

ALLIED HOLDINGS INC
Form 10-Q
November 14, 2002

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Table of Contents

UNITED STATES
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 quarterly period ended September 30, 2002**

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: **0-22276**

ALLIED HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

GEORGIA

58-0360550

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

Suite 200, 160 Clairemont Avenue, Decatur, Georgia 30030

(Address of principal executive offices)

(404) 373-4285

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 report(s), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Outstanding common stock, No par value at October 31, 2002..... 8,421,318

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Notes to Consolidated Financial Statements (Unaudited)

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

Item 6. Exhibits and Reports on Form 8-K.

SIGNATURES

CERTIFICATIONS

EX-10.1 AMENDMENT NO. 2 AGREEMENT

Table of Contents

INDEX

PART I

FINANCIAL INFORMATION

	PAGE
ITEM 1	
FINANCIAL STATEMENTS	
Consolidated Balance Sheets as of September 30, 2002 and December 31, 2001	3
Consolidated Statements of Operations for the Three and Nine Month Periods Ended September 30, 2002 and 2001	4
Consolidated Statements of Cash Flows for the Nine Month Periods Ended September 30, 2002 and 2001	5
Notes to Consolidated Financial Statements	6
ITEM 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
ITEM 3	
Quantitative and Qualitative Disclosures about Market Risk	28
ITEM 4	
Controls and Procedures	28

PART II

OTHER INFORMATION

ITEM 6	
Exhibits and Reports on Form 8-K	30
Signature Page	31
Certifications	32

Table of Contents

PART 1 FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 24,925	\$ 10,543
Short-term investments	62,427	64,794
Receivables, net of allowance for doubtful accounts of \$5,538 and \$11,058, respectively	60,112	72,292
Inventories	5,301	5,349
Deferred tax assets	38,344	32,403
Prepayments and other current assets	17,384	18,921
	<hr/>	<hr/>
Total current assets	208,493	204,302
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, NET	185,212	214,641
	<hr/>	<hr/>
OTHER ASSETS:		
Goodwill, net	85,212	90,230
Other	23,650	24,219
	<hr/>	<hr/>
Total other assets	108,862	114,449
	<hr/>	<hr/>
Total assets	\$ 502,567	\$ 533,392
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 3,500	\$ 2,625
Trade accounts payable	36,212	40,232
Accrued liabilities	89,435	82,963
	<hr/>	<hr/>
Total current liabilities	129,147	125,820
	<hr/>	<hr/>
LONG-TERM DEBT, less current maturities	257,660	286,533
	<hr/>	<hr/>
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	9,024	9,363
	<hr/>	<hr/>
DEFERRED INCOME TAXES	23,743	21,383
	<hr/>	<hr/>
OTHER LONG-TERM LIABILITIES	74,378	72,296
	<hr/>	<hr/>
STOCKHOLDERS EQUITY:		

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Common stock, no par value; 20,000 shares authorized, 8,385 and 8,274 shares outstanding at September 30, 2002 and December 31, 2001, respectively		
Additional paid-in capital	46,572	46,520
Treasury stock at cost, 139 shares at September 30, 2002 and December 31, 2001	(707)	(707)
Retained deficit	(28,515)	(18,894)
Accumulated other comprehensive loss, net of tax	(8,735)	(8,922)
	<u> </u>	<u> </u>
Total stockholders' equity	8,615	17,997
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 502,567	\$ 533,392
	<u> </u>	<u> </u>

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

Table of Contents

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2002	2001	2002	2001
REVENUES	\$ 212,985	\$ 204,010	\$ 665,228	\$ 672,384
OPERATING EXPENSES:				
Salaries, wages and fringe benefits	117,804	118,700	363,853	391,006
Operating supplies and expenses	33,257	33,810	100,068	115,147
Purchased transportation	25,331	23,228	72,438	75,190
Insurance and claims	10,844	10,531	34,344	37,588
Operating taxes and licenses	7,638	7,857	24,731	24,990
Depreciation and amortization	13,142	15,145	40,087	45,450
Rents	1,685	1,691	4,895	5,353
Communications and utilities	1,425	1,300	5,290	5,252
Other operating expenses	2,892	3,295	7,607	10,908
Loss (gain) on disposal of operating assets, net	367	24	(347)	(2,719)
Total operating expenses	214,385	215,581	652,966	708,165
Operating (loss) income	(1,400)	(11,571)	12,262	(35,781)
OTHER INCOME (EXPENSE):				
Equity in earnings of UK and Brazil joint ventures, net of tax		1,054		3,593
Interest expense	(7,611)	(9,141)	(23,343)	(26,994)
Interest income	203	424	1,090	2,014
Gain on early extinguishment of debt			2,750	
Other, net	100		(107)	
	(7,308)	(7,663)	(19,610)	(21,387)
LOSS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(8,708)	(19,234)	(7,348)	(57,168)
INCOME TAX BENEFIT	2,226	6,588	1,819	19,944
LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(6,482)	(12,646)	(5,529)	(37,224)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX			(4,092)	
NET LOSS	(\$6,482)	(\$12,646)	(\$9,621)	(\$37,224)

BASIC & DILUTED LOSS PER COMMON SHARE:

LOSS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	BASIC AND DILUTED	(\$0.78)	(\$1.56)	(\$0.67)	(\$4.60)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX	BASIC AND DILUTED			(\$0.49)	
PER COMMON SHARE	BASIC AND DILUTED	(\$0.78)	(\$1.56)	(\$1.16)	(\$4.60)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		8,324	8,114	8,282	8,096

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

Table of Contents

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Nine Months Ended September 30,	
	2002	2001
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(\$9,621)	(\$37,224)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on early extinguishment of debt	(2,750)	
Interest expense paid in kind	746	
Amortization of deferred financing costs	3,013	2,906
Depreciation and amortization	40,087	45,450
Gain on disposal of assets and other, net	(240)	(2,719)
Cumulative effect of change in accounting principle	5,194	
Deferred income taxes	(3,671)	(19,377)
Compensation expense related to stock options and grants	(210)	207
Equity in earnings of joint ventures		(3,593)
Amortization of Teamsters Union contract costs	1,800	1,802
Change in operating assets and liabilities:		
Receivables, net of allowance for doubtful accounts	12,276	18,190
Inventories	55	720
Prepayments and other current assets	1,556	(822)
Trade accounts payable	(4,057)	(7,021)
Accrued liabilities	8,533	6,028
	<u>62,332</u>	<u>41,771</u>
Net cash provided by operating activities	<u>52,711</u>	<u>4,547</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13,313)	(18,274)
Proceeds from sale of property and equipment	3,005	4,832
Investment in joint ventures		(464)
Cash received from joint ventures		3,578
Proceeds from sale of equity investment in joint venture	2,700	
Decrease (increase) in short-term investments	2,367	(4,864)
Decrease (increase) in the cash surrender value of life insurance	1,341	(360)
	<u>(3,900)</u>	<u>(15,552)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments) additions to revolving credit facilities, net	(62,384)	23,587
Additions to long-term debt	82,750	
Repayment of long-term debt	(46,360)	(107)
Payment of deferred financing costs	(9,262)	(2,663)
Proceeds from issuance of common stock	262	303
Other, net	549	(307)
	<u></u>	<u></u>

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Net cash (used in) provided by financing activities	(34,445)	20,813
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	16	68
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,382	9,876
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,543	2,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 24,925	\$ 12,249

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

Table of Contents

Allied Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The statements contained herein reflect all adjustments, all of which are of a normal, recurring nature, which are, in the opinion of management, necessary to present fairly the financial condition, results of operations and cash flows for the periods presented. Operating results for the three and nine month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. The interim financial statements should be read in conjunction with the financial statements and notes thereto of Allied Holdings, Inc. and Subsidiaries, (the Company) included in the Company's 2001 Annual Report on Form 10-K.

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

3. Comprehensive Income

Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income, requires companies to report all changes in equity during a period, except those resulting from investment by stockholders and distribution to stockholders. The Company had a comprehensive loss of \$8.2 million for the third quarter of 2002 versus a comprehensive loss of \$11.9 million for the third quarter of 2001. For the first nine months of 2002, the Company had a comprehensive loss of \$9.4 million, versus a comprehensive loss of \$38.5 million for the first nine months of 2001. The difference between comprehensive income and net income is the foreign currency translation adjustment net of income taxes.

4. Accounting for Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, establishes accounting and reporting standards required that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

Table of Contents

From time to time, the Company enters into future contracts to manage the risk associated with changes in fuel prices. Gains and losses from fuel hedging contracts are recognized as part of fuel expense when the Company uses the underlying fuel being hedged. During 2001, Allied Automotive Group entered into a forward purchase commitment to purchase one million gallons of low sulfur diesel fuel per month at determinable prices defined within the agreement. This agreement expired in August 2002 and the Company is evaluating additional forward purchase commitments. The Company does not enter into fuel hedging contracts for speculative purposes. At September 30, 2002, the Company did not have any outstanding fuel hedging contracts or other derivative instruments that fall under the provisions of SFAS No. 133 as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities.

5. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB), issued SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 prospectively prohibits the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS No. 142 requires companies to cease amortizing goodwill that existed at June 30, 2001. The Company adopted SFAS No. 142 effective January 1, 2002. For information regarding goodwill and the impact of adoption of SFAS No. 142 had on the Company's consolidated financial statements, refer to Note 6. SFAS No. 141 did not impact the earnings or financial position of the Company.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and reporting for asset retirement costs of long-lived assets resulting from legal obligations associated with acquisition, construction, or development transactions. The Company plans to adopt SFAS No. 143 in the first quarter of fiscal year 2003. Management will evaluate the impact of the adoption of this standard on the consolidated financial statement during the fourth quarter of fiscal year 2002.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which clarifies accounting and reporting for assets held for sale, scheduled for abandonment or other disposal, and recognition of impairment loss related to the carrying value of long-lived assets. The Company adopted this standard on January 1, 2002 and there was no impact on the financial position or results of operations of the Company as of the date of the adoption.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. The Statement updates, clarifies and simplifies existing accounting pronouncements. The Statement requires that in certain circumstances previous items classified as extraordinary that do not meet the criteria in Opinion 30 must be reclassified. The Statement is effective for fiscal years beginning after May 15, 2002. The Company elected early adoption of the standard. Accordingly, the after-tax gain on early extinguishment of debt that was reported as an extraordinary item in the first quarter of 2002 has been reclassified and is currently reported as other income.

In July 2002, the FASB issued SFAS No. 146, Accounting for Cost Associated with Exit or Disposal Activities. The Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. The Statement is effective prospectively for exit or disposal activities initiated

Table of Contents

after December 31, 2002. Management does not anticipate that the Statement will have a material impact on the financial position or results of operations of the Company as of the date of adoption.

6. Goodwill

In accordance with SFAS No. 142, the Company no longer amortizes goodwill but will review it annually for impairment, or on an interim basis if an event occurs or circumstances change that would reduce the fair value of goodwill below its carrying value. Pursuant to the adoption of SFAS No. 142, the Company evaluated its reporting units within the guidance of SFAS No. 142 and SFAS No. 131,

Disclosures about Segments of an Enterprise and Related Information. The Company's reporting units are the Allied Automotive Group and the Axis Group. The adoption of SFAS No. 142 required the Company to perform an initial impairment assessment on all goodwill and indefinite lived intangible assets as of January 1, 2002. The Company compared the fair value of goodwill to current carrying value. Fair values were derived using discounted cash flow analyses. The assumptions used in these discounted cash flow analyses were also consistent with the Company's internal planning and represents the Company's best estimates. The cumulative effect of this change in accounting principle was a \$5.2 million decrease to the Axis Group goodwill. The deferred income tax benefit related to this change was approximately \$1.1 million. The \$4.1 million cumulative effect of this change in accounting principle, net of income taxes, is included in the accompanying statements of operations for the nine months ended September 30, 2002.

The following table sets forth the carrying value of goodwill by reporting unit as of September 30, 2002 and December 31, 2001 (in thousands):

	Allied Automotive Group	Axis Group	Total
Balance as of December 31, 2001	\$ 72,839	\$ 17,391	\$ 90,230
Increase in carrying amount due to a change in currency rates	175	1	176
Impairment loss		(5,194)	(5,194)
Balance as of September 30, 2002	\$ 73,014	\$ 12,198	\$ 85,212

The following table summarizes and reconciles net loss before the cumulative effect of the accounting change for the three and nine months ended September 30, 2002 and 2001, adjusted to exclude amortization expense recognized in such periods related to goodwill (in thousands):

	For the three months ended September 30		For the nine months ended September 30	
	2002	2001	2002	2001
Reported net loss before cumulative effect of accounting change	\$ (6,482)	\$ (12,646)	\$ (5,529)	\$ (37,224)
Add back after-tax amounts:				
Goodwill amortization		580		1,730
Adjusted net loss before cumulative effect of accounting change	\$ (6,482)	\$ (12,066)	\$ (5,529)	\$ (35,494)

Table of Contents

	For the three months ended September 30		For the nine months ended September 30	
	2002	2001	2002	2001
Loss per share before accounting change:				
Basic and diluted	\$(0.78)	\$(1.56)	\$(0.67)	\$(4.60)
Goodwill amortization				
Basic and diluted		.07		0.22
Adjusted loss per share before accounting change				
Basic and diluted	\$(0.78)	\$(1.49)	\$(0.67)	\$(4.38)

7. Fleet Remanufacturing Program

As part of the Company's turnaround plan, the Company is upgrading the existing fleet through an extensive remanufacturing program which is expected to increase the useful life of a rig to an average of 15 years. These upgrades are depreciated over an estimated useful life of 6 years, using the straight-line method of depreciation. The first phase of the program began in 2002 and is expected to continue through 2004 at an approximate total capital investment of \$75 to \$85 million for the remanufacturing of approximately 1,500 rigs over the three-year period. As of September 30, 2002 total capital expenditures related to the remanufacturing program, including engine replacements, were approximately \$13 million.

8. Workforce Reduction and Severance Expense

As part of its turnaround initiatives, the Company implemented a program to achieve a significant reduction in corporate overhead expenses and to upgrade certain personnel. Targeted in the plan were workforce reductions as well as additional efforts to decrease discretionary spending and eliminate fixed costs. During 2002 the Company has continued to incur severance expense as part of its ongoing initiative to improve personnel quality and productivity. Accordingly, the Company terminated the employment of approximately 110 and 148 corporate and field employees during the nine months ended September 30, 2002 and the nine months ended September 30, 2001 respectively. The remaining accrued benefits related to the terminations are included in accrued liabilities and as such, the Company expects to pay the accrued benefits within the next 12 months. The following table summarizes the activity in the accrual for termination benefits for the three and nine months ended September 30, 2002 and 2001, (in thousands):

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Beginning balance	\$ 1,700	\$ 4,000	\$ 3,700	\$ 1,600
Additions to reserve charged to salaries, wages, & fringe benefits	500	1,600	1,400	7,200
Cash payments	(800)	(2,600)	(3,700)	(5,800)
Ending balance	\$ 1,400	\$ 3,000	\$ 1,400	\$ 3,000

Table of Contents

9. Long-Term Debt

Long-term debt consisted of the following at September 30, 2002 and December 31, 2001 (in thousands):

	September 30, 2002	December 31, 2001
Credit Facility	\$ 111,160	\$ 98,900
Senior notes	150,000	150,000
Senior subordinated notes		40,258
	<hr/>	<hr/>
	261,160	289,158
Less: current maturities of long-term debt	(3,500)	(2,625)
	<hr/>	<hr/>
	\$ 257,660	\$ 286,533
	<hr/>	<hr/>

On September 30, 1997, the Company issued \$150 million of 8 5/8% senior notes (the Notes) through a private placement. Subsequently, the Notes were registered with the Securities and Exchange Commission. The net proceeds from the Notes were used to fund the acquisition of Ryder Automotive Carrier Services, Inc. and RC Management Corp., pay related fees and expenses, and reduce outstanding indebtedness. The Notes mature on October 1, 2007.

Borrowings under the Notes are general unsecured obligations of the Company. The Company's obligations under the Notes are guaranteed by substantially all of the subsidiaries of the Company (the Guarantor Subsidiaries). Haul Insurance Ltd., Arrendadora de Equipo Para el Transporte de Automoviles, S. de R.L. de C.V. and Axis Logistica, S. de R.L. de C.V. do not guarantee the Company's obligations under the Notes (the Nonguarantor Subsidiaries). There are no restrictions on the ability of Guarantors to make distributions to the Company.

The Notes set forth a number of negative covenants which are binding on the Company. The covenants limit the Company's ability to, among other things, purchase or redeem stock, make dividend or other distributions, make investments, and incur or repay debt (with the exception of payment of interest or principal at stated maturity).

Concurrent with the issuance of the Notes, the Company closed on a revolving credit facility (the Revolving Credit Facility). The Company also previously issued \$40.0 million of senior subordinated notes (the Senior Subordinated Notes) through a private placement.

On February 25, 2002, the Company refinanced the Revolving Credit Facility and Senior Subordinated Notes with a new credit facility including certain term loans (the Term Loans) (the new credit facility and the term loans, collectively, the Credit Facility). Proceeds from the Term Loans were used to repurchase the \$40.0 million of Senior Subordinated Notes for \$37.25 million. In conjunction with the extinguishment of this debt, the Company recognized a pre-tax gain of \$2.75 million, during the first quarter of 2002. The Credit Facility includes a revolving credit facility (the Revolver) that allows the Company to borrow under a revolving line of credit up to the lesser of \$120 million or a borrowing base amount as defined in the Credit Facility. The interest rate for the Revolver is based upon the prime rate plus 1.5% or LIBOR plus 4.5% at management's discretion with a minimum interest rate of 6.5%. Annual commitment fees are due on the undrawn portion of the commitment. At September 30, 2002, \$36.5 million was outstanding under the Revolver, and approximately \$24.0 million was committed.

Table of Contents

under letters of credit. As of September 30, 2002 the Company had approximately \$36.7 million available under the Revolver. The Revolver matures on February 25, 2005.

The Term Loans are comprised of four loans: \$17.5 million Term Loan A, \$25.0 million Term Loan B, \$11.0 million Term Loan C, and \$29.3 million Term Loan D. The Term Loans (except Term Loan D) mature on February 25, 2005. Term Loan D matures on February 26, 2005. Cash proceeds from certain asset sales and other transactions are required to be used to repay the Term Loans, as specified in the Credit Facility. In addition, the paid in kind PIK interest on Term Loans B and C to be paid at maturity is included in the loan balances. As of September 30, 2002, the amount outstanding for the Term Loans was \$8.6 million for Term Loan A, \$25.5 million for Term Loan B, \$11.3 million for Term Loan C and \$29.3 million for Term Loan D. Borrowings under the Credit Facility are secured by a first priority security interest on assets of the Company and substantially all of its subsidiaries, including a pledge of stock of substantially all of its subsidiaries. In addition, substantially all of the subsidiaries of the Company jointly and severally guarantee the obligations of the Company under the Credit Facility.

Term Loan A is repayable in installments over three years, with interest payable monthly based upon the prime rate plus 2.75% with a minimum interest rate of 7.75%. Term Loan B is repayable in installments over three years, with interest payable monthly based upon the prime rate plus 6.5%. The interest rate on Term Loan B includes PIK interest of 3.5% that will be payable upon maturity. The minimum interest rate for Term Loan B is 11.5%. Term Loan C is payable in full at maturity with interest payable monthly based upon the prime rate plus 9%. The interest rate on Term Loan C also includes PIK interest of 5% that will be payable upon maturity. The minimum interest rate for Term Loan C is 14%. Term Loan D is payable in full at maturity with interest payable quarterly based upon the prime rate plus 3.5%.

The Credit Facility agreement sets forth a number of affirmative, negative, and financial covenants binding on the Company. The negative covenants limit the ability of the Company to, among other things, incur debt, incur liens, make investments, or sell assets. The financial covenants require the Company to maintain a minimum consolidated earnings before interest, taxes, depreciation and amortization amount and include leverage and fixed charges coverage ratios.

The Company does not anticipate any covenant violations during 2002. There can be no assurance, however, that the Company will be able to comply with these covenants or its other debt covenants or that if it fails to do so, it will be able to obtain amendments to or waivers of such covenants. Failure of the Company to comply with covenants contained in its debt instruments, if not waived, or to adequately service debt obligations, could result in default under the Credit Facility. Any default under the Company's debt instruments, particularly any default that results in an acceleration of indebtedness or foreclosure on collateral could have a material adverse effect on the Company.

10. Employee Benefits

As part of the Company's turnaround efforts in the first quarter, the Allied Holdings Inc. Defined Benefit Pension Plan (the Plan) was amended in February 2002 to freeze the Plan. The amendment resulted in a curtailment of the Plan effective April 30, 2002, under which employees do not accumulate any new benefits and new employees are not added to the Plan. The Company's net pension expense for 2001 was \$2.6 million. As a result of freezing the Plan, the Company expects net pension expense to be \$304,000 for 2002.

Table of Contents

11. Industry Segment and Geographic Information

In accordance with the requirements of SFAS No. 131, Disclosure About Segments of an Enterprise and Related Information, the Company has identified two reportable industry segments through which it conducts its operating activities: Allied Automotive Group and Axis Group. These two segments reflect the organization used by management for internal reporting. Allied Automotive Group is engaged in the business of transporting automobiles and light trucks from manufacturing plants, ports, auctions, and railway distribution points to automobile dealerships. Axis Group is engaging in the business of securing and managing vehicle distribution services, automobile inspections, auction and yard management services, intramodal transport, vehicle accessorization and dealer preparatory services for the automotive industry.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues unaffiliated customers:				
Allied Automotive Group	\$ 205,679	\$ 197,168	\$ 643,769	\$ 651,982
Axis Group	7,306	6,842	21,459	20,402
	\$ 212,985	\$ 204,010	\$ 665,228	\$ 672,384
Depreciation and amortization:				
Allied Automotive Group	\$ 11,655	\$ 13,343	\$ 35,653	\$ 40,132
Axis Group	769	977	2,206	2,768
Corporate/other	718	825	2,228	2,550
	\$ 13,142	\$ 15,145	\$ 40,087	\$ 45,450
Operating (loss) profit:				
Allied Automotive Group	\$ (572)	\$ (10,507)	\$ 15,430	\$ (25,181)
Axis Group	1,320	502	2,963	1,099
Corporate/other	(2,140)	(1,566)	(6,131)	(11,699)
	(1,400)	(11,571)	12,262	(35,781)
Reconciling items:				
Equity income in joint ventures		1,054		3,593
Interest expense	(7,611)	(9,141)	(23,343)	(26,994)
Interest income	203	424	1,090	2,014
Gain on early extinguishment of debt			2,750	
Other, net	(100)		(107)	
Loss before income taxes	\$ (8,708)	\$ (19,234)	\$ (7,348)	\$ (57,168)
Capital expenditures:				
Allied Automotive Group	\$ 5,739	\$ 1,321	\$ 13,125	\$ 16,381
Axis Group	98	11	182	1,826
Corporate/other	6		6	67
	\$ 5,843	\$ 1,332	\$ 13,313	\$ 18,274

Table of Contents

	September 30, 2002	December 31, 2001
Total Assets:		
Allied Automotive Group	\$ 313,250	\$ 353,558
Axis Group	37,215	43,881
Corporate/other	152,102	135,953
	<u>\$ 502,567</u>	<u>\$ 533,392</u>

Geographic financial information for 2002 and 2001 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
United States	\$ 179,155	\$ 170,222	\$ 551,127	\$ 555,489
Canada	33,830	33,788	114,101	116,895
	<u>\$ 212,985</u>	<u>\$ 204,010</u>	<u>\$ 665,228</u>	<u>\$ 672,384</u>

12. Commitments and Contingencies

The Company is involved in various litigation and environmental matters relating to employment practices, damages, and other matters arising from operations in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, other than those discussed below, will not have a material adverse effect on the Company's financial position or results of operations.

Gateway Development & Manufacturing, Inc. v. Commercial Carriers, Inc., et al., Index No. 1997/8920 (*the Gateway Case*) and **Commercial Carriers, Inc. v. Gateway Development & Manufacturing, Inc., et al.** (*the CCI Case*), Index No. 12000/8184. The claims at issue in both the Gateway Case and the CCI case center around the contention that the Company breached legal duties with respect to a failed business transaction involving Gateway Development & Manufacturing, Inc., Ryder Truck Rental, Inc. and Ryder System, Inc. In the Gateway Case, the Company sought and received summary judgment in its favor on the sole claim (for tortious interference with contract) asserted against it by Gateway Development & Manufacturing, Inc., but that ruling was reversed on appeal. While the appellate court held that summary judgment in favor of the Company was premature, the Company will be permitted to raise at trial and/or further dispositive motions the substantive arguments upon which its initial summary judgment motion was based. Subsequent to its summary judgment ruling, the trial court permitted the filing and service of cross-claims against the Company by the other defendants in that action. In the CCI Case, the Company has accepted service of a separate complaint asserting claims against the Company by the other defendants in the Gateway Case. It is anticipated that the claims asserted in both the Gateway Case and the CCI Case will be resolved in a unified proceeding. With respect to the entirety of this litigation, the Company intends to continue its vigorous defense against the claims asserted against it, as management believes all of those claims are without merit. While the ultimate results of this litigation cannot be predicted, if this litigation is resolved in a manner that is adverse to the Company, it could have a material adverse effect on the Company's consolidated financial position or results of operations.

Ryder System, Inc. v. Allied Holdings, Inc., AH Acquisition Corp. and Allied Automotive Group, Inc., Case No. 01-3553-CIV-HUCK in the United States District Court for the Southern District of Florida, relates

Table of Contents

to the Company's August 1997 stock acquisition of certain corporations wholly owned by Ryder. Through that acquisition, the Company agreed to assume financial responsibility for certain third-party injury claims arising on or before the August 1997 closing date. Ryder's original complaint was filed on August 16, 2001. In response, the Company moved to dismiss, and the court granted that motion with leave for Ryder to amend its complaint. On December 26, 2001, Ryder timely filed its amended complaint. Following the dismissal with prejudice of one of the counts asserted by Ryder, Ryder filed, on or about August 1, 2002, a Second Amended Complaint. Ryder's five-count Second Amended Complaint alleges, in Count one, that the Company breached its agreement with Ryder by failing to undertake certain actions (including posting letters of credit and bonds) to substitute the Company for Ryder under an insurance policy covering third-party claims and with various states' agencies that regulate matters such as self-insured workers' compensation. In Counts two and three, the Second Amended Complaint alleges that if these obligations are not required by contract, the legal doctrines of promissory estoppel and negligent misrepresentation created them. In Count four, the Second Amended Complaint seeks a declaration that the Company is required to undertake these actions. In Count Five, Ryder seeks a declaration that the Company is obligated to take certain steps to transfer from Ryder to the Company the ownership and administrative responsibility for two pension plans. The Company intends to continue its vigorous defense against the claims asserted against it, as management believes all of those claims are without merit. The Company has also raised several counterclaims. The ultimate results of this litigation cannot be predicted. However, if Ryder prevails on its claims and the court orders the Company to substitute itself for Ryder by, among other things, posting substantial letters of credit, it could have a material adverse effect on the Company's consolidated financial position or results of operations.

13. Supplemental Guarantor Information

The following condensed consolidating balance sheets, statements of operations and statements of cash flows present the financial statements of the parent company, and the combined financial statements of the Guarantor Subsidiaries and Nonguarantor Subsidiaries. The Guarantors are jointly and severally liable for the Company's obligations under the Notes and there are no restrictions on the ability of the Guarantors to make distributions to the Company.

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2002
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents	\$	\$ 4,287	\$ 20,638	\$	\$ 24,925
Short-term investments			62,427		62,427
Receivables, net of allowance for doubtful accounts		57,382	2,730		60,112
Inventories		5,301			5,301
Deferred tax assets	30,901	6,616	827		38,344
Prepayments and other current assets	1,796	15,528	60		17,384
Total current assets	32,697	89,114	86,682		208,493
PROPERTY AND EQUIPMENT, NET					
	9,523	172,407	3,282		185,212
OTHER ASSETS:					
Goodwill, net	1,515	83,697			85,212
Other	19,150	3,540	960		23,650
Deferred tax asset	12,899			(12,899)	
Intercompany receivables	46,982		2,573	(49,555)	
Investment in subsidiaries	47,272	8,129		(55,401)	
Total other assets	127,818	95,366	3,533	(117,855)	108,862
Total assets	\$ 170,038	\$ 356,887	\$ 93,497	\$ (117,855)	\$ 502,567
CURRENT LIABILITIES:					
Current maturities of long-term debt	\$	\$ 3,500	\$	\$	\$ 3,500
Trade accounts payable	2,801	33,182	229		36,212
Intercompany payables		49,555		(49,555)	
Accrued liabilities	5,077	60,274	24,084		89,435
Total current liabilities	7,878	146,511	24,313	(49,555)	129,147
LONG-TERM DEBT, less current maturities	150,000	107,660			257,660
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS		9,024			9,024
DEFERRED INCOME TAXES		36,642		(12,899)	23,743
OTHER LONG-TERM LIABILITIES	3,545	32,630	38,203		74,378
STOCKHOLDERS EQUITY:					
Common stock, no par value					
Additional paid-in capital	46,572	165,779	13,927	(179,706)	46,572
Treasury stock	(707)				(707)
Retained (deficit) earnings	(28,515)	(129,127)	17,054	112,073	(28,515)
Accumulated other comprehensive loss, net of tax	(8,735)	(12,232)		12,232	(8,735)

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Total stockholders' equity	8,615	24,420	30,981	(55,401)	8,615
----------------------------	-------	--------	--------	----------	-------

Total liabilities and stockholders' equity
--

\$ 170,038	\$ 356,887	\$ 93,497	\$(117,855)	\$ 502,567
------------	------------	-----------	-------------	------------

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2001
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents	\$ 209	\$ 1,063	\$ 9,271	\$	\$ 10,543
Short-term investments			64,794		64,794
Receivables, net of allowance for doubtful accounts	24	69,112	3,156		72,292
Inventories		5,344	5		5,349
Deferred tax asset - current	31,658	493	252		32,403
Prepayments and other current assets	1,161	17,645	115		18,921
Total current assets	33,052	93,657	77,593		204,302
PROPERTY AND EQUIPMENT, NET	11,743	199,378	3,520		214,641
OTHER ASSETS:					
Goodwill, net	1,515	88,715			90,230
Other	14,404	5,742	4,073		24,219
Deferred tax asset - noncurrent	14,362			(14,362)	
Intercompany receivables	233,827			(233,827)	
Investment in subsidiaries	11,697	8,814		(20,511)	
Total other assets	275,805	103,271	4,073	(268,700)	114,449
Total assets	\$ 320,600	\$ 396,306	\$ 85,186	\$ (268,700)	\$ 533,392
CURRENT LIABILITIES:					
Current maturities of long-term debt	\$ 2,625	\$	\$	\$	\$ 2,625
Trade accounts payable	2,753	37,326	153		40,232
Intercompany payables		230,040	3,787	(233,827)	
Accrued liabilities	7,157	61,460	14,346		82,963
Total current liabilities	12,535	328,826	18,286	(233,827)	125,820
LONG-TERM DEBT, less current maturities	286,523	10			286,533
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS		9,363			9,363
DEFERRED INCOME TAXES		35,745		(14,362)	21,383
OTHER LONG-TERM LIABILITIES	3,545	34,906	33,845		72,296
STOCKHOLDERS' EQUITY:					
Common stock, no par value					
Additional paid-in capital	46,520	91,548	13,849	(105,397)	46,520
Treasury stock	(707)				(707)
Retained (deficit) earnings	(18,894)	(90,158)	19,206	70,952	(18,894)
Accumulated other comprehensive loss, net of tax	(8,922)	(13,934)		13,934	(8,922)

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Total stockholders' equity	<u>17,997</u>	<u>(12,544)</u>	<u>33,055</u>	<u>(20,511)</u>	<u>17,997</u>
Total liabilities and stockholders' equity	<u>\$ 320,600</u>	<u>\$ 396,306</u>	<u>\$ 85,186</u>	<u>\$ (268,700)</u>	<u>\$ 533,392</u>

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATED INCOME STATEMENT
THREE MONTHS ENDED SEPTEMBER 30, 2002
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$ 6,435	\$212,625	\$ 9,490	\$(15,565)	\$ 212,985
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	3,634	114,170			117,804
Operating supplies and expenses	1,941	31,259	57		33,257
Purchased transportation		25,331			25,331
Insurance and claims		10,844	9,130	(9,130)	10,844
Operating taxes and licenses	58	7,580			7,638
Depreciation and amortization	718	12,306	118		13,142
Rents	547	1,136	2		1,685
Communications and utilities	541	882	2		1,425
Other operating expenses	1,048	8,215	64	(6,435)	2,892
Loss on disposal of operating assets, net		160	207		367
Total operating expenses	8,487	211,883	9,580	(15,565)	214,385
Operating (loss) income	(2,052)	742	(90)		(1,400)
OTHER INCOME (EXPENSE):					
Interest expense	(9,007)	(5,581)	(39)	7,016	(7,611)
Interest income	6,966	1	252	(7,016)	203
Gain on early extinguishment of debt					
Other, net	(8)	(41)	149		100
Intercompany dividends	166	(166)			
Equity in (losses) earnings of subsidiaries	(5,415)	156		5,259	
	(7,298)	(5,631)	362	5,259	(7,308)
(LOSS) INCOME BEFORE INCOME TAXES	(9,350)	(4,889)	272	5,259	(8,708)
INCOME TAX BENEFIT (EXPENSE)	2,868	(39)	(603)		2,226
NET (LOSS) INCOME	\$(6,482)	\$ (4,928)	\$ (331)	\$ 5,259	\$ (6,482)

SUPPLEMENTAL CONDENSED CONSOLIDATED INCOME STATEMENT
THREE MONTHS ENDED SEPTEMBER 30, 2001
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$ 2,475	\$203,586	\$ 9,517	\$(11,568)	\$ 204,010
OPERATING EXPENSES:					

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Salaries, wages and fringe benefits	345	118,355			118,700
Operating supplies and expenses	341	33,437	32		33,810
Purchased transportation		23,228			23,228
Insurance and claims		10,680	8,944	(9,093)	10,531
Operating taxes and licenses	1	7,856			7,857
Depreciation and amortization	825	14,137	183		15,145
Rents	544	1,146	1		1,691
Communications and utilities	106	1,192	2		1,300
Other operating expenses	1,612	4,120	38	(2,475)	3,295
Loss on disposal of operating assets, net		24			24
	<u>3,774</u>	<u>214,175</u>	<u>9,200</u>	<u>(11,568)</u>	<u>215,581</u>
Operating (loss) income	<u>(1,299)</u>	<u>(10,589)</u>	<u>317</u>	<u></u>	<u>(11,571)</u>
OTHER INCOME (EXPENSE):					
Equity in earnings of joint ventures, net of tax		862	192		1,054
Interest expense	(8,442)	(8,204)	(61)	7,566	(9,141)
Interest income	7,536	43	411	(7,566)	424
Equity in (losses) earnings of subsidiaries	(17,366)	359		17,007	
	<u>(18,272)</u>	<u>(6,940)</u>	<u>542</u>	<u>17,007</u>	<u>(7,663)</u>
(LOSS) INCOME BEFORE INCOME TAXES					
	<u>(19,571)</u>	<u>(17,529)</u>	<u>859</u>	<u>17,007</u>	<u>(19,234)</u>
INCOME TAX BENEFIT (EXPENSE)					
	<u>6,925</u>	<u>(85)</u>	<u>(252)</u>	<u></u>	<u>6,588</u>
NET (LOSS) INCOME	<u><u>\$ (12,646)</u></u>	<u><u>\$ (17,614)</u></u>	<u><u>\$ 607</u></u>	<u><u>\$ 17,007</u></u>	<u><u>\$ (12,646)</u></u>

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATED INCOME STATEMENT
NINE MONTHS ENDED SEPTEMBER 30, 2002
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$ 11,505	\$ 664,108	\$ 28,509	\$ (38,894)	\$ 665,228
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	7,069	356,784			363,853
Operating supplies and expenses	2,728	97,198	142		100,068
Purchased transportation		72,438			72,438
Insurance and claims		34,342	27,391	(27,389)	34,344
Operating taxes and licenses	166	24,565			24,731
Depreciation and amortization	2,228	37,504	355		40,087
Rents	1,394	3,496	5		4,895
Communications and utilities	867	4,415	8		5,290
Other operating expenses	2,904	15,923	285	(11,505)	7,607
Gain on disposal of operating assets, net		(554)	207		(347)
Total operating expenses	17,356	646,111	28,393	(38,894)	652,966
Operating (loss) income	(5,851)	17,997	116		12,262
OTHER INCOME (EXPENSE):					
Interest expense	(29,136)	(13,763)	(171)	19,727	(23,343)
Interest income	19,580	35	1,202	(19,727)	1,090
Gain on early extinguishment of debt	2,750				2,750
Other, net	(8)	(41)	(58)		(107)
Intercompany dividends	1,144	(1,144)			
Equity in (losses) earnings of subsidiaries	(1,175)	289		886	
	(6,845)	(14,624)	973	886	(19,610)
(LOSS) INCOME BEFORE INCOME TAXES & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(12,696)	3,373	1,089	886	(7,348)
INCOME TAX BENEFIT (EXPENSE)	3,075	933	(2,189)		1,819
(LOSS) INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(9,621)	4,306	(1,100)	886	(5,529)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX		(4,092)			(4,092)
NET (LOSS) INCOME	\$ (9,621)	\$ 214	\$ (1,100)	\$ 886	\$ (9,621)

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATED INCOME STATEMENT
NINE MONTHS ENDED SEPTEMBER 30, 2001
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$ 7,425	\$671,111	\$ 28,550	\$(34,702)	\$ 672,384
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	7,791	383,215			391,006
Operating supplies and expenses	1,316	113,746	85		115,147
Purchased transportation		75,190			75,190
Insurance and claims		38,382	26,483	(27,277)	37,588
Operating taxes and licenses	94	24,896			24,990
Depreciation and amortization	2,550	42,361	539		45,450
Rents	1,585	3,764	4		5,353
Communications and utilities	218	5,026	8		5,252
Other operating expenses	5,218	12,943	172	(7,425)	10,908
Gain on disposal of operating assets, net		(2,719)			(2,719)
Total operating expenses	18,772	696,804	27,291	(34,702)	708,165
Operating (loss) income	(11,347)	(25,693)	1,259		(35,781)
OTHER INCOME (EXPENSE):					
Equity in earnings of joint ventures, net of tax		3,299	294		3,593
Interest expense	(25,511)	(24,336)	(157)	23,010	(26,994)
Interest income	23,031	155	1,838	(23,010)	2,014
Intercompany dividends	1,980	(1,980)			
Equity in (losses) earnings of subsidiaries	(45,483)	775		44,708	
	(45,983)	(22,087)	1,975	44,708	(21,387)
(LOSS) INCOME BEFORE INCOME TAXES	(57,330)	(47,780)	3,234	44,708	(57,168)
INCOME TAX BENEFIT (EXPENSE)	20,106	827	(989)		19,944
NET (LOSS) INCOME	\$(37,224)	\$(46,953)	\$ 2,245	\$ 44,708	\$(37,224)

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2002
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	\$ (9,621)	\$ 214	\$ (1,100)	\$ 886	\$ (9,621)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Gain on early extinguishment of debt	(2,750)				(2,750)
Interest expense paid in kind		746			746
Amortization of deferred financing costs	3,013				3,013
Depreciation and amortization	2,228	37,504	355		40,087
Gain on disposal of assets and other, net		(240)			(240)
Cumulative effect of change in accounting principle		5,194			5,194
Deferred income taxes	704	(3,800)	(575)		(3,671)
Compensation expense related to stock options and grants	(210)				(210)
Equity in earnings of joint ventures					
Equity in earnings of subsidiaries	1,175	(289)		(886)	
Amortization of Teamsters Union signing bonus		1,800			1,800
Change in operating assets and liabilities:					
Receivables, net of allowance for doubtful accounts	24	11,826	426		12,276
Inventories		50	5		55
Prepayments and other current assets	(635)	2,136	55		1,556
Trade accounts payable	48	(4,181)	76		(4,057)
Intercompany payables	186,845	(180,485)	(6,360)		
Accrued liabilities	(2,080)	(3,483)	14,096		8,533
Total adjustments	188,362	(133,222)	8,078	(886)	62,332
Net cash provided by (used in) operating activities	178,741	(133,008)	6,978		52,711
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(6)	(13,303)	(4)		(13,313)
Intercompany sale of property and equipment	(2)	2			
Proceeds from sale of property and equipment		3,005			3,005
Proceeds from sale of equity investment in joint venture			2,700		2,700
Capital contribution	(73,178)	73,100	78		
Return of capital	40,881	(39,829)	(1,052)		
Increase in short-term investments			2,367		2,367
Increase in cash surrender value of life insurance	1,341				1,341
Net cash provided by (used in) investing activities	(30,964)	22,975	4,089		(3,900)
CASH FLOWS FROM FINANCING ACTIVITIES:					
(Repayments) additions to revolving credit facilities, net	(98,900)	36,516			(62,384)

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Additions to long-term debt		82,750			82,750
Repayment of long-term debt	(37,498)	(8,862)			(46,360)
Payment of deferred financing costs	(9,262)				(9,262)
Proceeds from issuance of common stock	262				262
Other, net	(2,588)	2,837	300		549
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by financing activities	(147,986)	113,241	300		(34,445)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		16			16
NET INCREASE IN CASH AND CASH EQUIVALENTS	(209)	3,224	11,367		14,382
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>209</u>	<u>1,063</u>	<u>9,271</u>	<u> </u>	<u>10,543</u>
					<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
		4,287	20,638		24,925
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2001
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	\$ (37,224)	\$ (46,953)	\$ 2,245	\$ 44,708	\$ (37,224)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Amortization of deferred financing costs	2,906				2,906
Depreciation and amortization	2,550	42,361	539		45,450
Gain on sale of property and equipment		(2,719)			(2,719)
Deferred income taxes	(19,657)	(51)	331		(19,377)
Compensation expense related to stock options and grants	207				207
Equity in earnings of joint ventures		(3,299)	(294)		(3,593)
Equity in losses of subsidiaries	45,483	(775)		(45,483)	
Amortization of Teamsters Union signing bonus		1,802			1,802
Change in operating assets and liabilities:					
Receivables, net of allowance for doubtful accounts	782	20,102	(2,694)		18,190
Inventories		730	(10)		720
Prepayments and other current assets	212	(3,215)	2,181		(822)
Trade accounts payable	1,291	(7,950)	(362)		(7,021)
Intercompany payables	(13,610)	12,878	732		
Accrued liabilities	(716)	(4,592)	11,336		6,028
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total adjustments	19,448	55,272	11,759	(45,483)	41,771
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) provided by operating activities	(17,776)	8,319	14,004	(775)	4,547
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(67)	(17,552)	(655)		(18,274)
Intercompany sale of property and equipment	1,403	(1,403)			
Proceeds from sale of property and equipment		4,832			4,832
Investment in joint venture			(464)		(464)
Cash received from joint ventures		3,578			3,578
Intercompany dividend received (paid)	1,980	(1,980)			
Increase in short-term investments			(4,864)		(4,864)
Increase in cash surrender value of life insurance	(360)				(360)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash provided by (used in) investing activities	2,956	(12,525)	(5,983)		(15,552)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:					
(Repayments) additions to revolving credit facilities, net	21,739	1,848			23,587
Additions to long-term debt					
Repayment of long-term debt		(107)			(107)
Payment of deferred financing costs	(2,663)				(2,663)

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Proceeds from issuance of common stock	303				303
Other, net	(3,488)	2,498	683		(307)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash provided by financing activities	15,891	4,239	683		20,813
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		303	(235)		68
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,071	336	8,469	(775)	9,876
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(1,213)	2,063	1,523		2,373
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ (142)	\$ 2,399	\$ 9,992	\$	\$ 12,249
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

The following table sets forth the percentage relationship of expense items to revenues for the periods indicated:

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Revenues	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Salaries, wages and fringe benefits	55.3	58.2	54.7	58.1
Operating supplies and expenses	15.6	16.6	15.1	17.1
Purchased transportation	11.9	11.4	10.9	11.2
Insurance and claims	5.1	5.2	5.2	5.6
Operating taxes and licenses	3.6	3.9	3.7	3.7
Depreciation and amortization	6.2	7.4	6.0	6.8
Rents	0.8	0.8	0.8	0.8
Communications and utilities	0.7	0.6	0.8	0.8
Other operating expenses	1.3	1.6	1.1	1.6
Loss (gain) on sale of operating assets	0.2	0.0	(0.1)	(0.4)
Total operating expenses	(100.7)	(105.7)	(98.2)	105.3
Operating (loss) income	(0.7)	(5.7)	1.8	(5.3)
Other income (expense):				
Equity in earnings of joint ventures, net of tax	0.0	0.5	0.0	0.5
Interest expense	(3.5)	(4.4)	(3.5)	(4.0)
Interest income	0.1	0.2	0.2	0.3
Gain on early extinguishment of debt	0.0	0.0	0.4	0.0
Other, net	0.0	0.0	0.0	0.0
	(3.4)	(3.7)	(2.9)	(3.2)
Loss before income taxes and cumulative effect of change in accounting principle	(4.1)	(9.4)	(1.1)	(8.5)
Income tax benefit	1.1	3.2	0.3	3.0
Loss before cumulative effect of change in accounting principle	(3.0)	(6.2)	(0.8)	(5.5)
Cumulative effect of change in accounting Principle, net of tax	0.0	0.0	(0.6)	0.0
Net loss	(3.0)%	(6.2)%	(1.4)%	(5.5)%

Three and Nine Months Ended September 30, 2002 compared to Three and Nine Months Ended September 30, 2001

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

Revenues were \$213.0 million for the third quarter of 2002 versus revenues of \$204.0 million for the third quarter of 2001, an increase of \$9.0 million, or 4.4%. For the nine-month period ended September 30, 2002, revenues were \$665.2 million, versus revenues of \$672.4 million for the nine-month period ended September 30, 2001, a decrease of \$7.2 million, or 1.1%.

The increase in revenues in the third quarter of 2002 over the third quarter of 2001 was due to an increase in the number of vehicle deliveries, which resulted from higher original equipment manufacturer (OEM) production

Table of Contents

as well as from new market share obtained in 2002. The decrease in revenues for the nine-month period ended September 30, 2002 versus the nine-month period ended September 30, 2001 was due to a decline in vehicle deliveries overall which resulted primarily from the decision to exit non-performing locations (locations with financial losses and/or high risk management exposure) in 2001 and during 2002. Offsetting the impact on revenues from the volume decline was an increase in the Allied Automotive Group revenue per unit. This increase is primarily the result of the implementation by Allied Automotive Group of a new administrative processing fee in September 2001.

The net loss was \$6.5 million during the third quarter of 2002 versus a net loss of \$12.6 million during the third quarter of 2001. Basic and diluted loss per share in the third quarter of 2002 were \$0.78 versus basic and diluted loss per share of \$1.56 in the third quarter of 2001. For the nine-month period ended September 30, 2002, the Company experienced a net loss of \$9.6 million versus a net loss of \$37.2 million for the nine-month period ended September 30, 2001. Basic and diluted loss per share were \$0.67 for the nine-month period ended September 30, 2002 versus basic and diluted loss per share of \$4.60 for the nine-month period ended September 30, 2001. The net loss for the nine-month period ended September 30, 2002 included a \$1.7 million after-tax gain on the early extinguishment of the Company's subordinated notes and a \$4.1 million after-tax charge related to the impairment of goodwill at the Company's Axis Group subsidiary. The impairment charge resulted from the Company's adoption of SFAS 142 as described below. The net loss for the nine month period ended September 30, 2001 included after-tax charges of \$4.6 million for severance and workforce reduction expenses as well as an after-tax gain of \$1.5 million on the disposition of excess real estate and other assets in Canada.

Earnings before interest, taxes, depreciation and amortization, and gains and losses on disposal of assets (EBITDA) were \$12.1 million during the third quarter of 2002 versus \$3.6 million during the third quarter of 2001. For the nine-month period ended September 30, 2002 EBITDA was \$52.0 million versus \$7.0 million for the nine-month period ended September 30, 2001. The significant improvement in EBITDA was due primarily to the ongoing execution of the Company's turnaround initiatives related to improved revenue quality, driver productivity, workforce reductions, the elimination of non-contributory expenses and assets, and improvement in workers compensation and cargo claims expenses.

The following is a discussion of the changes in the Company's major expense categories:

Salaries, wages and fringe benefits decreased from 58.2% of revenues in the third quarter of 2001 to 55.3% of revenues in the third quarter of 2002, and from 58.1% of revenues for the nine-month period ended September 30, 2001 to 54.7% of revenues for the nine-month period ended September 30, 2002. The decrease was primarily due to continued productivity and efficiency improvements implemented as part of the Company's turnaround initiatives. In addition, the Company incurred \$7.2 million of workforce reduction expenses for the nine-month period ended September 30, 2001 compared to \$1.4 million of such expenses in 2002. The workforce reduction expense was part of the Company's turnaround initiatives.

Operating supplies and expenses decreased from 16.6% of revenues in the third quarter of 2001 to 15.6% of revenues in the third quarter of 2002, and decreased from 17.1% of revenues for the nine-month period ended September 30, 2001 to 15.1% of revenues for the nine-month period ended September 30, 2002. The decrease was due primarily to a decrease in fuel costs experienced in the first nine months of 2002 versus 2001, combined with a reduction in the maintenance costs of rigs in service. The decreased maintenance costs are a result of the Company operating approximately 9.1% fewer rigs in the third quarter of 2002 as well as improved efficiency in its field operations, including 46 dedicated garage operations managed by the Company. These efforts are consistent with the Company's turnaround initiatives.

Purchased transportation increased from 11.4% of revenues in the third quarter of 2001 to 11.9% of revenues in the third quarter of 2002, and decreased from 11.2% of revenues for the nine-month period ended September 30, 2001 to 10.9% of revenues for the nine-month period ended September 30, 2002. The increase in the third

Table of Contents

quarter 2002 over the third quarter of 2001 was due to a shift in the mix of owner-operators versus company drivers and an increase in business at locations where owner-operators are utilized for vehicle deliveries. The decrease for the nine-month period ended September 30, 2002 versus the nine-month period ended September 30, 2001 was due primarily to a decrease in the number of owner-operators overall, which resulted from the closing of unprofitable terminals in the fourth quarter of 2001 that utilized owner-operators.

Insurance and claims expense decreased from 5.2% of revenues in the third quarter of 2001 to 5.1% of revenues in the third quarter of 2002, and decreased from 5.6% of revenues for the nine-month period ended September 30, 2001 to 5.2% of revenues for the nine-month period ended September 30, 2002. The decrease was a result of lower cargo claims experienced on shipping vehicles as well as a reduction in auto liability claims costs. The Company is aggressively managing these costs as part of its on-going turnaround plan.

Depreciation and amortization expense decreased from 7.4% of revenues in the third quarter of 2001 to 6.2% of revenues in the third quarter of 2002, and decreased from 6.8% of revenues for the nine-month period ended September 30, 2001 to 6.0% of revenues for the nine-month period ended September 30, 2002. The decrease is due primarily to the sale of non-performing assets during 2001 and reduced capital expenditures in 2002. The remaining decrease is due to the reduction of amortization expense resulting from the Company's adoption of SFAS No. 142,

Goodwill and Other Intangibles which became effective January 1, 2002. During the third quarter of 2001, the Company recorded \$0.9 million of amortization expense and \$2.7 million for the nine-month period ended September 30, 2001 related to goodwill.

Other operating expenses decreased from 1.6% of revenues in the third quarter of 2001 to 1.3% of revenues in the third quarter of 2002, and decreased from 1.6% of revenues for the nine-month period ended September 30, 2001 to 1.1% of revenues for the nine-month period ended September 30, 2002. The decrease was due primarily to overall lower professional fees for consultants. During 2001, the Company engaged outside consultants, including Jay Alix and Associates, to aid in the planning and analysis of its turnaround initiatives and the refinancing of its revolving credit facility and subordinated debt.

Gain/loss on disposition of assets increased from a loss of \$24 thousand in the third quarter of 2001 to a loss of \$367 thousand in the third quarter of 2002, and decreased from a gain of \$2.7 million for the nine-month period ended September 30, 2001 to a gain of \$300 thousand for the nine-month period ended September 30, 2002. As part of the Company's turnaround initiatives, the Company has disposed of non-performing assets, primarily in the second quarter of 2001.

Equity in earnings of joint ventures, net of tax, decreased to \$0 in the third quarter of 2002 and for the nine-month period ended September 30, 2002, from earnings of \$1.1 million in the third quarter of 2001 and \$3.6 million for the nine-month period ended September 30, 2001. The decrease is due to the sale of the Company's joint venture interest in the United Kingdom in the fourth quarter of 2001 and the sale of its joint venture interest in Brazil in the second quarter of 2002.

Interest expense decreased from 4.4% of revenues in the third quarter of 2001 to 3.5% of revenues in the third quarter of 2002, and decreased from 4.0% of revenues for the nine-month period ended September 30, 2001 to 3.5% of revenues for the nine-month period ended September 30, 2002. The decrease was due to higher debt levels and effective interest rates in 2001 versus 2002, as well as the incurrence in 2001 of additional costs related to the amendment of the Company's revolving credit facility and its senior subordinated notes.

The income tax benefit decreased from \$6.6 million in the third quarter of 2001 to \$2.2 million in the third quarter of 2002, and decreased from \$19.9 million for the nine-month period ended September 30, 2001 to \$1.8 million, excluding taxes on extraordinary item, for the nine-month period ended September 30, 2002. The decrease was due to increased pre-tax income and a change in the effective tax rate resulting from additional valuation allowances that were established in relation to foreign tax credits that are not expected to be realized.

Table of Contents

The adoption of SFAS No. 142 is a required change in accounting principle, and the cumulative effect of adopting this standard as of January 1, 2002 resulted in a non-cash, after-tax decrease to net income of \$4.1 million for the Company. Pursuant to the adoption of SFAS No. 142, the Company will annually test goodwill for impairment.

The adoption of SFAS No. 145 required that the after-tax gain of \$1.7 million on the early extinguishment of debt the Company recorded during the first quarter of 2002 be reclassified from an extraordinary item, net of tax, to other income of \$2.8 million, before tax.

As part of the Company's turnaround efforts in the first quarter of 2002, the Allied Holdings Inc. Defined Benefit Pension Plan was amended in February 2002 to freeze the Plan. The amendment resulted in a curtailment of the Plan effective April 30, 2002, under which employees do not accumulate any new benefits and new employees are not added to the Plan. The Company's net pension expense for 2001 was \$2.6 million. As a result of freezing the Plan, the Company expects net pension expense to be \$304,000 for 2002.

Financial Condition, Liquidity and Capital Resources

The Company's sources of liquidity are funds provided by operations and borrowings under its revolving credit facility with a syndicate of lenders. The Company's primary liquidity needs are for the remanufacturing and maintenance of rigs and terminal facilities, the payment of operating expenses and the payment of interest and principal associated with long-term debt.

Net cash provided by operating activities totaled \$52.7 million for the nine-month period ended September 30, 2002, versus \$4.5 million for the nine-month period ended September 30, 2001. The increase was due primarily to improved results from operations that decreased the loss before income taxes and cumulative change in accounting principle of \$57.2 million for the first nine months of 2001 to \$7.3 million for the first nine months of 2002.

Net cash used in investing activities totaled \$3.9 million for the nine-month period ended September 30, 2002, versus \$15.6 million for the nine-month period ended September 30, 2001. Cash paid to purchase capital items decreased from \$18.3 million in the first nine months of 2001 to \$13.3 million in the first nine months of 2002. The Company has embarked on a significant fleet remanufacturing program that is expected to enable the Company to upgrade up to 15% of its active fleet in 2002. The fleet remanufacturing program is being implemented slowly to ensure quality of the remanufactured rigs and therefore capital expenditures are weighted more towards the end of the year. The Company anticipates capital expenditures of approximately \$25 million in calendar year 2002, which is driven primarily by the fleet remanufacturing program, compared to capital expenditures of \$21.5 million in 2001. In addition, short-term investments held by the Company's captive insurance company increased by \$4.9 million during the first nine months of 2001, but decreased by \$2.4 million during the first nine months of 2002. During 2002, the captive insurance company has maintained a larger percentage of its assets in cash and cash equivalents versus short-term investments.

Net cash used in financing activities totaled \$34.4 million for the nine-month period ended September 30, 2002, versus net cash provided by financing activities of \$20.8 million for the nine-month period ended September 30, 2001. During the first nine months of 2002, long-term debt was reduced by \$28.0 million, compared to borrowings of long-term debt of \$23.5 million in the first nine-months of 2001. The repayment of debt was primarily due to a reduction in the net loss experienced by the Company and lower working capital requirements. Contributing to the increase in cash provided by operations were the proceeds from the sale of the investment in the joint venture in Brazil and \$1.3 million received from the conversion of insurance policies.

Table of Contents

The Company also paid \$9.2 million in deferred financing costs related to the refinancing of its revolving credit facility and the repurchase of its senior subordinated notes.

As part of the Company's Credit Facility, as described in Note 9, the Revolver and Term Loans A, B, and C mature on February 25, 2005. Term Loan D matures on February 26, 2005 and the Notes mature on October 1, 2007. As part of the debt agreements governing these Term Loans, the repayment of Term Loan A includes eleven installment payments with the outstanding balance due at maturity and the repayment of Term Loan B includes 5 installment payments with the outstanding balance due at maturity. Term Loans C and D, as well as the Notes, are to be repaid in full at maturity. For more comprehensive information regarding the outstanding balances at September 30, 2002 and the related interest rates, refer to Note 9.

The Company began trading its common stock on the American Stock Exchange (AMEX) under the symbol AHI, effective April 8, 2002. The Company's common stock was previously listed on the New York Stock Exchange (NYSE). As previously announced, the Company no longer met the NYSE's requirements for continued listing and had been operating under a plan that was approved by the NYSE in August 2001. The plan was to bring the Company's total market capitalization and shareholders' equity above NYSE's continued listing requirement of \$50 million by November 29, 2002. The Company believes, however, that the change to AMEX better allows for management of the business without the uncertainty and distractions associated with meeting NYSE standards. Management does not expect a significant change in shareholder liquidity as a result of the move to the AMEX.

Management anticipates that the Company's existing capital resources, cash flow generated from future operations and drawings under the Credit Facility will enable it to maintain its planned operations, capital expenditures and debt service for the foreseeable future. Also, as described further in Part II of this report, the Company is involved in various litigation matters, including the Gateway Development & Manufacturing case and the Commercial Carriers, Inc. case. While it is not possible to predict the outcome of litigation against the Company and while the Company believes that these claims are without merit, if this litigation is resolved in a manner that is adverse to the Company, it could have a material adverse effect on the Company's consolidated financial position and significantly increase the Company's need for additional liquidity.

Quantitative and Qualitative Disclosures about Market Risk

Disclosures About Market Risks

The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in short-term investment prices, interest rates, fuel prices, and foreign currency exchange rates.

Short-term Investments The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines. The policy also limits the amount of credit exposure to any one issue, issuer, and type of instrument. Short-term investments at September 30, 2002, which are recorded at fair value of \$62.4 million, have exposure to price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in quoted prices and amounts to \$6.2 million as of September 30, 2002.

Interest Rates The Company primarily issues long-term debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Senior Notes of the Company's long-term debt obligations bear a fixed rate of interest while the rates for the Revolving Credit Facility and Term Loans are variable, based on a fixed percent and the prime rate. A one-percentage point increase in interest rates affecting the Company's floating rate long-term debt would reduce pre-tax income by \$1.1 million over the next

Table of Contents

fiscal year. A one-percentage point change in interest rates would not have a material effect on the fair value of the Company's fixed rate long-term debt.

Fuel Prices Allied Automotive Group is dependent on diesel fuel to operate its fleet of Rigs. Diesel fuel prices are subject to fluctuations due to unpredictable factors such as weather, government policies, changes in global demand, and global production. To reduce price risk caused by market fluctuations, Allied Automotive Group periodically purchases fuel in advance of consumption. A 10% increase in diesel fuel prices would reduce pre-tax income by \$3.6 million over the next fiscal year assuming 2002 levels of fuel consumption.

Foreign Currency Exchange Rates Although the majority of the Company's operations are in the United States, the Company does have foreign subsidiaries (primarily Canada). The net investments in foreign subsidiaries translated into dollars using exchange rates at September 30, 2002, are \$73.5 million. The potential loss in fair value impacting other comprehensive income resulting from a hypothetical 10% change in quoted foreign currency exchange rates amounts to \$7.4 million as of September 30, 2002. At September 30, 2002 a receivable balance of \$13.3 million related to intercompany transactions was recorded on the Company's Canadian subsidiary. The potential loss from a hypothetical 10% change in quoted foreign currency exchange rates related to this balance amounts to \$1.3 million as of September 30, 2002. The Company does not use derivative financial instruments to hedge its exposure to changes in foreign currency exchange rates.

Revenue Variability The Company's revenues are variable and can be impacted by sudden unexpected changes in Original Equipment Manufacturer production levels. In addition, the Company's revenues are seasonal, with the second and fourth quarters generally experiencing higher revenues than the first and third quarters. The volume of vehicles shipped during the second and fourth quarters is generally higher due to the introduction of new models which are shipped to dealers during those periods, and the generally higher spring and early summer sales of automobiles and light trucks. During the first and third quarters, vehicle shipments typically decline due to lower sales volume during those periods and scheduled plant shut downs. Except for the impact of fuel cost fluctuations discussed herein, inflation has not significantly affected the Company's results of operations.

Critical Accounting Policies

The Company has certain critical accounting policies that are important to the portrayal of financial condition and results of operation. These critical accounting policies require subjective or complex judgments. The Company's critical accounting policies include claims and insurance reserves, accounts receivable valuation reserves and the income tax valuation reserve.

CLAIMS AND INSURANCE RESERVES Reserves for self-insured workers' compensation, automobile, and general liability losses are subject to actuarial estimates based on historical claims experience adjusted for current industry trends. The Company receives third-party actuarial valuations to assist in the determination of its claims and insurance reserves. The actuarial estimates for self-insured workers compensation and automobile liability are discounted using management's estimate of weighted risk free interest rates for each claim year to their present values. The claims and insurance reserves are adjusted periodically as such claims mature to reflect changes in actuarial estimates based on actual experience.

ACCOUNTS RECEIVABLE VALUATION RESERVES Substantially all revenue is derived from transporting new automobiles and light trucks from manufacturing plants, ports, auctions, and railway distribution points to automobile dealerships. Revenue is recorded when the vehicles are delivered to the dealerships. The Company makes significant estimates to determine the collectibility of its accounts receivable on the balance sheet. Estimates include periodic evaluations of the credit worthiness of customers including the impact of market and economic conditions on their viability to satisfy amounts owed to the Company. In

Table of Contents

addition, estimates include assessments of the potential for customer billing adjustments based on the timing of delivery, the accuracy of pricing, as well as evaluation of the historical aging of customer accounts.

ACCOUNTING FOR INCOME TAXES As part of the process of preparing the Company's consolidated financial statements the Company is required to estimate income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not likely, the Company must establish a valuation allowance. To the extent the Company establishes a valuation allowance or increases this allowance in a period, the Company must include an expense within the tax provision in the statements of operations.

Significant management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against the net deferred tax assets. The Company has recorded a valuation allowance of \$5.3 million as of September 30, 2002 due to uncertainties related to the Company's ability to utilize some of the deferred tax assets, primarily consisting of certain net operating losses carried forward and foreign tax credits, before they expire. The valuation allowance is based on management's estimate of taxable income by jurisdiction in which the Company operates and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact the financial position and results of operations.

The net deferred tax asset as of September 30, 2002 was \$14.6 million, net of a valuation allowance of \$5.3 million.

GOODWILL The Company adopted SFAS 142 as of January 1, 2002. Pursuant to adoption, goodwill is no longer amortized but is evaluated annually for impairment, or on an interim basis if an event occurs or circumstances change that would reduce the fair value of goodwill below its carrying value. The fair value of goodwill is derived by using a discounted cash flow analysis. This analysis involves estimates and assumptions by management regarding future revenue streams and expenses. Changes to these assumptions and estimates could have a material effect on the carrying value of goodwill and result in an impairment charge in the Company's consolidated statements of operations.

Cautionary Notice Regarding Forward-Looking Statements - This Quarterly Report on Form 10-Q contains, and from time to time the Company and its officers, directors or employees may make other forward-looking statements, including statements regarding, among other items, (i) the Company's plans, intentions or expectations, (ii) general industry trends, competitive conditions and customer preferences, (iii) the Company's management information systems, (iv) the Company's efforts to reduce costs, (v) the adequacy of the Company's sources of cash to finance its current and future operations and (vi) resolution of litigation without material adverse effect on the Company. This notice is intended to take advantage of the "safe harbor" provided by the Private Securities Litigation Reform Act of 1995 with respect to such forward-looking statements. Without limiting the generality of the foregoing, the words believe, anticipate, seek, expect, estimate, intend, plan, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve a number of risks and uncertainties. Among others, factors that could cause actual results to differ materially from historical results or results expressed or implied by such forward-looking statements are the following: economic recessions or downturns in new vehicle production or sales; the highly competitive nature of the automotive distribution industry; dependence on the automotive industry; the impact of recent price increases implemented by the Company on the Company's market share; loss or reduction of revenues generated by the Company's major customers or the loss of any such customers; ability of the

Table of Contents

Company to negotiate contracts expiring in the future with customers and Union representatives of its employees on terms favorable to the Company; the variability of quarterly results and seasonality of the automotive distribution industry; the Company's highly leveraged financial position; labor disputes involving the Company or its significant customers; the dependence on key personnel who have been hired or retained by the Company; the availability of strategic acquisitions or joint venture partners; increases in fuel prices; increased frequency and severity of work related accidents and workers' compensation claims; availability of appropriate insurance coverage; increased expenses due to layoffs of employees; changes in regulatory requirements, including environmental regulations, which are applicable to the Company's business; changes in vehicle sizes and weights which may adversely impact vehicle deliveries per load; risks associated with doing business in foreign countries; and other risk factors set forth from time to time in the Company's Securities and Exchange Commission reports, including but not limited to, this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. Many of these factors are beyond the Company's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. The Company disclaims any obligation to update or review any forward-looking statements contained in this Quarterly Report or in any statement referencing the risk factors and other cautionary statements set forth in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information required under this item is provided under the caption "Disclosures about Market Risks" under Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls within 90 days prior to the filing date of this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner of material information required to be included in the Company's periodic Securities and Exchange Commission filings. Since the evaluation date, no significant changes were made to the Company's internal controls or other factors that could significantly affect these controls.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is involved in various litigation and environmental matters relating to employment practices, damages, and other matters arising from operations in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, other than those discussed below, will not have a material adverse effect on the Company's financial position or results of operations.

Table of Contents

Gateway Development & Manufacturing, Inc. v. Commercial Carriers, Inc., et al., Index No. 1997/8920 (***the Gateway Case***) and ***Commercial Carriers, Inc. v. Gateway Development & Manufacturing, Inc., et al.*** (***the CCI Case***), Index No. 12000/8184. The claims at issue in both the Gateway Case and the CCI case center around the contention that the Company breached legal duties with respect to a failed business transaction involving Gateway Development & Manufacturing, Inc., Ryder Truck Rental, Inc. and Ryder System, Inc. In the Gateway Case, the Company sought and received summary judgment in its favor on the sole claim (for tortious interference with contract) asserted against it by Gateway Development & Manufacturing, Inc., but that ruling was reversed on appeal. While the appellate court held that summary judgment in favor of the Company was premature, the Company will be permitted to raise at trial and/or further dispositive motions the substantive arguments upon which its initial summary judgment motion was based. Subsequent to its summary judgment ruling, the trial court permitted the filing and service of cross-claims against the Company by the other defendants in that action. In the CCI Case, the Company has accepted service of a separate complaint asserting claims against the Company by the other defendants in the Gateway Case. It is anticipated that the claims asserted in both the Gateway Case and the CCI Case will be resolved in a unified proceeding. With respect to the entirety of this litigation, the Company intends to continue its vigorous defense against the claims asserted against it, as management believes all of those claims are without merit. While the ultimate results of this litigation cannot be predicted, if this litigation is resolved in a manner that is adverse to the Company, it could have a material adverse effect on the Company's consolidated financial position or results of operations.

Ryder System, Inc. v. Allied Holdings, Inc., AH Acquisition Corp. and Allied Automotive Group, Inc., Case No. 01-3553-CIV-HUCK in the United States District Court for the Southern District of Florida, relates to the Company's August 1997 stock acquisition of certain corporations wholly owned by Ryder. Through that acquisition, the Company agreed to assume financial responsibility for certain third-party injury claims arising on or before the August 1997 closing date. Ryder's original complaint was filed on August 16, 2001. In response, the Company moved to dismiss, and the court granted that motion with leave for Ryder to amend its complaint. On December 26, 2001, Ryder timely filed its amended complaint. Following the dismissal with prejudice of one of the counts asserted by Ryder, Ryder filed, on or about August 1, 2002, a Second Amended Complaint. Ryder's five-count Second Amended Complaint alleges, in Count one, that the Company breached its agreement with Ryder by failing to undertake certain actions (including posting letters of credit and bonds) to substitute the Company for Ryder under an insurance policy covering third-party claims and with various states' agencies that regulate matters such as self-insured workers' compensation. In Counts two and three, the Second Amended Complaint alleges that if these obligations are not required by contract, the legal doctrines of promissory estoppel and negligent misrepresentation created them. In Count four, the Second Amended Complaint seeks a declaration that the Company is required to undertake these actions. In Count Five, Ryder seeks a declaration that the Company is obligated to take certain steps to transfer from Ryder to the Company the ownership and administrative responsibility for two pension plans. The Company intends to continue its vigorous defense against the claims asserted against it, as management believes all of those claims are without merit. The Company has also raised several counterclaims. The ultimate results of this litigation cannot be predicted. However, if Ryder prevails on its claims and the court orders the Company to substitute itself for Ryder by, among other things, posting substantial letters of credit, it could have a material adverse effect on the Company's consolidated financial position or results of operations.

Table of Contents

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits	Description
10.1*	Amendment No. 2 to Agreement between Allied Automotive Group, Inc. and UPS Autogistics, Inc., dated September 30, 2002.

* Confidential treatment requested as to certain omitted portions of this exhibit, which portions have been filed separately with the SEC.

(b) Reports on Form 8-K:

On July 3, 2002, the Allied Holdings, Inc. 401(k) Retirement Plan filed with the Commission a Current Report on Form 8-K regarding the dismissal of its independent public accountants, Arthur Andersen LLP and the engagement of KPMG LLP as its new independent auditors.

Table of Contents

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.

11/13/2002	Allied Holdings, Inc.
_____ (Date)	<u>/s/Hugh E. Sawyer</u> Hugh E. Sawyer on behalf of Registrant as President and Chief Executive Officer
11/13/2002	<u>/s/Daniel H. Popky</u>
_____ (Date)	Daniel H. Popky on behalf of Registrant as Senior Vice President, Finance And Chief Financial Officer

Table of Contents

CERTIFICATIONS

I, Daniel H. Popky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allied Holdings, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses,

11/13/02

Date

/s/ Daniel H. Popky

Daniel H. Popky
Senior Vice President
Finance and Chief Financial Officer

Table of Contents

CERTIFICATIONS

I, Hugh E. Sawyer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Allied Holdings, Inc;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

11/13/02

Date

/s/ Hugh E. Sawyer

Hugh E. Sawyer
President and Chief Executive Officer