sale of such tractors, the Company expects the remaining balance of the equipment debt will be approximately \$10.7 million. Proceeds from executed sales as of September 30, 2001 are \$2.0 million.

Notes to Consolidated Financial Statements, Continued

Financial Results and Liquidity, Continued

In addition to the reduction in the fleet, the Company has also reduced the number of driver and non-driver employees and is closing fifteen leased terminal facilities. No payments or other benefits were provided to severed employees except for accrued vacation. With respect to the closed terminal facilities, the Company has been able to exit lease agreements and management does not anticipate any material liability.

In August 2001, the Company reached agreements in principle to separately sell the two divisions of the Logistics segment, Trism Logistics, Inc. ("TLI"), and Trism Intermodal Services, to former officers of the Company. Declining revenues and shrinking customer lists prompted these sales.

The sale of Trism Intermodal Services, which was completed on August 20, 2001, resulted in the Company receiving \$60,000 in cash in exchange for the net assets, excluding accounts receivable and accounts payable, of this business as of the closing date, and recognizing a gain on the disposal of \$3,000. The operations of Trism Intermodal Services are included in income from discontinued operations of Logistics segment for all periods presented.

The sale of TLI, which was completed on August 31, 2001, resulted in the Company receiving total consideration of \$245,000 (\$26,000 in cash and a release from \$219,000 in severance payments from a former officer) in exchange for the net assets, excluding accounts receivable and accounts payable, of this business as of the closing date, and recognizing a gain on the disposal of \$313,000. The operations of TLI are included in income from discontinued operations of Logistics segment for all periods presented.

The Board of Directors of the Company has determined that the sale of these entities is fair to the Company and is on terms at least as favorable to the Company as might reasonably have been obtained at the present time from an unaffiliated party. No member of the Board of Directors has a personal interest in the sale.

The Company's headquarters in Kennesaw, Georgia has been listed for sale. The property has been listed for sale at \$5.9 million as compared to a carrying value of \$5.2 million. The Company has also listed for sale other land and terminal facilities throughout the country. These properties have been listed for sale at \$8.3 million as compared to a carrying value of \$5.6 million. All of these properties collateralize the Revolver and the sale proceeds will be used to reduce the Revolver. The Company sold 160 acres of unimproved land in Joplin that was listed for sale. The related sales price of \$1.1 million and carrying value of \$0.5 million is not included in the above amounts.

The following events occurred after September 30, 2001:

On October 4, 2001 and October 5, 2001, two of the Company's tractors were involved in single motor vehicle incidents while transporting materials for the Department of Defense. As a consequence, the Department of Defense disqualified the Company from picking up munitions effective 6:00 p.m. October 25, 2001. The Department of Defense suspended this disqualification effective 6:00 a.m. November 5, 2001.

On October 16, 2001, the Company accepted early payment a \$200,000 note receivable. The 10 year note for the sale of property in Claremore, Oklahoma was settled in full for \$185,000.

In November 2001, the Company advised The CIT Group/Business Credit, Inc. and Fleet Capital Corporation, ("revolving credit lenders") that certain of the collateral borrowing base certificates that are prepared and sent daily to the revolving credit lenders have overstated collateral assets by an estimated \$4.4 million. On discovery of the misstatement, the Company took immediate action to terminate the employment of the Treasurer, and to increase the amount of borrowing base collateral by pledging all of the Company's unencumbered real property assets to its revolving credit lenders to bring the collateral borrowing base in line with its current loan balance. The erroneous borrowing base certificates had no effect on the Company's financial statements.

Notes to Consolidated Financial Statements, Continued

Financial Results and Liquidity, Continued

In November 2000, the Company purchased a premium-based insurance policy against bodily injury and property damage with a \$500,000 deductible per occurrence. As a result of this policy, insurance costs have increased 48.3% from \$2.9 million for the third quarter 2000 to \$4.3 million for the third quarter 2001. The Company issued standby letters of credit in the amount of \$9.3 million and collateralized an additional \$5.4 million in the form of restricted cash deposits at September 30, 2001 in respect of their policies. Of the \$9.3 million letters of credit, only \$2.1 million remain outstanding as of September 30, 2001, \$6.2 million was presented for payment, and \$1.0 million was cancelled. During the quarter ended September 30, 2001, the Company's insurer for personal injury and property damage for period from November 1, 1993 through October 31, 1999 presented for payment a \$6.0 million letter of credit, which was collateral for the Company's liability for the deductible portion of outstanding claims for that period. The insurer has assumed responsibility for these claims up to \$6.0 million. The Company believes there will be no further liability associated with outstanding claims. The Company reduced its self insurance reserves by \$4.9 million, which was the estimated liability recorded for the claims assumed by the insurer. On October 31, 2001, the Company obtained financing for insurance coverage for the Company's operations for a twelve month period beginning November 1, 2001 through October 31, 2002.

Existing credit facilities are not expected to be sufficient to cover liquidity requirements for the next twelve months and the Company is facing the prospect of not having adequate funds to operate its business. Due to a number of uncertainties, many of which are outside the control of the Company, there can be no assurance that additional credit facilities can be arranged or that any long term restructuring can be successfully initiated or implemented, in which case the Company may be compelled to file for protection under Chapter 11 or to liquidate under Chapter 7 of the Bankruptcy Code. Moreover, it may be necessary for the Company to file under Chapter 11 to implement any consensually negotiated restructuring of its indebtedness or a sale of the Company as discussed above.

These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on several factors, including the Company's ability to overcome the operational and liquidity issues discussed above. The Company's consolidated financial statements for the three and nine months ended September 30, 2001 and for the year ended December 31, 2000 do not include any adjustments that might result from the outcome of this uncertainty.

As previously discussed, management is exploring alternative financing structures and has also engaged in preliminary discussions with potential purchasers of some or all of the Company's assets. In order to effect a refinancing or sale, management has begun to implement a business plan that can significantly improve operating results. To date, management has, among other things, significantly reduced the size of its Heavy Haul segment by shedding unprofitable volume and focusing its efforts in this segment on a regional (as opposed to a national) basis,

attempted to concentrate on the Secured Materials segment, a niche market which management believes is a core capability of the Company, and has sold the logistics segment. With this downsizing, the Company has (1) eliminated unnecessary personnel, (2) focused on other cost containment initiatives, (3) started to dispose of excess fleet and other property, the proceeds from which have been, and will be, utilized to reduce debt and (4) closed certain unneeded terminal facilities. The continued support of the Company's vendors, customers, lenders, stockholders and employees will continue to be key to the Company's future success.

Accounting Policies

Due to the Reorganization of the Company on February 15, 2000 as discussed below under "Emergence from Bankruptcy," and implementation of Fresh Start Reporting, Condensed Consolidated Financial Statements for the new Reorganized Company (period starting February 16, 2000) are not comparable to those of the Predecessor Company. The Reorganized Company relates to all operations post-emergence from bankruptcy and the Predecessor Company relates to all operations pre-emergence from bankruptcy. A black line has been drawn on the accompanying Condensed Consolidated Financial Statements to distinguish between the Reorganized Company and the Predecessor Company.

Notes to Consolidated Financial Statements, Continued

Accounting Policies continued

The 2000 Annual Report on Form 10-K for Trism, Inc. includes a summary of significant accounting policies and should be read in conjunction with this Form 10-Q. The statements for the periods presented in this Form 10-Q are condensed and do not contain all information required by accounting principles generally accepted in the United States of America to be included in a full set of financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position as of September 30, 2001 and the results of operations and cash flows for the periods ended September 30, 2001 and 2000, respectively, have been included. The Company's operations are subject to seasonal trends common to the trucking industry. Results of operations for the quarters ending in December and March are materially lower than the quarters ending in June and September due to reduced shipments and higher operating costs in the winter months. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the entire year. Certain reclassifications were made to the 2000 accounts to reflect classifications adopted in 2001.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivatives and hedging. It requires that all derivatives be recognized as either assets or liabilities at fair value and establishes specific criteria for the use of hedge accounting. The Company adopted SFAS 133 on January 1, 2001. There was no material effect on consolidated results of operations, financial position, cash flows or stockholders' equity upon adoption of SFAS 133.

On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. SFAS No. 141 was required to be implemented by July 1, 2001. There was no material effect on the consolidated financial position or results of operations upon adoption of SFAS No. 141.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of

goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002. Management expects no material effect on the consolidated financial position or results of operations upon adoption of SFAS No. 142 as there is no recorded goodwill or other intangible assets.

On August 1, 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was approved by the FASB. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 142 is required to be adopted on January 1, 2002. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

Emergence from Bankruptcy

On September 16, 1999, the Company filed (the "Filing") for protection under Chapter 11 of the United States Bankruptcy Code (the "Code") in the District of Delaware. The Company operated as a Debtor-in-Possession ("DIP") under the Code. Subsequent to the Filing, the Company obtained a \$42.4 million senior collateralized DIP credit facility to meet its ongoing working capital needs and replace its pre-petition revolving credit facility. The DIP facility provided for borrowings up to \$35 million on a revolving credit facility, with availability depending upon a borrowing base formula based on accounts receivable. Additionally, the DIP facility provided additional borrowing capacity of \$2.4 million to refinance an existing term loan collateralized by five hundred and forty-one trailers and an incremental \$5 million of borrowings, if drawn, to be collateralized by identified real property and other unencumbered trailers. The borrowings bore interest at rates ranging from prime rate plus .25% to .50% or from LIBOR rates plus 2.25% to 2.50%. The DIP facility was repaid in full on February 15, 2000, the effective date of the Plan of Reorganization (the "Plan"). On October 25, 1999 the Court signed an order approving the second amended disclosure statement for a joint plan of reorganization. On December 9, 1999, the Plan was confirmed by the United States Bankruptcy Court, District of Delaware (the "Court").

On February 15, 2000, the consummation of the Company's Plan of Reorganization was completed, and the Company exited from Chapter 11. The Company converted the existing Senior Subordinated Notes ("Notes") and common equity as outlined under the terms of the restructuring agreement.

Notes to Consolidated Financial Statements, Continued

Emergence from Bankruptcy continued

The agreement provided for the Notes to be converted into (i) New Notes in the aggregate principal amount of \$30 million, due February 15, 2005, with interest at the rate of 12% per annum (the first two semi-annual interest payments were paid on March 15, 2000 and September 15, 2000), and (ii) 95% of the new common equity of the Company to be issued post-recapitalization. The agreement also provided that the Company's old common equity would be converted into 5% of the new common equity issued post-recapitalization.

Revolving Credit Facility and Other Debt

In connection with the exit from Chapter 11, the Company obtained the Revolver, a new, three-year \$42.5 million revolving credit facility. The Revolver now provides for borrowings up to \$40.0 million based on a borrowing base formula determined by eligible accounts receivable, certain unencumbered trailers, and the Company's real property in Kennesaw, Georgia. The Revolver also provides for the issuance of letters of credit up to \$17 million. The Revolver bears interest at the prime rate plus .25% or LIBOR plus 2.25%. No financial maintenance covenants exist unless availability, as defined, initially falls below \$5 million for ten consecutive business days. If availability falls below \$5 million, required covenants include a minimum net worth threshold, minimum fixed charge coverage ratio and a

maximum leverage ratio. The Revolver also limits debt incurrence, capital expenditures, changes in control and management, mergers and certain material asset sales, irrespective of the \$5 million availability threshold.

On October 19, 2000, the Company was notified by CIT Business Credit that an event of default had occurred under the Revolver concerning a change in management restriction as a result of the resignation of the former Chief Executive Officer and Chief Financial Officer of the Company. On October 27, 2000, the Company was notified by CIT Business Credit that an event of default had occurred under the Revolver concerning a materially adverse effect evidenced by, (a) the Company's current and projected future negative earnings and cash flow, (b) the change in management discussed in notice of default on October 19, 2000, (c) the increase in fuel costs to the Company and (d) a proposed sixty percent increase in insurance premiums to the Company.

On November 8, 2000, the Company executed a forbearance agreement with CIT Business Credit that modified certain terms with the Revolver, including a \$3.0 million forbearance reserve on collateral availability, and increased interest rates to 2.0% above Prime and required the payment of a forbearance fee of \$150,000. The forbearance agreement has been subsequently amended to decrease the forbearance reserve to \$2.0 million and has been extended first on a biweekly and since June 4, 2001 on a weekly basis for additional fees totaling \$1,098,000. The most recent amendment, dated October 29, 2001, extended the forbearance period until November 30, 2001. The Company has agreed, during the period of forbearance, not to pay the interest due on its outstanding Senior Subordinated Notes Due 2005.

There was no cash availability under the Revolver at September 30, 2001 and October 31, 2001, respectively, after reserving \$2.8 million and \$2.0 million as required by the forbearance agreement as of September 30, 2001 and October 31, 2001. Borrowings under the Revolver amounted to approximately \$23.3 million and \$19.8 million at September 30, 2001 and October 31, 2001. The September 30, 2001 Revolver balance includes \$6.2 million of letters of credit which have been drawn during the quarter ended September 30, 2001. The Company has classified the long-term debt under the Revolver as current due to the default caused by noncompliance with the underlying credit agreement.

Shareholder Rights Plan

On April 27, 2001, the Board of Directors adopted a Shareholders Rights Plan and declared a dividend of one right for each outstanding share of Trism Common Stock, par value \$.01 per share, to stockholders of record at the close of business on April 27, 2001 (the "Record Date"). A Shareholder Rights Plan is designed to assure that all of the Company's securityholders are offered a full and fair price in the event a potential acquirer seeks to gain control of the Company and to protect securityholders from attempts to acquire effective control through open market and/or private purchases of common stock without paying a fair control premium to either selling or remaining stockholders. Under certain circumstances if a person or group (other than those eligible to report beneficial ownership on Schedule 13(G)) acquires beneficial ownership of 30 percent or more of the Company's outstanding Common Stock, each right (other than those owned by such beneficial owner) will entitle the holder to purchase a number of shares of Common Stock having a market value at that time of two times the \$1.50 exercise price of the right. The rights are not exercisable until the Distribution Date and will expire at the close of business on April 26, 2011, unless earlier redeemed by the Company. The complete description and terms of the rights are set forth in a Rights Agreement between the Company and Continental Stock Transfer & Trust Company, as Rights Agent.

Notes to Consolidated Financial Statements, Continued

Fresh Start Reporting

As of February 15, 2000, the Company adopted Fresh Start Reporting in accordance with AICPA Statement of Position 90-7. Fresh Start Reporting resulted in material changes to the consolidated balance sheet, including valuation of assets, intangible assets and liabilities at fair market value and valuation of equity based on the appraised reorganization value of the ongoing business.

In accordance with SOP 90-7, the Consolidated Statements of Operations should portray the results of operations of the Company while in Chapter 11. Expenses resulting from the restructuring are reported separately as reorganization items. In the accompanying Consolidated Statements of Operations for the one and one-half months ended February 15, 2000, the Company wrote-off \$39.5 million related to assets adjusted to estimated fair market value. Furthermore, the Company incurred financial restructuring costs of \$0.2 million for the one and one-half months ended February 15, 2000.

The Company's reorganization value of \$135 million (the approximate fair value) was based upon the assumed total long-term debt (including capital lease and operating lease obligations) of \$115 million and the estimated imputed equity value of the Reorganized Company at \$20 million during the administration of the bankruptcy in 1999. These values were based on the consideration of many factors and various valuation methods, including discounted cash flows, selected publicly traded Company market multiples, selected acquisition transaction multiples and other applicable ratios and valuation techniques believed by the Company's management and its financial advisors to be representative of the Company's business and industry.

The reorganization of the Company resulted in a discharge of debt under the Tax Code. The discharge reduced outstanding net operating loss carryforwards on February 15, 2000. However, due to a change in control the remaining net operating loss carryforwards are subject to annual limitations in accordance with section 382 of the Tax Code.

In addition, SOP 90-7 requires the Company to report interest expense during the bankruptcy proceeding only to the extent that it will be paid during the proceeding or that it is probable to be an allowed priority, secured or unsecured claim. Accordingly, the Company only recorded interest expense for its DIP credit facility and secured debt obligations subsequent to the bankruptcy filing. The difference between the reported interest expense and the contractual interest expense was \$1.9 million for the year ended December 31, 1999, and relates to the Notes. The Company recorded interest expense for all long-term debt obligations prior to the Filing.

Notes to Consolidated Financial Statements, Continued

Fresh Start Reporting, Continued

| | Predecessor Company | Reorganization and Fresh Start Adjustments | | Reorganized Company |
|----------------------------------|-----------------------------|--|-----------------------------|-----------------------------|
| | February 15, 2000 | Debit | Credit | February 15, 2000 |
| ASSETS | | | | |
| Current Assets | \$ 52,638 | \$ - | \$ 917 (a) (b) | \$ 51,721 |
| Property, Plant & Equipment, net | 127,114 | - | 21,880 (c) | 105,234 |
| Other Long-term Assets, net | 18,765 | 1,500 (e) | 17,459 (d) | 2,806 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | | | |
|---|------------|--------------|----------------|------------|
| Total Assets | \$ 198,517 | \$ 1,500 | \$ 40,256 | \$ 159,761 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities | \$ 57,050 | \$ 7,758 (a) | \$ 1,500 (e) | \$ 50,792 |
| Long-term Debt | 138,238 | 86,230 (a) | 30,000 (f) | 82,008 |
| Other Long-term Liabilities | 6,961 | - | - | 6,961 |
| Total Liabilities | 202,249 | 93,988 | 31,500 | 139,761 |
| Stockholders' Equity | (3,732) | 37,302 (g) | 61,034 (h) (i) | 20,000 |
| Total Liabilities and Equity | \$ 198,517 | \$ 131,290 | \$ 92,534 | \$ 159,761 |

(a) - To reflect the cancellation of the old Notes and related accrued interest expense and income.

(b) - To adjust current assets to fair market value.

(c) - To adjust property, plant and equipment to fair market value.

(d) - To adjust intangibles to fair market value.

(e) - To reflect deferred debt issuance costs of \$1.5 million relating to new Notes.

(f) - To reflect the issuance of the new Notes.

(g) - To reflect the cancellation of the old common stock and additional paid in capital and elimination of retained earnings of the Predecessor Company.

(h) - To reflect the issuance of the new common stock and additional paid in capital of \$20.0 million.

(i) - To reflect the extraordinary credit resulting from the discharge of indebtedness. The extraordinary gain calculation:

| | |
|---|-----------|
| Historical value of Old Senior Subordinated Notes "Old Notes" | \$ 86,230 |
| Historical value of Accrued Interest, net on Old Notes | 6,952 |
| | <hr/> |
| | 93,182 |
| Market Value of consideration exchanged for the Old Notes: | |
| New Senior Subordinated Notes "New Notes" | (30,000) |
| Deferred financing fees on New Notes | (1,500) |
| New Common Stock (95% of 2.0 million shares) | (19,000) |
| | <hr/> |
| | (50,500) |
| | <hr/> |
| Extraordinary Gain | \$ 42,682 |
| | <hr/> |

Notes to Consolidated Financial Statements, Continued

Fresh Start Reporting, Continued

The following unaudited pro forma condensed consolidated statement of operations presents the results of operations for the nine months ended September 30, 2000, as though the consummation of the Plan and Fresh Start Reporting had been completed on January 1, 2000, and assumes that there were no other changes in the operations of the Company. The pro forma results are not necessarily indicative of the financial results that might have occurred had the consummation of the Plan and Fresh Start Reporting actually taken place on January 1, 2000, or of future results of operations (in thousands):

Pro forma Condensed Statement of Operations
For nine months ended September 30, 2000

| | | Nine Months Ended |
|-----------------------|----|------------------------------|
| Revenues | \$ | 216,725 |
| Operating expenses | | 212,877 |
| Operating income | | <u>3,848</u> |
| Interest expense, net | | 6,859 |
| Other expense, net | | <u>237</u> |
| Net loss | \$ | <u>(3,248)</u> |

Guarantor Subsidiaries

The Company's senior subordinated notes are guaranteed by all of the Company's direct and indirect subsidiaries (the "Guarantor Subsidiaries"). All of the Guarantor Subsidiaries are wholly owned direct or indirect subsidiaries of the Company and the guarantees of the Guarantor Subsidiaries are full, unconditional and joint and several. Trism, Inc.,

exclusive of its subsidiaries, has no independent assets or operations.

Contingencies

Under the Comprehensive Environmental Responses, Compensation and Liability Act ("CERCLA") and similar state laws, a transporter of hazardous substances may be liable for the costs of responding to the release or threatened release of hazardous substances from disposal sites if such transporter selected the site for disposal. Because it is the Company's practice not to select the sites where hazardous substances and wastes will be disposed, the Company does not believe it will be subject to material liability under CERCLA and similar laws. Although the Company has been identified as a "potentially responsible party" at four sites, solely because of its activities as a transporter of hazardous substances, the Company does not believe it will be subject to material liabilities at such sites.

The Company is a party to certain legal proceedings incidental to its business, primarily involving claims for personal injury or property damage arising from the transportation of freight. The Company does not believe that these legal proceedings, or any other claims or threatened claims of which it is aware, are likely to materially and adversely affect the Company's financial condition, results of operations and cash flows. With regard to personal injury, property damage, workers' compensation claims, and cargo claims, the Company is and has been covered by insurance. Such matters may include claims for punitive damages.

In addition to matters referred to above, the Company is a party to certain additional lawsuits, none of which is believed to involve a significant risk of materially and adversely affecting the Company's financial condition, results of operations and cash flows.

Notes to Consolidated Financial Statements, Continued

Segment and Related Information

The Company identifies operating segments based on management responsibility and marketing strategies. The Company has two reportable segments: Heavy Haul and Secured Materials. Prior to August 2001, Logistics was reported as an operating segment but has since been sold as previously discussed. The Logistics segment is reported as discontinued operations in the statements of operations for all periods presented.

Heavy Haul

Prior to downsizing, as discussed in "Financial Results and Liquidity", this segment consisted of Trism Specialized Carriers, Inc. ("TSC"), specializing in the transportation of over-sized and over-dimensional loads throughout the United States, Canada, and Mexico. The largest markets for Heavy Haul were manufacturers of large machinery and equipment, suppliers and contractors to industrial and public construction, importers of industrial durable goods and the U.S. Government. In addition, the division maintains trailer interchange agreements with certain Mexican carriers. As a result of the continued decline in the profitability of the general freight services of the heavy haul segment, the Company announced the closure of TSC on August 22, 2001. TSC completed delivery of all shipments in transit to their destination points.

The Company will continue over-dimensional services of the Heavy Haul segment by transferring necessary TSC equipment to Tri-State Motor Transit Co. ("TSMT"), which also operates in the Company's Secured Materials segment. Remaining TSC equipment will be returned to the equipment lenders or sold as previously discussed in "Financial Results and Liquidity." The Heavy Haul segment will continue to provide services to customers in the southeastern United States.

Secured Materials

The Secured Materials segment consists of the following: TSMT and Trism Environmental Services ("TES"). The Secured Materials services are characterized by the toxic or explosive nature and special handling requirements of the cargo. The cargo typically consists of military munitions, commercial explosives, hazardous waste, and radioactive materials. The largest markets for Secured Materials are the United States government and various governmental agencies, waste generators, and environmental clean-up firms. TSMT is the largest transporter of the Department of Defense munitions in the continental United States. TSMT operates throughout the continental United States. TES provides service to customers in the hazardous waste and radioactive materials market and operates throughout the United States, but its primary market focus is east of the Mississippi. The operating companies within the Secured Materials segment have operating authority in the continental United States and certain provinces of Canada.

Notes to Consolidated Financial Statements, Continued

Segment and Related Information, Continued

A summary of segment information for the three months ended September 30, 2001 and 2000 is presented below (in thousands):

| | Three Months Ended <u>September 30, 2001</u> | Three Months Ended <u>September 30, 2000</u> |
|---------------------------------------|---|---|
| <u>Operating revenue</u> | | |
| Heavy Haul | \$ 20,268 | \$ 50,289 |
| Secured Materials | 15,455 | 19,545 |
| Intersegment eliminations | (1,488) | (2,639) |
| | <hr/> | <hr/> |
| Consolidated | \$ 34,235 | \$ 67,195 |
| | <hr/> | <hr/> |
| <u>Operating income (loss)</u> | | |
| Heavy Haul | \$ (5,211) | \$ 3 |
| Secured Materials | (1,188) | 278 |
| | <hr/> | <hr/> |
| Consolidated | \$ (6,399) | \$ 281 |
| | <hr/> | <hr/> |
| Interest expense, net | 2,838 | 2,319 |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | |
|---|-----------------------------|-----------------------------|
| Other expense, net | 402 | (3) |
| | <u> </u> | <u> </u> |
| Loss from continuing operations | \$ (9,639) | \$ (2,035) |
| | <u> </u> | <u> </u> |
| Income from discontinued operations of logistics segment, net of income tax of \$0. | \$ 310 | \$ 84 |
| Gain on disposal of logistics segment, net of income tax of \$0. | 316 | - |
| | <u> </u> | <u> </u> |
| Net loss | \$ (9,013) | \$ (1,951) |
| | <u> </u> | <u> </u> |

Notes to Consolidated Financial Statements, Continued

Segment and Related Information, Continued

A summary of segment information for the nine months ended September 30, 2001 and 2000 is presented below (in thousands):

| | Reorganized Company | Predecessor Company |
|---------------------------------|---|---|
| | Nine Months Ended September 30, 2001 | Seven and one half Months Ended September 30, 2000 |
| | | One and one half Months Ended February 15, 2000 |
| <u>Operating revenue</u> | | |
| Heavy Haul | \$ 107,987 | \$ 129,192 |
| Secured Materials | 51,739 | 48,366 |
| Intersegment eliminations | (5,961) | (7,020) |
| | <u> </u> | <u> </u> |
| Consolidated | \$ 153,765 | \$ 170,538 |
| | | <u> </u> |
| | | \$ 30,222 |

Edgar Filing: TRISM INC /DE/ - Form 10-Q

| | | | |
|---|-------------|------------|-------------|
| <u>Operating income (loss)</u> | | | |
| Heavy Haul | \$ (22,765) | \$ 1,690 | \$ (590) |
| Secured Materials | (332) | 1,554 | 197 |
| | | | |
| Consolidated | \$ (23,097) | \$ 3,244 | \$ (393) |
| | | | |
| Interest expense, net | 8,547 | 5,722 | 686 |
| Other expense, net | 646 | 46 | 38 |
| Reorganization items: | | | |
| Loss on adjustment of assets to fair market value | - | - | 39,450 |
| Financial restructuring costs | - | - | 200 |
| | | | |
| Loss from continuing operations | \$ (32,290) | \$ (2,524) | \$ (40,767) |
| | | | |
| Income from discontinued operations of logistics segment, net of income tax of \$0. | 443 | 254 | 135 |
| Gain on disposal of logistics segment, net of income tax of \$0. | 316 | - | - |
| | | | |
| Loss before extraordinary item | \$ (31,531) | \$ (2,270) | \$ (40,632) |
| | | | |
| Extraordinary gain on extinguishment of debt | - | - | 42,682 |
| | | | |
| Net income (loss) | \$ (31,531) | \$ (2,270) | \$ 2,050 |

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

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain statements in this Form 10-Q include information that is forward-looking, such as the Company's anticipated liquidity and capital requirements, the projections of future revenues and the estimated results of possible sales of various

assets and businesses. The matters referred to in forward-looking statements could be affected by the risks and uncertainties involved in the Company's business. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph.

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and notes for the year ended December 31, 2000 and three and nine months ended September 30, 2001.

To facilitate a meaningful comparison of the Company's quarterly operating performance in years 2001 and 2000, the following discussion of results of operations is presented on a traditional comparative basis for both periods. Accordingly, the results of operations for the nine months ended September 30, 2000 represents the mathematical addition of the historical amounts for the predecessor company period January 1 through February 15, 2000, and the reorganized company period, February 16 through September 30, 2000. Consequently, the current year's information presented below does not comply with accounting requirements for companies upon emergence from bankruptcy which calls for separate reporting for the newly reorganized company and the predecessor company. Management believes that a combined discussion of predecessor and reorganized company periods is reasonable and appropriate because there were no material adjustments to the presented items (other than depreciation, amortization and interest expense) resulting from the Fresh Start Reporting.

The following tables summarize certain financial information on a percentage of revenue basis and selected operating data for the three and nine months ended September 30, 2001 and 2000:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------------------|----------------------------------|-------|----------|---------------------------------|-------|----------|
| | 2001 | 2000 | Variance | 2001 | 2000 | Variance |
| Percentage of Revenue Basis: | | | | | | |
| Revenues | 100.0 | 100.0 | - | 100.0 | 100.0 | - |
| Operating expenses: | | | | | | |
| Salaries, wages and fringe benefits | 47.4 | 32.7 | 14.7 | 37.9 | 33.1 | 4.8 |
| Operating supplies and expenses | 19.4 | 17.6 | 1.8 | 18.0 | 16.8 | 1.2 |
| Contractor equipment | 11.3 | 14.1 | (2.8) | 12.8 | 14.1 | (1.3) |
| Operating taxes and licenses | 9.6 | 8.6 | 1.0 | 8.8 | 8.7 | 0.1 |
| Impairment loss on revenue equipment | - | - | - | 8.7 | - | 8.7 |
| Claims and insurance | 12.5 | 4.2 | 8.3 | 8.2 | 4.3 | 3.9 |
| Depreciation and amortization | 6.1 | 5.4 | 0.7 | 6.7 | 5.6 | 1.1 |
| General supplies and expenses | 5.7 | 4.8 | 0.9 | 5.8 | 4.8 | 1.0 |
| Brokerage carrier expense | 4.0 | 8.8 | (4.8) | 5.7 | 7.7 | (2.0) |
| Communications and utilities | 2.9 | 1.5 | 1.4 | 2.0 | 1.4 | 0.6 |
| Revenue equipment rents | 0.7 | 1.7 | (1.0) | 0.4 | 2.2 | (1.8) |
| (Gain) loss on disposition of assets | (0.9) | - | (0.9) | - | - | - |
| Total operating expenses | 118.7 | 99.4 | 19.3 | 115.0 | 98.7 | 16.3 |
| Operating income (loss) | (18.7) | 0.6 | (19.3) | (15.0) | 1.3 | (16.3) |

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|--------|------------------------------------|---------|
| | 2001 | 2000 | 2001 | 2000 |
| Selected operating data: | | | | |
| Revenue per loaded mile (a) | \$1.89 | \$1.84 | \$1.89 | \$1.82 |
| Revenue per total mile (a) | \$1.51 | \$1.52 | \$1.55 | \$1.51 |
| Load factor (b) | 80.2% | 82.9% | 82.2% | 82.8% |
| Revenue per tractor per day (c) | \$553 | \$531 | \$540 | \$517 |
| Miles per tractor per day (c) | 365 | 348 | 348 | 342 |
| Average length of haul in miles (d) | 949 | 975 | 970 | 947 |
| Tractors (e) | 919 | 1,762 | 1,360 | 1,811 |
| Total loads (000's) | 18 | 32 | 75 | 101 |
| Total tractor miles (000's) | 20,974 | 38,058 | 88,972 | 115,782 |

(a) Freight revenues exclude brokerage, Super Heavy Haul and fuel surcharge revenues.

(b) Load factor represents loaded miles as a percentage of total miles.

(c) Based on weighted average number of tractors during period

(d) Calculated as the average distance from origin to the destination of the shipments.

(e) Includes the monthly average of owned, leased and independent contractors, except for those held for disposal.

Operating Revenue

Third Quarter 2001 as compared to Third Quarter 2000

Consolidated revenues decreased by \$33.0 million due to a \$30.0 million decrease in Heavy Haul revenue and a \$3.0 million decrease in Secured Materials revenue. Heavy Haul revenue declined from \$50.3 million to \$20.3 million for the three months ended September 30, 2000 and 2001. The decline in total revenue was caused by the decrease of 17.0 million miles, despite an increase in revenue per tractor per day from \$531 to \$553 and an increase in revenue per loaded mile from \$1.84 to \$1.89 during the quarter ended September 30, 2000 and 2001, respectively.

Nine months ended September 30, 2001 as compared to nine months ended September 30, 2000

Consolidated revenues decreased by \$47.0 million due to a \$43.3 million decrease in Heavy Haul revenue and a \$3.7 million decrease in Secured Materials revenue. Heavy Haul revenue declined from \$151.3 million to \$108.0 million for the nine months ended September 30, 2000 and 2001. The decline in total revenue was caused by the downsizing of Heavy Haul and Secured Materials and a decrease of 26.8 million miles, despite an increase in revenue per tractor per day from \$517 to \$540 and an increase in revenue per loaded mile from \$1.82 to \$1.89 during the nine months ended September 30, 2000 and 2001, respectively.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Operating expenses

Third Quarter 2001 as compared to Third Quarter 2000

Total operating expenses were approximately \$40.5 million for the quarter ended September 30, 2001 as compared to \$66.8 million for the quarter ended September 30, 2000. While most expenses decreased with the downsizing, insurance expense increased as a result of the 2001 policy. The following expense categories increased or decreased between the respective quarters:

Salaries, wages, and fringes benefits decreased \$5.8 million as a result of downsizing driver and non-driver personnel and no payments or other benefits were provided to severed employees except for accrued vacation.

Operating supplies and expenses decreased \$5.2 million due primarily to a decrease of \$2.7 million by purchasing 2,235,000 gallons of fuel less in the third quarter 2001. In addition, tire expenses declined \$1.2 million as a result of fleet downsizing.

Contractor equipment decreased \$5.6 million due to a decrease in the number of independent contractors after the downsizing.

Brokerage carrier expense decreased \$4.5 million due to decreased brokerage revenue and related third party carrier costs.

Operating taxes & licenses decreased \$2.5 million due to fewer Heavy Haul loads, which require over-dimensional permits, as well as savings in fuel taxes from reduced purchases of fuel in the quarter.

Depreciation and amortization decreased \$1.5 million as a result of discontinued depreciation of idle equipment held for disposal, sale of certain equipment, and reduction of the depreciable base of revenue equipment due to the second quarter impairment loss.

General supplies and expense decreased \$1.2 million as a result of decreases in fixed costs, such as, advertising and employee expenses, offset by an increase in professional fees.

Claims and insurance expense increased \$1.4 million as a result of the increased claims liability due to the \$500,000 deductible under the insurance policy in place during 2001.

Revenue equipment rents decreased \$0.9 million as several of the operating lease contracts have expired.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Operating expenses continued

Nine months ended September 30, 2001 as compared to nine months ended September 30, 2000

Total operating expenses were approximately \$176.6 million for the nine months ended September 30, 2001 as compared to \$197.8 million for the nine months ended September 30, 2000. While most expenses decreased with the downsizing, insurance expense increased as a result of the 2001 policy. The following expense categories increased or decreased between the respective periods:

Salaries, wages, and fringes benefits decreased \$8.3 million as a result of downsizing driver and non-driver personnel and no payments or other benefits were provided to severed employees except for accrued vacation.

Operating supplies and expenses decreased \$5.9 million due primarily to a decrease of \$3.5 million by purchasing 3,436,000 gallons of fuel less in the nine months ended September 30, 2001. In addition, tire expenses declined \$1.4 million as a result of fleet downsizing.

Contractor equipment decreased \$8.6 million due to a decrease in the number of independent contractors after the downsizing.

Brokerage carrier expense decreased \$6.6 million due to decreased brokerage revenue and related third party carrier costs.

Operating taxes & licenses decreased \$3.9 million due to fewer Heavy Haul loads, which require over-dimensional permits, as well as, savings in fuel taxes from reduced purchases of fuel in the nine month period.

Depreciation and amortization decreased \$0.9 million as a result of discontinued depreciation of idle equipment held for disposal, sale of certain equipment, and reduction of the depreciable base of revenue equipment due to the second quarter impairment loss.

General supplies and expense decreased \$0.7 million as a result of decreases in fixed costs, such as, advertising and employee expenses, offset by an increase in professional fees.

Claims and insurance expense increased \$4.0 million as a result of the increased claims liability due to the \$500,000 deductible under the insurance policy in place during 2001.

Revenue equipment rents decreased \$3.9 million as several of the operating lease contracts have expired.

Impairment loss on revenue equipment of \$13.3 million was recorded in June 2001 for expected losses on disposal of revenue equipment.

Liquidity and Capital Resources

Operating Activities

Net cash provided by operating activities decreased by \$0.03 million during the nine months ended September 30, 2001, primarily due to non-cash activities during the first quarter 2000 related to the gain on extinguishment of debt, net of the loss on adjustment of assets to fair market value as part of the fresh start accounting, and a reduction in accounts receivable from collection efforts, and an increase due to the impairment loss of \$13.3 million, offset by the increase in net loss for the year, decrease in insurance reserves, and the increase in restricted deposits as required for collateralization of the insurance policy on bodily injury and property damage.

Investing Activities

Net cash provided by investing activities increased \$3.0 million during the nine months ended September 30, 2001, due to increase in proceeds from sale of revenue equipment and a decrease in purchases of property, plant, and equipment.

Financing Activities

Net cash used in financing activities increased \$1.6 million during the nine months ended September 30, 2001, due to repayments on the revolver, offset by reduced payments on equipment debt. Failure to make equipment debt payments has forced the Company into default on its equipment debt.

Capital Requirements

The Company plans to continue to decrease the tractor and trailer fleet in 2001. The Company has residual obligations of approximately \$10.5 million, primarily relating to certain capital lease obligations that will mature within the twelve month period ended September 30, 2002. The Company will return equipment to the lessors at the end of the lease term.

In November 2000, the Company purchased a premium-based insurance policy against bodily injury and property damage with a \$500,000 deductible per occurrence. As a result of this policy, insurance costs have increased 48.3% from \$2.9 million for the third quarter 2000 to \$4.3 million for the third quarter 2001. The Company issued standby letters of credit in the amount of \$9.3 million and collateralized an additional \$5.4 million in the form of restricted cash deposits at September 30, 2001 in respect of their policies. Of the \$9.3 million letters of credit, only \$2.1 million remain outstanding as of September 30, 2001, \$6.2 million was presented for payment, and \$1.0 million was cancelled. During the quarter ended September 30, 2001, the Company's insurer for personal injury and property damage for the period from November 1, 1993 through October 31, 1999 presented for payment a \$6.0 million letter of credit, which was collateral for the Company's liability for the deductible portion of outstanding claims for that period. The insurer has assumed responsibility for these claims up to \$6.0 million. The Company believes there will be no further liability associated with outstanding claims. The Company reduced its self insurance reserves by \$4.9 million, which was the estimated liability recorded for the claims assumed by the insurer. On October 31, 2001, the Company obtained financing for insurance coverage for the Company's operations for a twelve month period beginning November 1, 2001 through October 31, 2002.

In connection with the exit from Chapter 11, the Company obtained the Revolver, a new, three-year \$42.5 million revolving credit facility. The Revolver now provides for borrowings up to \$40.0 million based on a borrowing base formula determined by eligible accounts receivable, certain unencumbered trailers, and the Company's real property in Kennesaw, Georgia. The Revolver also provides for the issuance of letters of credit up to \$17 million. The Revolver mutually provided for interest at the prime rate plus .25% or LIBOR plus 2.25%. No financial maintenance covenants exist unless availability, as defined, initially falls below \$5 million for ten consecutive business days. If availability falls below \$5 million, required covenants include a minimum net worth threshold, minimum fixed charge coverage ratio and a maximum leverage ratio. The Revolver also limits debt incurrence, capital expenditures, changes in control and management, mergers and certain material asset sales, irrespective of the \$5 million availability threshold.

On October 19, 2000, the Company was notified by CIT Business Credit that an event of default had occurred under the Revolver concerning a change in management restriction as a result of the resignation of the former Chief Executive Officer and Chief Financial Officer of the Company. On October 27, 2000, the Company was notified by CIT Business Credit that an event of default had occurred under the Revolver concerning a materially adverse effect evidenced by, (a) the Company's current and projected future negative earnings and cash flow, (b) the change in management discussed in notice of default on October 19, 2000, (c) the increase in fuel costs to the Company and (d) a proposed sixty percent increase in insurance premiums to the Company.

The Company is presently in default of certain covenants related to the New Notes and has not made interest payments relating to such notes which were due March 15, 2001 and September 15, 2001. Under the terms of the New Notes, the thirty-day grace period with respect to such interest payments has passed and this constituted Events of Default under the terms of the indenture pursuant to which the New Notes were issued, which give the noteholders the right to accelerate the New Notes. The total arrearage as of November 14, 2001 is \$4.7 million, including interest at

13% on the past due amount. In addition, beginning in October 2000 the Company has been in default of certain covenants relating to the Revolver. Since that time, the Company has negotiated several forbearance agreements with the lender for the Revolver, the terms of which have included payment of fees totaling \$1.1 million, in exchange for such forbearance, as well as an increase in interest rates under the Revolver and a reduction in borrowing capacity. The most recent forbearance expires on November 30, 2001. The Company is presently negotiating with its lender for a continued extension of the forbearance agreements, however, such extension is not assured at this time. The Company is also in technical default on certain of its equipment debt and is several months behind in making certain of its equipment debt payments. As a result, in July 2001, one lender repossessed thirteen of the two-hundred-forty tractors that they have financed. Partial payments have been made to the lender and repossessions have been discontinued.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Capital Requirements, Continued

In November 2001, the Company advised The CIT Group/Business Credit, Inc. and Fleet Capital Corporation, ("revolving credit lenders") that the Collateral Borrowing Base Certificates that are prepared and sent daily to the revolving credit lenders have overstated collateral assets by an estimated \$4.4 million. On discovery of the misstatement, the Company took immediate action to terminate the employment of the Treasurer, and to increase the amount of borrowing base collateral by pledging additional unencumbered real property assets to its revolving credit lenders to bring the collateral borrowing base in line with its current loan balance. The erroneous borrowing base certificates had no effect on the Company's financial statements.

There was no cash availability under the Revolver at September 30, 2001 and October 31, 2001, respectively, after reserving \$2.8 million and \$2.0 million as required by the forbearance agreement as of September 30, 2001 and October 31, 2001. Borrowings under the Revolver amounted to approximately \$23.3 million and \$19.8 million at September 30, 2001 and October 31, 2001. The September 30, 2001 Revolver balance includes \$6.2 million of letters of credit which have been drawn during the quarter ended September 30, 2001. The Company has classified the long-term debt under the Revolver as current due to the technical default caused by noncompliance with the underlying credit agreement.

Existing credit facilities are not expected to be sufficient to cover liquidity requirements for the next twelve months and the Company is facing the prospect of not having adequate funds to operate its business. Due to a number of uncertainties, many of which are outside the control of the Company, there can be no assurance that additional credit facilities can be arranged or that any long term restructuring can be successfully initiated or implemented, in which case the Company may be compelled to file for protection under Chapter 11 or to liquidate under Chapter 7 of the Bankruptcy Code. Moreover, it may be necessary for the Company to file under Chapter 11 to implement any consensually negotiated restructuring of its indebtedness or a sale of the Company.

These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued existence is dependent on several factors, including the Company's ability to overcome the operational and liquidity issues discussed above. The Company's consolidated financial statements for the three and nine months ended September 30, 2001 and for the year ended December 31, 2000 do not include any adjustments that might result from the outcome of this uncertainty.

As previously discussed, management is exploring alternative financing structures and has also engaged in preliminary discussions with potential purchasers of some or all of the Company's assets. In order to effect a

refinancing or sale, management has begun to implement a business plan that can significantly improve operating results. To date, management has, among other things, significantly reduced the size of its Heavy Haul segment by shedding unprofitable volume and focusing its efforts in this segment on a regional (as opposed to a national) basis, attempted to concentrate on the Secured Materials segment, a niche market which management believes is a core capability of the Company, and has sold the logistics segment. With this downsizing, the Company has (1) eliminated unnecessary personnel, (2) focused on other cost containment initiatives, (3) started to dispose of excess fleet and other property, the proceeds from which have been utilized to reduce debt and (4) closed certain unneeded terminal facilities. The continued support of the Company's vendors, customers, lenders, stockholders and employees will continue to be key to the Company's future success.

See the accompanying notes to the unaudited consolidated financial statements for an additional discussion of the Company's liquidity and capital resources.

Inflation and Fuel Costs

Inflation can be expected to have an impact on the Company's earnings; however, the effect of inflation has been minimal over the past three years. An extended period of inflation or increase in fuel costs would adversely affect the Company's results of operations without a corresponding freight rate increase from customers.

Market Risk

The Company is exposed to market risk from changes in interest rates and fuel prices. The Company manages its exposure to these market risks through its regular operating and financing activities and may utilize fuel forward purchase commitments, though no agreements were in place during 2001 or 2000. The market risks to the Company at September 30, 2001 are similar to those disclosed in the Annual Report on Form 10-K for the year ended December 31, 2000.

Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards for derivatives and hedging. It requires that all derivatives be recognized as either assets or liabilities at fair value and establishes specific criteria for the use of hedge accounting. The Company adopted SFAS 133 on January 1, 2001. There was no material effect on consolidated results of operations, financial position, cash flows or stockholders' equity upon adoption of SFAS 133.

On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet and not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. SFAS No. 141 was required to be implemented by July 1, 2001. There was no material effect on the consolidated financial position or results of operations upon adoption of SFAS No. 141.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002. Management expects no material effect on the

consolidated financial position or results of operations upon adoption of SFAS No. 142 as there is no recorded goodwill or other intangible assets.

On August 1, 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was approved by the FASB. SFAS No. 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 142 is required to be adopted on January 1, 2002. Management has not determined the impact, if any, that this statement will have on our consolidated financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk" noted above.

PART II - OTHER INFORMATION

Item 3. Default upon Senior Securities

The Company is presently in default of certain covenants related to the New Notes and has not made its interest payments relating to such notes, which were due March 15, 2001 and September 15, 2001. Under the terms of the New Notes, the Company did not make these interest payments by the end of the grace period, and this constituted Events of Default under the terms of the indenture pursuant to which the New Notes were issued, which gives the noteholders the right to accelerate the New Notes. The total arrearage as of November 14, 2001 is \$4.7 million, including interest at 13% on the past due amounts. In addition, beginning in October 2000 the Company has been in default of certain covenants relating to its revolving credit facility (the "Revolver"). Since that time, the Company has negotiated several forbearance agreements with the lender for the Revolver, the terms of which have included payment of fees in exchange for such forbearance, as well as an increase in interest rates under the Revolver and a reduction in borrowing capacity. The most recent forbearance expires on November 30, 2001. The Company is presently negotiating with its lender for a continued extension of the forbearance agreement, however, such extension is not assured at this time.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

The following exhibits are filed as part of this report.

Designation

Nature of Exhibit

B. Reports on Form 8-K

During the quarter covered by this report, no reports on Form 8-K were filed.

Subsequent to the quarter covered by this report and prior to the filing of this Form 10-Q, no reports on Form 8-K were filed.

SIGNATURES

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

TRISM, INC.

By:/s/Thomas P. Krasner

Thomas P. Krasner
Chairman, President and
Chief Executive Officer

Date:

November 16, 2001

