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DANZER CORP
Form 10-Q
September 04, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the nine months ended July 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 0-17430

DANZER CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of other jurisdiction of
Incorporation or organization)

13-3431486
(IRS Employer
Identification No.)

17500 York Road
Hagerstown, MD
(Address of principal executive offices)

21740
(Zip Code)

(301) 582-2000

(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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock
\$.0001 par value

Outstanding at
July 31, 2001
36,007,855 shares

DANZER CORPORATION AND SUBSIDIARIES

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Review by Independent Accountants

The consolidated statement of financial position as of July 31, 2001, the consolidated statements of operations for the nine-month period ended July 31, 2001, and the consolidated statements of cash flows for the nine-month period ended July 31, 2001, have been reviewed by the registrant's independent accountants, Linton, Shafer & Company, P.A., whose report covering their review of the financial statements follows.

Independent Accountants' Report

Board of Directors
Danzer Corporation

We have reviewed the accompanying condensed consolidated balance sheet of Danzer Corporation and Subsidiaries as of July 31, 2001, and the related condensed consolidated statements of operations and cash flows for the three-month and nine-month periods ended July 31, 2001. These financial statements are the responsibility of the Company's management.

We have also reviewed the condensed balance sheet of U.S. Rubber Reclaiming, Inc. (the accounting acquirer) as of December 31, 2000, and the related statements of operations, changes in stockholders' equity and cash flows for the

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year then ended (not presented herein). These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

As discussed in Note 2 and 3, the Company has made an estimate of the Danzer Corporation preliminary valuation of purchase price and a preliminary allocation of purchase price. These estimates are material and are based upon the information as described in the footnotes. The financial statements do not include any adjustments that might result from the subsequent revision of these estimates.

Linton, Shafer & Company, P.A.

September 4, 2001
Frederick, Maryland

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DANZER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED

	July 31, 2001 (Unaudited)	December 31, 2000 (Unaudited)
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 380,685	\$ 217,266
Accounts receivable, net of allowances	3,835,851	1,739,573
Accounts receivable, related party	461,648	-
Inventories, net of reserves	5,946,314	677,027
Prepaid expenses and other current assets	1,238,978	582,180
	-----	-----
Total current assets	11,863,476	3,216,046
Property, plant and equipment, at cost, net	23,757,212	7,929,180
Other assets, including intangibles	15,168,874	76,200
	-----	-----
Total assets	\$50,789,562	\$11,221,426
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

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Current liabilities:		
Current portion of long-term debt	\$12,128,783	\$ 2,797,001
Accounts payable	2,603,261	508,820
Accrued salaries and wages	486,411	51,536
Accrued expenses, other	392,950	113,936
Accounts payable, related parties	468,498	158,733
Deferred revenue	621,589	-
Total current liabilities	16,701,492	3,630,026
Long-term debt, net of current portion	24,969,072	4,801,400
Due to related parties	1,840,958	-
Deferred compensation and income taxes	2,295,209	1,910,000
Total liabilities	45,806,731	10,341,426
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock, par value \$.0001 per share; 40,000,000 shares authorized in 2001; 20,000,000 in 2000; 36,007,855 shares outstanding in 2001 and 17,618,218 shares outstanding in 2000	3,601	1,000
Preferred stock, Series C convertible preferred stock, par value \$.001, 4,500,000 authorized and 3,739,169 shares issued and outstanding in 2001, no shares issued and outstanding in 2000	3,739	-
Additional paid-in capital	5,842,043	879,000
Accumulated deficit	(866,552)	-
Less treasury stock at cost, 95,579 shares in 2001 and 2000	-	-
Total stockholders' equity	4,982,831	880,000
Total liabilities and stockholders' equity	\$50,789,562	\$11,221,426

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

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DANZER CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

UNAUDITED

	Three Months Ended July 31,		Two Months Ended December 31, 2001	Seven Months Ended July 31, 2001	Com Nine E Jul 2
	2001	2000	Preacquisition	Postacquisition	
Net sales	\$4,934,872	\$3,033,009	\$1,998,213	\$10,450,846	\$12,4

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Cost of goods sold	4,311,953	2,512,684	1,890,293	9,076,431	10,9
Gross profit	622,919	520,325	107,920	1,374,415	1,4
Selling, general and administrative expenses	884,304	663,022	136,741	1,535,440	1,6
Income (loss) from operations	(261,385)	(142,697)	(28,821)	(161,025)	(1
Interest (expense), net	(373,936)	(136,228)	(31,174)	(772,560)	(8
Other income, net	4,815	110,216	21,927	15,601	
Income (loss) before income taxes	(630,506)	(168,709)	(38,068)	(917,984)	(9
(Provision for) benefit from income taxes	60,532	55,714	14,411	51,432	
Net income (loss)	\$ (569,974)	\$ (112,995)	\$ (23,657)	\$ (866,552)	\$ (8

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

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DANZER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

	Two Months Ended December 31, 2000	Seven Months Ended July 31, 2001	Combined Nine Months Ended July 31, 2001	Ni Mon End July 20
Cash from operating activities:				
Net income (loss)	\$ (23,657)	\$ (866,552)	\$ (890,209)	\$ (28
Adjustments to reconcile net income (loss) to cash provided by (used in) operations:				
Depreciation	90,508	653,492	744,000	409
Amortization	438	155,171	155,609	5
Loss (gain) on sale of assets	-	22,267	22,267	
(Increase) decrease in:				
Accounts receivable	(96,262)	977,819	881,557	(276
Inventories	180,644	788,522	969,166	155
Prepays and other current assets	(91,694)	(349,773)	(441,467)	(280
Increase (decrease) in:				
Accounts payable	111,055	(14,328)	96,727	455
Accrued expenses	(54,021)	(1,263,775)	(1,317,796)	(6
Other current liabilities	10,093	(164,131)	(154,038)	(22
Deferred revenue	-	(49,373)	(49,373)	

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Total adjustments	150,761	755,891	906,652	439
Cash provided by (used in) operations	127,104	(110,661)	16,443	410
Cash from investing activities:				
Payments to acquire subsidiaries, net of cash acquired	-	(18,087,196)	(18,087,196)	
Purchase of property and equipment		(885,456)	(885,456)	(823)
Repayments from (advances to) related party	(117,836)	(434,738)	(552,574)	
Cash provided by (used in) investing activities	(117,836)	(19,407,390)	(19,525,226)	(823)

(Continued)

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

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DANZER CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

UNAUDITED

	Two Months Ended December 31, 2000 Preacquisition	Seven Months Ended July 31, 2001 Postacquisition	Combined Nine Months Ended July 31, 2001	Nine Months Ended July 31, 2000
Cash from financing activities:				
Proceeds from long-term debt borrowings	-	15,681,442	15,681,442	-
Repayments of long-term debt	(7,923)	(723,228)	(731,151)	(260,457)
Net borrowings (repayments) on credit line	(50,000)	258,357	208,357	645,964
Advances from related parties	-	1,161,099	1,161,099	-
Debt issuance cost	-	(76,200)	(76,200)	-
Issuance of common stock of subsidiaries	-	3,380,000	3,380,000	-
Cash provided by (used in) financing activities	(57,923)	19,681,470	19,623,547	385,507
Net increase (decrease) in cash	(48,655)	163,419	114,764	(26,796)
Cash beginning of period	265,921	217,266	265,921	209,305
Cash end of period	\$217,266	\$ 380,685	\$ 380,685	\$ 182,509
Supplemental disclosures of				

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cash flow information:

Interest paid	\$ 28,632	\$ 740,562	\$ 769,194	\$ 390,731
Tax (refunds), net of refunds received	\$ -	\$ (163,000)	\$ (163,000)	\$ 37,122
Noncash items:				
Imputed seller note from acquisition	\$ -	\$ 822,827	\$ 822,827	\$ -
Subordinated debt acquired in acquisition	\$ -	\$ 3,250,000	\$ 3,250,000	\$ -
Debt converted to equity	\$ -	\$ 310,000	\$ 310,000	\$ -
Noncash dividend - reduction in inventory	\$700,000	\$ -	\$ 700,000	\$ -
Noncash dividend - reduction in retained earnings	\$700,000	\$ -	\$ 700,000	\$ -

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

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Danzer Corporation ("Danzer" or the "Company"), a publicly traded New York Corporation, was reorganized through an Acquisition and Plan of Reorganization with U.S. Rubber Reclaiming, Inc. and Related Entities ("U.S. Rubber Companies"), which was consummated on June 21, 2001 (the "Effective Date"). The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments necessary to present fairly the information set forth therein have been included. The Acquisition and Plan of Reorganization of Danzer with U.S. Rubber Companies (see Note 2, the "Acquisition and Plan of Reorganization") was accounted for as a reverse acquisition as the shareholders of the U.S. Rubber Companies owned a majority of the outstanding stock of Danzer subsequent to the Acquisition and Plan of Reorganization. For accounting purposes, U.S. Rubber Reclaiming, Inc. is deemed to have acquired Danzer.

The fiscal 2000 financial information presented herein represents only the financial results of U.S. Rubber Reclaiming, Inc.

All fiscal 2001 financial information presented in the Condensed Consolidated Balance Sheet, Condensed Consolidated Statements of Operations, and Condensed Consolidated Statements of Cash Flows represents the results for U.S. Rubber Reclaiming for the periods stated and includes the financial results of Champion Trailer, Inc. from January 1, 2001 through July 31, 2001, Pyramid Coach, Inc. and DW Leasing, LLC on a combined basis from June 21, 2001 through July 31, 2001, and Danzer for the postmerger period extending from June 21, 2001 to July 31, 2001. In addition, the 2001 financial information presented in the Condensed Consolidated Statements of Operations and Cash Flows do not include

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the financial results of United Expressline, Inc., which was purchased on July 31, 2001. The operating results for the quarter and nine-month period ended July 31, 2001, are not necessarily indicative of the results that may be expected for any future periods.

The resulting entities, considered accounting subsidiaries of U.S. Rubber Reclaiming (the accounting acquirer) and legal subsidiaries of Danzer after the Acquisition and Plan of Reorganization, are as follows:

U.S. Rubber Reclaiming, Inc. ("U.S. Rubber", the accounting acquirer), which is engaged in reclaiming scrap butyl rubber into butyl reclaim for resale to manufacturers of rubber products.

Danzer Corporation (Danzer, the legal acquirer), a holding company.

Danzer Industries, Inc. ("Danzer Industries"), which is principally engaged in the design, manufacture and sale of truck bodies.

Pyramid Coach, Inc. ("Pyramid"), which is engaged in the leasing of coaches, designed and fitted out for use for travel by country, rock bands and other business enterprises, primarily on weekly to monthly leases. The financial statements also include the assets, liabilities, equity and results of operations of D.W. Leasing, LLC. DW Leasing, LLC owns all coaches operated by Pyramid. All intercompany transactions are eliminated in combination of this entity.

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Champion Trailer, Inc. ("Champion"), which manufactures and sells transport trailers to be used primarily in the auto racing industry.

United Expressline, Inc. ("United") manufactures and sells general use cargo trailers and specialty trailers used in the racing industry and for other special purposes.

All significant intercompany transactions and balances have been eliminated in consolidation. Also see notes below for other significant accounting policies.

2. ACQUISITION AND PLAN OF REORGANIZATION

On June 21, 2001 ("Acquisition Date"), a change of control of the Registrant occurred. Through an Acquisition Agreement and Plan of Reorganization dated June 21, 2001 (the "Reorganization Agreement") by and among Danzer, Danzer Industries, Inc., a wholly owned subsidiary of Danzer, and Obsidian Capital Partners, LP ("Obsidian"), Timothy S. Durham (the newly elected Chairman of the Board of Danzer), and other individual owners of Pyramid and Champion. On the Acquisition Date, Danzer acquired: all of the outstanding capital stock of Pyramid in exchange for 810,099 shares of Danzer Series C Convertible Preferred Stock ("Danzer Preferred"); all of the outstanding capital stock of Champion for 135,712 shares of Danzer Preferred and all of the outstanding capital stock of U.S. Rubber for 1,025,151 shares of Danzer Preferred. On July 31, 2001, Danzer acquired all of the outstanding capital stock of United from Obsidian for 2,206,893 shares of Danzer Preferred.

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Pursuant to the Reorganization Agreement, Danzer issued 4,177,855 shares of the Danzer Preferred to Obsidian Capital Partners, LP, Timothy Durham, and other individual owners of Pyramid and Champion ("Obsidian shareholders"). The shares of Danzer Preferred are each convertible into 20 shares of common stock and entitle the holder thereof to cast 20 votes per share at each regular or special meeting of the Danzer shareholders. The holders of the Danzer Preferred vote as a single class with the holders of Danzer's common stock. After the series transactions contemplated by the Reorganization Agreement (the "Reorganization") were completed on July 31, 2001, the Obsidian shareholders owned shares of the capital stock of Danzer entitled to cast approximately 75.42% of the total votes entitled to be cast by all Danzer shareholders and convertible into 75.42% of all issued and outstanding capital stock of Danzer on a fully converted basis. The preacquisition Danzer shareholders and their successors own common stock, which constitutes the remaining capital stock representing 24.58% of the total voting capital stock. Because U.S. Rubber Companies are so much larger than Danzer, they will be treated, for accounting purposes, as the acquiror in the Reorganization. Although for accounting purposes, U.S. Rubber has become the registrant, for all other purposes, U.S. Rubber, Pyramid and Champion became subsidiaries of Danzer on June 21, 2001 and United became a subsidiary of Danzer on July 31, 2001. The registrant's name continues to be Danzer. In addition, the U.S. Rubber Companies have each have opted to change its fiscal year to the fiscal year (October 31) used by the Danzer prior to the Reorganization.

The Reorganization and subsequent acquisition of United Expressline, Inc., were accounted for under the purchase method of accounting. U.S. Rubber, the largest company owned by the Obsidian shareholders, was considered the acquiror for accounting purposes and recorded Danzer's assets and liabilities based upon their estimated fair values, under the purchase method of accounting for business combinations. The operating results of Danzer have been included in the accompanying consolidated financial statements from the date of acquisition. Under the purchase method of accounting, the acquired assets and assumed liabilities have been recorded at their estimated fair values at the date of the acquisition. On a preliminary basis, the purchase price has been estimated at \$5.0 million (the trading market value on June 20, 2001 of the Danzer common stock, plus acquisition costs of \$403,000). Approximately \$3.3 million has been allocated to goodwill and other intangibles on a preliminary basis.

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. ACQUISITION AND PLAN OF REORGANIZATION, CONTINUED

The acquisition of Champion and Pyramid are also accounted for under the purchase method of accounting; however, due to the related-party relationships of the previous owners to the Company, the assets are recorded at net book value, with no additional goodwill recognized beyond that recorded during the original acquisition from unrelated third parties.

As discussed above, Champion and Pyramid were previously owned by individuals some of whom are also members and managing directors of Obsidian Capital Company, LLC, the General Partner of Obsidian Capital Partners, LLP. Champion was acquired by the Obsidian shareholders on January 1, 2001 and Pyramid was purchased by Danzer on June 21, 2001 as a part of the Reorganization. Purchase accounting and goodwill allocations of \$2.6 million and \$1.8 million, respectively, were recorded with respect to Champion and Pyramid, respectively, when the managing members of the General Partner and others acquired those entities from unrelated third parties.

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3. ACQUISITION OF DANZER CORPORATION AND SUBSIDIARY

As previously described, the Reorganization will be treated, for accounting purposes, as an acquisition of Danzer and its wholly owned subsidiary, Danzer Industries, by U.S. Rubber. The following schedule is a description of acquisition costs of the Danzer and Danzer Industries and the preliminary purchase price allocation (in thousands):

Preliminary purchase price:	
Common stock	\$4,618
Acquisition costs	403

Total preliminary purchase price	\$5,021
	=====
Preliminary purchase price allocations:	
Tangible net assets acquired	\$1,733
Goodwill and intangibles acquired	3,288

Total preliminary allocation of purchase price	\$5,021
	=====

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. ACQUISITION OF UNITED EXPRESSLINE, INC.

As previously described, Danzer acquired United on July 31, 2001. The following schedule is a description of acquisition costs of United and the preliminary purchase price allocation (in thousands):

Purchase Price:	
Cash to seller	\$11,050
Seller note	1,500
Liabilities assumed	1,670
Acquisition costs	705

Total Purchase Price	\$14,925
	=====
Purchase Price Allocation:	
Current assets, including	
Accounts receivable and inventory	\$ 5,544
Land	259
Buildings	1,136
Goodwill	5,428
Intangible assets	1,650
Other assets	908

Total Purchase Price Allocation	\$14,925
	=====

Condensed Balance Sheet of United Expressline, Inc.

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at July 31, 2001 (date of acquisition)

	(Unaudited)
Current assets	\$ 5,544
Property and equipment	1,896
Goodwill	5,428
Other assets	2,057

Total	\$14,925
	=====
Current liabilities	\$ 2,286
Short-term debt	3,098
Long-term debt	8,041
Shareholders' equity	1,500

Total	\$14,925
	=====

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PRO FORMA INFORMATION

The unaudited condensed consolidated results of operations on a pro forma basis as if the reorganization had occurred as of the beginning of the periods projected are as follows:

The unaudited condensed consolidated results of operations shown below are presented on a pro forma basis and represent the results of Danzer, Danzer Industries, U.S. Rubber, Pyramid and DW Leasing on a combined basis. In addition, Champion and United are treated as if the business combinations of these entities occurred at the beginning of the periods presented. The schedule below includes all depreciation, amortization and nonrecurring charges for all entities for the periods shown.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2001	2000	2001	2000
Net sales	\$16,063,211	\$17,535,201	\$46,365,418	\$49,455,358
Net income (loss)	\$(1,005,101)	\$ (423,517)	\$(2,320,059)	\$ (940,620)
Net income per share - basic	\$ (.03)	\$ (.01)	\$ (.06)	\$ (.03)
Net income per share - diluted	\$ (.01)	\$ -	\$ (.02)	\$ (.01)

The pro forma financial information is presented for informational purposes only and is not indicative of the operating results that would have occurred had the Reorganization been consummated as of the above dates, nor are they necessarily indicative of future operating results.

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6. INVENTORIES

Inventories are stated at the lower-of-cost (first-in, first-out) or market and are comprised of the following components:

	July 31, 2001	December 31, 2000
Raw materials	\$3,531	\$ 850
Work-in-process	1,349	-
Finished goods	1,698	435
Valuation reserve	(632)	(608)
Total	\$5,946	\$ 677

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

The weighted average number of common shares outstanding has been adjusted for all periods reported to reflect all common stock and all common stock equivalents exchanged in the Acquisition and Reorganization.

	For the Third Quarter Ended	
	July 31, 2001	July 31, 2000
Net income (loss)	\$ (890,209)	\$ (28,161)
Weighted average number of common shares - basic	36,007,855	17,760,015
Assumed conversion of preferred stock - Series C	74,783,386	-
Assumed conversion of outstanding warrants	200,000	650,000
Assumed conversion of outstanding options	1,137,500	1,137,500
Assumed conversion of debentures	5,000,000	-
Weighted average number of common shares - diluted	117,128,741	19,527,515
Net income (loss) per share - basic	\$ (.02)	\$ -
Net income (loss) per share - diluted	\$ (.01)	\$ -

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS

As a part of the Acquisitions described in Notes 2, 3 and 4 and to provide working capital, the Company has incurred the following debt as of July 31, 2001:

United Expressline, Inc.

Lender	Terms	Collateral
First Indiana Bank Revolving Line of Credit	Not to exceed \$3,500,000 or borrowing base, whichever is less, with interest payable at prime + 3/4%	First lien on United (working loan)
First Indiana Bank Term Loan I	\$291,000 with principal repayable in monthly installments of \$4,850 commencing September 2001, due July 1, 2006, with interest payable at prime + 1%	First lien on assets (financ acquisition)
First Indiana Bank Term Loan II	\$1,116,000 with principal repayable in monthly installments of \$6,200 commencing September 2001, due July 1, 2006, with interest payable at prime + 1%	First lien on assets (financ acquisition)
First Indiana Bank Loan III	\$1,750,000 with principal repayable in monthly installments of \$72,917 commencing September 2001, due July 1, 2003, with interest payable at prime + 2%	First lien on assets (financ acquisition)
Huntington Capital Investment Company Senior Subordinated Note	\$3,500,000 with interest payable monthly at a fixed rate of 14% per annum, principal due July 26, 2006	Second lien on assets (financ acquisition)
Seller Note	\$1,500,000 with interest payable monthly at a fixed rate of 9% per annum, principal due July 27, 2006	Subject to sub agreement in f Huntington Cap Investment Com Finance acquis
Danzer Debentures	See below	
Subtotal debt to finance United acquisition		

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DANZER CORPORATION AND SUBSIDIARIES

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS, CONTINUED

Champion Trailer

Lender	Terms	Collateral & Use
Bank One, Indiana N.A. ("Bank One") Revolving Line of Credit	Not to exceed \$200,000 or borrowing base, whichever is less, interest payable at prime + 1/2%	First lien on all assets (working capital loan)
Bank One Term Loan I	\$650,000 with principal repayable in monthly installments of \$7,738 plus interest at prime plus 3/4%, due June 2005	First lien on all assets (finance acquisition)
Bank One Term Loan II	\$1,118,000 with principal repayable in monthly installments of \$31,056 plus interest at prime plus 1 1/4%, due June 2003	First lien on all assets (finance acquisition)
The Markpoint Equity Fund Group (MEFG) Senior Subordinated Note	\$1,250,000 with interest payable at a fixed rate of 13 1/2%, principal due June 2005 Warrant associated with the MEFG sub debt Less unamortized discount associated with put warrant	Second lien on all assets (finance acquisition)
Subtotal Champion		

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS, CONTINUED

U.S. Rubber

Lender	Terms	Collateral & Use
Bank One Revolving	Not to exceed \$3,000,000 or	First lien on all assets

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Line of Credit	borrowing base, whichever is less, with interest payable at prime + 3/4%	(working capital loan)
Bank One Cap Ex Line	Not to exceed \$200,000, interest payable at prime + 1%	
Bank One Term Loan I	\$2,500,000 with principal repayable in monthly installments of \$34,725 plus interest at prime plus 1%, balloon payment of principal and accrued interest due November 2005	First lien on all assets (finance acquisition)
Bank One Term Loan II	\$500,000 with principal repayable in monthly installments of \$2,778 plus interest at prime plus 1%, balloon payment of principal and accrued interest due November 2005	First lien on all assets (finance acquisition)
Seller	\$1,750,000 with interest payable monthly at a fixed rate of 14% until March 31, 2001 then 20% thereafter; interest payments deferred through May 2001; principal and accrued interest due December 2005	Secured by stock pledge agreement of U.S. Rubber stock by Danzer
Seller	1,000,000 noninterest-bearing note payable in 24 monthly installments of \$41,667 through December 2002; interest imputed at 14%	Subordinate to bank debt (finance acquisition)
Various	Capital lease obligations	
Subtotal U.S. Rubber		

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS, CONTINUED

Pyramid Coach, Inc. and DW Leasing, LLC

Lender	Terms	Collateral & Use
Ford Motor Credit Installment Loan	\$39,104 repayable in monthly installments of \$667 including interest at .9% through October 2005	First lien on asset (purchase asset)
Old National Bank Revolving Line of Credit	Not to exceed \$200,000, interest payable monthly at prime plus 1%, due July 2001	First lien on all assets (working capital loan)
Various Installment Loans	\$13,009,626 repayable in monthly installments totaling \$197,000 including interest ranging from 8.5% to 13.1% through November 2007 and	First lien on assets financed (finance acquisition and asset purchases)

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Former Shareholders of Pyramid Coach, Inc. and Related Companies Installment Loans	applicable balloon payments thereafter through December 2007 \$927,500 repayable in monthly installments of \$6,956 including interest at 9% through December 2003 with a balloon payment of \$567,978 in January 2004.	DW Leasing and Pyramid Security Agreements (finance acquisition)
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Subtotal Pyramid and DW Leasing

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS, CONTINUED

Danzer Corporation

Lender	Terms	Collateral & Use

Various	8% convertible debentures. Interest only through June 2004, thereafter principal due monthly at \$10 for each \$1,000 outstanding. Conversion price of \$.10.	Unsecured, used to finance United acquisition.
Wells Fargo	Revolving credit line up to \$1.15 million. Term mortgage loan in the amount of \$600,000	Working capital and real estate

Subtotal Danzer corporation

Total Debt

Less intercompany elimination

Less current portion

Long-term Debt

U.S. Rubber is in technical default of certain financial loan covenants with Bank One on its long-term debt. U.S. Rubber is working with Bank One to obtain waivers of the covenant violations, but has not received a waiver as of the date of this report filing. The noncurrent debt due Bank One in the amount of \$2,086,463 has been reclassified as current debt in the balance sheet until such

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time as acceptable waivers or modifications have been obtained.

Champion Trailer is in technical default of certain financial loan covenants with Markpoint on its long-term debt. Champion has received quarterly waivers through June 30, 2001 of all defaults, but remains in default for the classification of debt. The noncurrent debt due Markpoint in the amount of \$1,250,000 has been reclassified as current debt in the balance sheet until such time as the waivers obtained are for a period longer than 90 days.

D.W. Leasing is in technical default of certain financial loan covenants with two lenders, Regions Bank and Old National Bank. The lenders have given waivers to D.W. Leasing for the quarter ended July 31, 2001. The noncurrent debt due Old National and Regions has been classified as long-term for the quarter ended July 31, 2001.

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DANZER CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCING ARRANGEMENTS, CONTINUED

In conjunction with the Acquisition of United, Danzer issued \$500,000 of unsecured 8% convertible debentures. Proceeds were advanced to United Acquisition Corp. for use in acquiring assets of United Expressline as described in Note 4. The debentures provide the holder with the right to convert, at any time, all or part of the debenture into shares of common stock at a conversion price of \$.10 per share subject to adjustment as provided in the debenture agreement. Interest is payable monthly. Monthly principal payments equal to \$10 for each \$1,000 of remaining principal commence July 2004. Any unpaid principal is due July 2008. The debentures also provide for optional redemption by the holder under certain conditions after June 30, 2002. The Company also has optional redemption rights at 101% of principal based on attaining certain levels of earnings, trading volume and other factors.

9. BUSINESS SEGMENT DATA AND GEOGRAPHIC DATA

The Company operates in three industry segments comprised of trailer and related transportation equipment manufacturing; leasing of transportation equipment; and butyl rubber processing. All sales are in North America primarily in the United States. Selected information by segment follows (in thousands):

	Third Quarter Ended July 31 (Unaudited)		Nine Months Ended July 31 (Unaudited)	
	2001	2000	2001	2000
Revenues				
Trailer manufacturing	\$ 1,759	\$ -	\$ 3,123	\$ -
Leasing	499	-	499	-
Butyl rubber reclaiming	2,676	3,033	8,827	8,782
<hr/>				
Consolidated revenues	\$ 4,935	\$ 3,033	\$12,449	\$ 8,782
<hr/>				

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Segment Profit (Loss)

Trailer manufacturing	\$ (489)	\$ -	\$ (798)	\$ -
Leasing	(6)	-	(6)	-
Butyl rubber reclaiming	(75)	(113)	(86)	(28)
Net loss	\$ (570)	\$ (113)	\$ (890)	\$ (28)

Segment Assets

Trailer manufacturing	\$26,002	\$ -		
Leasing	15,194	-		
Butyl rubber reclaiming	11,207	12,711		
Total assets	\$52,403	\$12,711		

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DANZER CORPORATION AND SUBSIDIARIES

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

IMPORTANT NOTE ABOUT FORWARD-LOOKING STATEMENTS.

This Quarterly Report on form 10Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as "anticipates", "expects", "plans", "believes", "seeks", "estimates" and similar expressions identify such forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements. Factors which could cause actual results to differ materially include those set forth in the following discussion, and, in particular, the risks discussed below under the subheading "Additional Risks Factors" unless required by law, the company undertakes no obligation to update publicly forward-looking statements.

OVERVIEW

Since the Reorganization on June 21, 2001, Danzer's Management has focused on creating consistent reporting systems and communication with each of its subsidiaries. In addition Management has begun to address the transition of the subsidiaries from closely held mostly nonaudited private companies to subsidiaries of a public company. U.S. Rubber, Pyramid, Champion and United are each subsidiaries of Danzer.

The majority voting shareholder of Danzer, Obsidian Capital Partners, L.P., a Delaware limited partnership ("Obsidian") acquired U.S. Rubber in December of 2000, Champion in January 2001 and United in July 2001. Because each of its newly acquired subsidiaries are such recent acquisitions, Management has only begun the process of operational integration of the subsidiaries under Danzer, as a holding company. Management intends to focus on the identification and implementation of manufacturing and administrative efficiencies as well as marketing and cross-selling opportunities. Management has no prior history in

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effecting such an integration of subsidiaries under a holding company and its ability to successfully accomplish this task will have a substantial impact on future Company revenues and profits.

Each of the subsidiaries markets its products or services independently; however, in the future Management expects that there will be cross-selling opportunities for Champion, United, and Pyramid, as well as manufacturing and other operational efficiencies that can be achieved between the subsidiaries. For example, Danzer Industries has never sold its products into the southwestern United States, but by utilizing Champion as a warehousing and staging facility, Danzer Industries will be able to sell its products into the Southwest at competitive prices.

On a consolidated basis Danzer revenue is down from the same period of the prior year. This is primarily due to interruptions in production at USRR and softer than expected repair business and sales at Champion.

RESULTS OF SUBSIDIARY OPERATIONS

Prior to the Reorganization, Danzer conducted substantially all of its business operations through Danzer Industries, Inc. ("DII" or "Danzer Industries") its wholly owned subsidiary. Danzer Industries is engaged in the design and manufacture of truck bodies. The Danzer Industries business can be broken down into two general categories: private label products which are sold directly to Danzer Industries' largest customer; and proprietary products which are marketed under the Morrison brand. Sales are expected to be strong in the 4th Quarter and DII has negotiated and closed a new Credit Agreement with Bank of America Commercial Finance Corporation ("BOACFC") whereby BOACFC agreed to lend DII \$1,000,000 in a mortgage loan secured by a lien on Danzer Industries' facility and a

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DANZER CORPORATION AND SUBSIDIARIES

\$1,000,000 Revolving Credit Facility, both of these loans will provide Danzer Industries with increased liquidity for expected increases in inventories. This new credit facility replaces DII's prior credit facility. Danzer Industries has generated positive earnings for the nine months ended July 31, 2001.

U.S. Rubber is engaged in reclaiming scrap butyl rubber into butyl reclaim for resale to manufacturers of tires and other rubber based products. Because of the widespread tire recalls at Bridgestone/Firestone and Goodyear, demand for U.S. Rubber's products has increased significantly over prior periods. However, U.S. Rubber has not been able to fully take advantage of this demand. First, U.S. Rubber undertook a complete renovation of its 12" extruder (a key element of U.S. Rubber's manufacturing process) in January of this year. In the first half of 2001, U.S. Rubber has expended over \$850,000 in this and other major renovations and the 12" extruder is expected to be fully operational by mid-September 2001. These renovations have resulted in lower than normal production through the period ended July 31, 2001. Second, U.S. Rubber obtains its raw material inventory through an extensive collection system consisting of small rubber collectors and large scrap tire recyclers. U.S. Rubber has experienced competition for its raw material inventory from Korean buyers and other overseas buyers. This competition will have the end result of higher raw material costs; however, U.S. Rubber has begun this fiscal year, a series of price increases that Management believes will allow U.S. Rubber to maintain and even increase its margins despite the higher raw material cost. The competition for raw material inventory has also contributed to the lower than expected production rates and gross margins.

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Champion manufactures, sells and repairs transport specialty trailers used primarily in the auto racing industry. Champion has experienced a reduction of its lucrative repair business resulting in losses through the period ended July 31, 2001. Although Champion has developed an order backlog for the fall of 2001 of more than \$1.5 million, and has over \$4,500,000 in outstanding quotes for new business, it must recapture some if not all of its repair business in order to meet profit expectations. Management is introducing a new bill of materials and has contracted with a series of new vendors in order to reduce Champion's operating costs to reverse the loss experience Champion has had since its acquisition from the previous owner. Further, substantial marketing efforts have been made to increase the repair business to former levels. Champion owes \$1,161,000 of subordinated debt to Obsidian Capital Partners, LP, the majority shareholder of Danzer. At the closing of the Acquisition and Plan of Reorganization, Danzer committed to assume this debt and convert the debt obligation to equity on the Champion balance sheet; Danzer's commitment includes the agreement to convert the subordinated debt owed to OCP to Danzer Series C Preferred Stock at a conversion rate to be determined between Danzer and OCP at the time of conversion. Danzer intends to conclude these agreements in September 2001.

United Expressline, Inc. manufactures and sells general use cargo trailers and specialty trailers used in the racing industry and for other special uses. United was acquired by Danzer at a second closing as provided under the Acquisition Agreement and Plan of Reorganization. The closing occurred July 31, 2001. On a proforma basis United will account for over 57% of Danzer's consolidated revenue. United's prior year financial statements were unaudited; however, Management has undertaken a substantial review and compilation of United's financial information in order to complete necessary audits in timely fashion. Completion of this task is a prerequisite to the Company's timely filing of its reports; therefore, Management has committed to both extraordinary expenses and Management attention to complete this task. Preacquisition United was consistently profitable and Management expects this trend to continue. United operates two separate production lines in two separate facilities one in Northern Indiana, the other in Southern Michigan. Management believes that there are operational savings available in the consolidation of administrative functions performed at these two facilities and in the consolidation of some manufacturing and marketing operations with Champion and Pyramid.

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DANZER CORPORATION AND SUBSIDIARIES

Pyramid is engaged in the leasing of luxury bus coaches with specialized interior finishes, and used for travel by country and western and rock bands, entertainment personalities, and other business enterprises for travel and entertainment. The buses are leased on both short-term (weekly and monthly) and long-term leases. Utilization for the first four months of 2001 was softer than expected; however, beginning in April 2001, utilization has steadily increased from 70.7% to 96.8% in July, and Pyramid's fleet has increased by seven new luxury coaches. This increased utilization and increased fleet count will result in Pyramid reporting results better than Management's projections. The financial information herein includes the results of operations of D.W. Leasing, LLC ("DW Leasing") as well as Pyramid. DW Leasing is owned by Parties closely affiliated with Danzer and Obsidian. At the time of the closing of the Acquisition, Pyramid and DW Leasing conducted cooperative operations through a management agreement, cross-guarantees of debt and shared management. It is Management's intention, after transfer of a substantial part of DW Leasing's assets and liabilities to Obsidian Leasing, Inc., a Mississippi corporation ("Obsidian Leasing") in a IRC (S)351 exchange, to acquire Obsidian Leasing

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through the exchange of Series C Preferred Stock for all of the capital stock of Obsidian Leasing. The planned transaction is conditioned upon the consents of various lenders who have financed the luxury coaches that are titled in DW Leasing. Management is currently seeking such consents, and expects to close the above referenced agreements in September or October of 2001.

NET SALES

Truck Body and Trailer Sales

Danzer Industries, United Expressline, and Champion Trailer comprise the entities that manufacture and sell truck bodies and trailers. Revenue in this segment for the nine months ended July 31, 2000 and the three months ended July 31, 2000 was \$0, as all of these entities were purchased during 2001. Net sales for the nine months ended July 31, 2001, and the three months ended July 31, 2001 were \$3,123,442 and \$1,759,491, respectively. The net sales for these periods represents seven months of sales for Champion, one month of Danzer and no sales for United, as it was purchased on July 31, 2001. This segment's ability to maintain and increase sales depends on many factors not within Management's control. They include planned capital expenditures by end users in a very uncertain capital spending economic period, pricing policies by competitors, Champion's ability to gain market share from Featherlite in the racing divisions of NASCAR, IRL, drag racing and other related markets, United's and Danzer's ability to maintain market share, while the integration into the Obsidian management team begins, and the overall health of the economy and in this industry has the potential of all having an effect on net sales for this segment.

Danzer Industries' manufacturing staffing during July 2001 was at a level to produce 30 units per week inclusive of Mobile Tool and Morrison truck bodies. Danzer is currently working with a floating Morrison backlog which changes daily and a set number of 20 Mobile Tool units per week. Morrison units fluctuate depending upon booked orders and orders for standard units received during the 2-3 week period. Management anticipatse the current Mobile Tool purchase order will be completed by August 30, 2001. No other orders are expected within the next several weeks. Therefore, under current backlog conditions, Management anticipates a workforce reduction of 35-40% during the last week of August 2001. This condition is expected to prevail for the balance of 2001, unless production requirements for Morrison units increase substantially prior to receipt of the next purchase order from Mobile Tool for VERIZON units.

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DANZER CORPORATION AND SUBSIDIARIES

During the month of September 2001, Danzer Industries expects to produce a total of 30 Morrison truck bodies per week for sales and stock inventory. Stock inventory will be closely managed to assure that we are not overstocking while maintaining adequate stocking levels of popular sizes and models.

Rubber Sales

U.S. Rubber comprises the entity that remanufactures butyl rubber for resale to tire and other rubber product manufacturers. Net sales for the periods reported in this segment are as follows:

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	Three Months Ended		Nine Months Ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
Rubber net sales	\$2,676,784	\$3,033,009	\$8,827,108	\$8,781,700

Net sales in this segment for the nine months ended July 31, 2001 as compared to July 31, 2000 increased 1% in the amount of \$45,408. Net sales in this segment for the three months ended July 31, 2001 as compared to July 31, 2000 decreased 11.7% in the amount of \$356,155. This modest increase was due to U.S. Rubber's refusal to accept all orders, due to its renovation of its 12" extruder and the shortage of necessary raw materials to meet order demand.

Coach Leasing

Pyramid Coach and DW Leasing comprise the entities that lease luxury bus coaches on daily, weekly, monthly and long-term leases. Revenue from leasing of such coaches during the 2000 period was \$0, as Pyramid was not purchased until June 21, 2001. Pyramid and DW Leasing, for the nine months and three months ended July 31, 2001, had net revenue of \$498,508, which represents one month of leasing income of coaches.

COST OF GOODS SOLD

Truck Bodies and Trailer Segment

The Cost of Goods Sold includes all direct and indirect costs of manufacturing the truck bodies and trailers, including handling, shipping and all indirect production-related costs. Cost of Goods Sold for this segment for the nine months and three months ended July 31, 2000 was \$0. Cost of Goods Sold for the nine months and three months ended July 31, 2001 was \$2,816,462 and \$1,633,176, respectively.

During the month of July 2001, Danzer was able to negotiate a 15% price reduction on blank material by changing vendors. This factor will be needed to offset the expected lower orders from Mobile Tool under its purchase order.

DANZER CORPORATION AND SUBSIDIARIES

Rubber Segment

Cost of goods sold in this segment are as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2001	July 31, 2000	July 31, 2001	July 31, 2000
Rubber cost of sales	\$2,471,845	\$2,512,684	\$7,943,329	\$7,517,026

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Manufacturing costs have increased from the prior year for the nine-month and three-month period due to the 12" extruder renovation and Rubber inefficiencies of mixing poor raw material with quality raw material, due to buying competition.

Coach Segment

Cost of revenue for this segment represents the direct cost of leasing luxury bus coaches, including salaries, commissions, rent, drivers, and related interest costs. The segment cost of revenue in the amount of \$206,932 represents one month's cost of revenue for the nine-month and three-month periods ended July 31, 2001 included herein.

GROSS PROFIT

Truck Bodies and Trailers Segment

Gross profit and gross profit percentage in this segment for the nine months ended July 31, 2000 was \$0, as this segment's entities were purchased during 2001. Gross profit and gross profit percentage for the nine months and three months ended July 31, 2001 were as follows:

	Three Months		Nine Months	
	Amount	Percentage	Amount	Percentage
Truck bodies and trailers	\$126,315	7.2%	\$306,980	9.8%

The low gross profit and gross profit percentage for this segment is due to Champion's low repair sales and an inability to complete trailers, booked by the previous owner, in a reasonable period.

Rubber Segment

Gross profit and gross profit percentage for the nine months ended July 31, 2001 as compared to July 31, 2000, decreased \$380,895 and 4.4%, respectively. Gross profit and gross profit percentage for the three months ended July 31, 2001 as compared to the July 31, 2000 three-month period, decreased \$315,296 and 9.5%. These reductions were due to lower sales and higher cost of sales, associated with the extruder renovation project and the lack of and higher raw material cost, which have affected productivity, as well as the cost of raw materials.

Coach Segment

The coach segment gross profit and gross profit percentage for 2000 period was \$0, as Pyramid was not purchased until June 21, 2001. For the nine months and three months ended July 31, 2001, the coach segment had gross profit and gross profit percentage of \$291,576 and 58.49%.

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DANZER CORPORATION AND SUBSIDIARIES

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES

Selling, general and administrative expenses are higher for the nine months ended July 31, 2001 versus the nine-month period ended July 31, 2000 due to the purchase and inclusion of Champion SG&A for seven months and the inclusion of Danzer and Pyramid for one month. This is offset by the cost of settlement of a commissioned sales person paid in June 2000 in the amount of \$409,000.

Selling, general and administrative expenses are higher for the three months ended July 31, 2000 versus the three months ended July 31, 2000 due to the purchase and inclusion of Champion, Danzer and Pyramid's SG&A. This is offset by the \$409,000 settlement with a commissioned salesperson paid in the quarter ended July 31, 2000.

INTEREST EXPENSE

The Company's interest expense is a very high percentage when calculated as a percentage of net sales, as all acquisitions were made utilizing traditional and nontraditional lending sources and low investment capital by Danzer. For the nine-month period ended July 31, 2000, the percentage of interest expense to net sales of 4.4% was lower than the 7.4% for the comparable period ended July 31, 2001, reflecting the additional cost of making the Champion and Pyramid acquisitions. For the three-month period ended July 31, 2000, the percentage of interest expense to sales of 4.5% was lower than the 7.6% for the comparable period ended July 31, 2001.

INCOME TAX PROVISION

The income tax provision for the nine-month period ended July 31, 2000 decreased by \$58,964 to a benefit for the nine-month period ended July 31, 2001. The income tax benefit is created primarily through the differences in U.S. Rubber's depreciation expense. Quarterly tax provisions/benefits are based on the estimated effective tax rate for the full year.

LIQUIDITY AND CAPITAL RESOURCES

Each of the subsidiaries of Danzer have separate revolving credit agreements and term loan borrowings through which each subsidiary finances its operations along with cash generated from operations. The high principal balances of some of these loans reflect the fact that Obsidian highly leveraged the acquisition of each of Champion, U.S. Rubber, Pyramid, and United. Each of these subsidiaries will utilize its excess cash in the foreseeable future to pay off this acquisition financing. On a consolidated basis, as of July 31, 2001, the Company had approximately \$380,000 of cash and cash equivalents. U.S. Rubber has an available \$3,000,000 revolving line of credit with Bank One, Indiana, N.A.; Champion has an available \$200,000 revolving line of credit with Bank One, Indiana; United has an available \$3,500,000 revolving line of credit with First Indiana Bank, N.A.; and Danzer Industries has an available \$1,000,000 revolving line of credit with Bank of America Commercial finance Corporation ("BOACFC"), as well as a new \$1,000,000 mortgage term loan, the proceeds of which are available for Company operations. Each of USRR and Champion should increase the availability under its existing revolving credit facilities in order to meet the expanded inventory requirements at each subsidiary in the second half of 2001. Management has begun to address these liquidity issues by working to increase raw material inventory levels at U.S. Rubber and by funding losses at Champion through intercompany advances and finished goods financing through DW Leasing (an affiliate).

DANZER CORPORATION AND SUBSIDIARIES

DEBT ISSUES

Among the company's subsidiaries, U.S. Rubber, Champion, and Pyramid have violated certain requirements and covenants in their debt agreements relating to maintaining certain minimum ratios and levels of earnings to funded debt and fixed charge coverage. Management has brought these violations to the attention of its lenders and is currently in discussion with its lenders to seek waivers of the violations and/or to amend the covenants to less restrictive ratios in order to bring these subsidiaries into compliance with their respective debt instrument requirements. None of the subsidiaries' lenders have declared a default and they have allowed each of U.S. Rubber, Champion, and Pyramid to remain in violation of these agreements. In the instance of each U.S. Rubber and Champion, were a default to be declared, the Company has the right to enforce a capital contribution agreement with Obsidian Capital Partners, LP up to \$1,000,000 to fund the respective subsidiaries' shortfall. Such payments, if any, would be applied directly to reduce the respective subsidiaries' debt obligations to Bank One. Obsidian has a similar agreement with First Indiana Bank, N.A. in respect of United's loan covenants.

U.S. Rubber's Senior Credit Facility is with Bank One, Indiana, NA; U.S. Rubber has a Revolving Credit Facility in the maximum amount of \$3,000,000 and a term credit facilities of \$200,000, \$2,500,000, and \$500,000, respectively. These credit facilities were primarily used for acquisition financing when U.S. Rubber was acquired on December 29, 2000. In addition, U.S. Rubber has a subordinated debt obligation to SerVaas, Inc. (the "Seller") in the amount of \$1,750,000 and a subordinated raw material supply agreement with the Seller with a remaining purchase obligation of \$800,000. Management has reached agreement with SerVaas, Inc. for the company to acquire the Subordinated Note and Supply Agreement for \$1,550,000. Counsel for the Company is in the process of completing the documentation of this purchase, the net effect of which will be to reduce U.S. Rubber's liabilities by \$1,000,000. This reduction in liability will be accounted for as an adjustment to Purchase Price.

Management has begun discussion with Bank One in respect of the violations by U.S. Rubber of the negative covenants of (i) Fixed charge coverage ratio and (ii) Funded debt to EBITDA ratio. Management has requested a waiver of these violations and/or an amendment of the Credit Agreement to less restrictive ratios that would be consistently achievable by U.S. Rubber. In addition, Management has notified Bank One of loans and advances made to Champion (a sister subsidiary) in violation of the Credit Agreement and the inclusion of ineligible accounts in the Borrowing Base Certificates submitted to Bank One under the Revolving Credit facility in the months of June and July 2001. Bank One has not declared a default in respect of these violations and Management expects to receive a waiver of these violations as requested.

Champion's Senior Credit facility is also with Bank One, Champion is not in violation of its Senior Credit facility; however, Champion is also indebted to Markpoint Equity Fund IV under a subordinated credit facility in the amount of \$1,250,000. Champion has been in violation of the funded debt to EBITDA negative covenant of the Markpoint Credit Agreement since the inception of the loan. This is primarily because the credit agreement's definition of funded debt includes all subordinated debt, a fact which Management disputes. Management brought this violation to Markpoint's attention at the time of its first quarter submission of financial information and again prior to the close of the Acquisition and has obtained a waiver of the violation each quarter, Markpoint has informed Management that it will continue to waive this violation,

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but that each waiver shall be for the duration of only 90 days. Management has requested that Markpoint rewrite this covenant in order to eliminate the violation; however, to date Markpoint has not revised the covenant despite an expressed willingness to do so.

Pyramid is a guarantor of DW Leasing's debt to Regions Bank, Nashville, Tennessee. DW Leasing and Pyramid have been in violation of the Funded Debt to EBITDA ratio in the Regions Bank Credit Facility

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DANZER CORPORATION AND SUBSIDIARIES

since the inception of the loan. This is due to the fact that DW Leasing has acquired eight additional new luxury coaches in the past six months, which coaches are highly leveraged. At the time of the Acquisition, Regions Bank granted a waiver of this violation and agreed to rewrite the covenant to eliminate this continuing violation; however, since the time of such commitment, Pyramid's loan officer has left the bank and to date there has not been an acknowledgement on the part of the bank to rewrite the covenant or take other action. In the event Regions Bank should declare a default, Management believes the collateral supporting the Regions credit facility is readily financeable.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Danzer now consists of a business combination of Danzer Corporation and various recently purchased manufacturing entities of Obsidian Capital Partners, L.P. The management resources to date have been spent on purchasing, continuing operations at preacquisition capability after the purchase, and integrating subsidiary operations with Obsidian management. The date of purchase of each entity by the current management:

Operating Entity -----	Date of Purchase -----
U.S. Rubber Reclaiming, Inc.	December 29, 2000
Pyramid Coach, Inc.	December 20, 1999
Champion Trailer, Inc.	May 2, 2000
Danzer Industries, Inc.	June 21, 2001
United Expressline, Inc.	July 31, 2001

Management's attention to day-to-day operating issues and the solution of such issues has just started to commence, because of the very recent dates of purchase. Management's ability to successfully integrate these five operating companies will be determinative of later success. Employee uncertainty and lack of Management focus during the initial stages of purchase and continuing integration is disruptive to the business of the Danzer subsidiaries. Retention of employees through continued advancement, and support of the Company's ongoing manufacturing capability, ongoing sales and marketing efforts will be required, but is not assured.

Danzer's ability to stabilize operations and to eventually achieve growth of each of its segments will require it to implement and continually expand its operating and financial systems. This implementation will carry a significant disproportionate cost to the operations in the next 12 to 18 months which will have a negative impact on revenues Danzer expects any significant growth would place a strain on its operational resources and its financial systems. Failure

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to effectively manage any growth would have a material adverse effect on Danzer's business, financial condition, results of operations or cash flows.

Danzer's future success will depend in large part on retaining key subsidiary management team personnel and its ability to train and incentivize such personnel and to attract certain sales, marketing, accounting and management personnel to the Company to effect the integration of the recently acquired subsidiaries under the Danzer operating umbrella.

The Company is also exposed to market risk from interest rate changes associated with the financing arrangements as part of these acquisitions.

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DANZER CORPORATION AND SUBSIDIARIES

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not Applicable.

Item 2. Changes in Securities

On June 21, 2001 ("Acquisition Date"), a change of control of the Registrant occurred. Through an Acquisition Agreement and Plan of Reorganization dated June 21, 2001 (the "Reorganization Agreement") by and among Danzer, Danzer Industries, Inc., a wholly owned subsidiary of Danzer, and Obsidian Capital Partners, LP ("Obsidian"), Tim Durham (the newly elected Chairman of the Board of Danzer), and other individual owners of Pyramid and Champion. On the Acquisition Date, Danzer acquired: all of the outstanding capital stock of Pyramid in exchange for 810,099 shares of Danzer Preferred Stock ("Preferred"); all of the outstanding capital stock of Champion for 135,712 shares of Danzer Preferred and all of the outstanding capital stock of U.S. Rubber for 1,025,151 shares of Danzer Preferred. On July 31, 2001, Danzer acquired all of the outstanding capital stock of United from Obsidian for 2,206,893 shares of Danzer Preferred.

Pursuant to the Reorganization Agreement, Danzer issued 4,177,855 shares of its preferred stock to Obsidian Capital Partners, LP, Timothy Durham, and other individual owners of Pyramid and Champion ("Obsidian shareholders"). The Preferred Shares exchanged are Series C Convertible Preferred Stock, designated \$.001 per value per share, with voting rights equal to common shareholders based upon the Preferred Shares conversion rights of exchange of 20 common shares for each 1 preferred share owned. After the series of transactions were completed on July 31, 2001, the Obsidian shareholders owned 75.42% of the total voting, convertible capital stock (Preferred) of Danzer. The existing Danzer shareholders own the remaining capital stock representing 24.58% of the total voting capital stock (Common). In June 2001, Danzer issued an aggregate of 1,750,000 shares of Danzer unregistered common stock in connection with the exchange of \$350,000 of debt. Further, in July 2001, Danzer issued an aggregate of 16,497,840 shares of Danzer unregistered common stock in exchange for 824,892 of Series C preferred stock. These shares were offered and sold in transactions which were exempt from Securities Act registration under Section 4(2) of the Securities Act, relating to sales by an issuer not involving a public offering. No underwriters were involved in the sale of these shares.

The following schedule summarizes the security transactions as of and for the nine-month period ended July 31, 2001.

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DANZER CORPORATION AND SUBSIDIARIES

SCHEDULE OF SECURITY TRANSACTIONS

	Beginning 11/01/00	Increases	Decreases	Ending as of 7/31/01	Shares Registered
Registered Common Shares outstanding, beginning	17,760,015			17,760,015	17,760,015
Common Stock (Unregistered)					
Cadema \$350,000 loan conversion		1,750,000		1,750,000	
Conversion of Pyramid shareholders and Mark Kennedy shares from preferred C					
Timothy Durham		6,885,840		6,885,840	
Terry Whitesell		6,885,840		6,885,840	
Jeffrey Osler		810,100		810,100	
Steve Blaising		810,100		810,100	
Scott McKain		810,100		810,100	
Marcus Kennedy		268,720		268,720	
Durham Whitesell and Associates, LLC		27,140		27,140	
Shares outstanding, end of period				36,007,855	17,760,015
Convertible preferred					
Pyramid shareholders		810,099	810,099	-	
Champion shareholders		135,712	14,793	120,919	
U.S. Rubber Reclaiming shareholders		1,025,151		1,025,151	
United shareholders		2,206,893		2,206,893	
Huntington Capital		386,206		386,206	
Shares outstanding, end of period				3,739,169	

(continued)

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DANZER CORPORATION AND SUBSIDIARIES

SCHEDULE OF SECURITY TRANSACTIONS

	Beginning 11/01/00	Increases	Decreases	Ending as of 7/31/01	Shares Registered	Un
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Convertible Debentures			
500000 @ .1 per	-	500,000	500,000 =====
Stock Options			
McLaughlin			
10/01/00 at .1		90,000	90,000
11/01/00 @ .1		90,000	90,000
12/02/00 @ .05		75,000	75,000
Williams			
11/01/00 @ .1		157,500	157,500
4/04/00 @ .1		600,000	600,000
12/02/00 @ .05		125,000	125,000

Total Stock Options			1,137,500 =====
Warrants			
8/02/00 @ .25 (Smith)		650,000	450,000
			200,000 =====
Total Common Stock Equivalents			

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DANZER CORPORATION AND SUBSIDIARIES

Item 3. Defaults Upon Senior Securities

Not Applicable.

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

In August of 2000, a meeting of stockholders of the Company was held. At the meeting Danzer's shareholders approved an increase in the Danzer's authorized common stock from 20,000,000 to 40,000,000. An amendment to the Articles of Incorporation of the Company effecting this change was filed July 5, 2001 with the Secretary of State of New York.

Item 5. Other Information

As previously disclosed, management of Danzer has, since June 21, 2001 focused its efforts on integrating the U.S. Rubber Companies, including the financial reporting systems of these entities with those of Danzer. Among other challenges faced by management in this effort, are record keeping systems at Champion, Pyramid and United which may not be entirely consistent with public company standards. To the extent that management is not able to bring the reporting systems of these companies into compliance with Danzer's standards, Danzer's reporting under the Securities Exchange Act of 1934, as amended, may be delayed from time to time.

Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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- 2.1 Acquisition Agreement and Plan of Reorganization, dated as of June 21, 2001, incorporated by reference to the Exhibit 2.1 to the Registrant's Report on Form 8-K, filed on August 15, 2001.
- 99.1 Unaudited Balance Sheet and related footnotes for U.S. Rubber Reclaiming as of December 29, 2000 (date of acquisition by Obsidian Capital Partners)
- 99.2 Unaudited Balance Sheet and related footnotes for Champion Trailer Company, L.P. as of January 1, 2001 (date of acquisition by Obsidian Capital partners)

(b) Reports on Form 8-K

On July 6, 2001, the Company filed a Current Report on Form 8-K.

On August 15, 2001, the Company filed a Current Report on Form 8-K.

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DANZER CORPORATION AND SUBSIDIARIES

SIGNATURES

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

Danzer Corporation

By: /s/ Timothy S. Durham
Chairman and
Chief Executive Officer

Dated: September 4, 2001

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