

ALLIED HOLDINGS INC
Form 10-Q
November 13, 2001

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, 2001**

or
TRANSITION
REPORT
PURSUANT
TO SECTION
13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934
For the
transition
period from
_____ to

Commission
File Number:
0-22276

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

Outstanding common stock, No par value at October 29, 2001 8,285,015

TOTAL NUMBER OF PAGES INCLUDED IN THIS REPORT: 26

TABLE OF CONTENTS

PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings.

Item 5. Other Information.

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

SIGNATURES

Agreement between Allied Automotive Group

Agreement between Allied Automotive Group, Inc.

Table of Contents

INDEX

PART I

FINANCIAL INFORMATION

PAGE

ITEM 1: FINANCIAL STATEMENTS

Consolidated
Balance Sheets as
of September 30,
2001 and
December 31,
2000

3

Consolidated
Statements of
Operations for the
Three and Nine
Month Periods
Ended
September 30,
2001 and 2000

4

Consolidated
Statements of Cash
Flows for the Nine
Month Periods
Ended
September 30,
2001 and 2000

5 Notes to
Consolidated
Financial
Statements 6**ITEM**
2

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

19 **PART**

**II OTHER
INFORMATION**

1 Legal
Proceedings 25**ITEM**

5 Other
Information 25**ITEM**

6 Exhibits and
Reports on
Form 8-K 25
Signature Page 26

Table of Contents

PART 1 FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands)

September 30 2001	December 31 2000
-------------------------	------------------------

(Unaudited)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$12,249	\$2,373
Short-term investments	64,756	59,892
Receivables, net of allowance for doubtful accounts	94,789	114,266
Inventories	6,610	7,415
Deferred tax assets	11,968	10,191
Prepayments and other current assets	20,036	19,355

Total current assets	210,408	213,492
----------------------	---------	---------

**PROPERTY AND EQUIPMENT,
NET**

	231,073	259,362
--	---------	---------

OTHER ASSETS:

Goodwill, net
91,303 95,159
Other
43,387 42,526

Total other assets
134,690 137,685

Total assets
\$576,171 \$610,539

**LIABILITIES AND
STOCKHOLDERS EQUITY**

CURRENT LIABILITIES:

Current maturities of long-term debt
\$158,462 \$109
Trade accounts payable
38,658 45,975
Accrued liabilities
81,969 79,487

Total current liabilities
279,089 125,571

**LONG-TERM DEBT, less current
maturities**

190,003 324,876

**POSTRETIREMENT BENEFITS
OTHER THAN PENSIONS**

9,565 9,943

DEFERRED INCOME TAXES

3,125 21,414

**OTHER LONG-TERM
LIABILITIES**

73,215 69,594

STOCKHOLDERS EQUITY:

Common stock, no par value; 20,000
shares authorized, 8,240 and 8,187
shares outstanding at September 30,
2001 and December 31, 2000,
respectively

Additional paid-in capital
46,500 45,990

Retained (deficit) earnings
(16,622) 20,602

Cumulative other comprehensive loss,
net of tax
(7,997) (6,744)

Common stock in treasury, at cost, 139
shares at September 30, 2001 and
December 31, 2000
(707) (707)

Total stockholders equity
21,174 59,141

Total liabilities and stockholders' equity
\$576,171 \$610,539

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	
	2001	2000	2001	2000
REVENUES	\$204,010	\$236,347	\$672,384	\$815,128
OPERATING EXPENSES:				
Salaries, wages and fringe benefits	118,700	132,704	391,006	441,817
Operating supplies and expenses	33,810	40,953	115,147	140,837
Purchased transportation	23,228	23,513	75,190	79,967
Insurance and claims	10,531	11,226	37,588	36,369
Operating taxes and licenses	7,857	9,650	24,990	31,491
Depreciation and amortization	15,145	15,051	45,450	45,686
Rents	1,691	2,114	5,353	6,613
Communications and utilities	1,300	1,335	5,252	5,550
Other operating expenses	3,295	2,701	10,908	8,437
Total operating expenses	215,557	239,247	710,884	796,767

Operating (loss) income
 (11,547) (2,900) (38,500) 18,361

OTHER INCOME (EXPENSE):

Equity in earnings of joint ventures, net of tax
 1,054 1,502 3,593 4,201
 (Loss) gain on sale of assets
 (24) (84) 2,719 (97)
 Interest expense
 (9,141) (8,321) (26,994) (25,070)
 Interest income
 424 1,644 2,014 3,653

(7,687) (5,259) (18,668) (17,313)

(LOSS) INCOME BEFORE INCOME TAXES

(19,234) (8,159) (57,168) 1,048
INCOME TAX BENEFIT
 6,588 3,549 19,944 196

NET (LOSS) INCOME

\$(12,646) \$(4,610) \$(37,224) \$1,244

PER COMMON SHARE BASIC AND DILUTED

\$(1.56) \$(0.58) \$(4.60) \$0.16

COMMON SHARES OUTSTANDING BASIC AND DILUTED

8,114 7,961 8,096 7,924

Table of Contents**ALLIED HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands)**

	For the Nine Months Ended September 30	
	2001	2000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income		
	(\$37,224)	\$1,244
<hr/>		
<hr/>		
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	45,450	45,686
(Gain) loss on sale of property and equipment	(2,719)	97
Deferred income taxes	(19,377)	104
Compensation expense related to stock options and grants	207	452
Equity in earnings of joint ventures	(3,593)	(4,201)
Amortization of Teamsters Union signing bonus	1,802	1,850
Change in operating assets and liabilities excluding effect of businesses acquired:		
Receivables, net of allowance for doubtful accounts	18,190	(2,366)
Inventories	720	(7)
Prepayments and other current assets	(822)	(1,717)
Trade accounts payable	(7,021)	(6,587)
Accrued liabilities	6,028	(8,633)

Total adjustments
38,865 24,678

Net cash provided by operating
activities
1,641 25,922

**CASH FLOWS FROM
INVESTING ACTIVITIES:**

Purchases of property and equipment
(18,274) (15,972)
Proceeds from sale of property and
equipment
4,832 799
Purchase of business, net of cash
acquired
(8,185)
Investment in joint ventures
(464)
Cash received from joint ventures
3,578
Increase in short-term investments
(4,864) (14,044)
Increase in the cash surrender value
of life insurance
(360) (128)

Net cash used in investing activities
(15,552) (37,530)

**CASH FLOWS FROM
FINANCING ACTIVITIES:**

Proceeds from issuance of long-term
debt, net
23,480 771
Proceeds from issuance of common
stock
303 626
Repurchase of common stock
(282)
Other, net
(64) 1,894

Net cash provided by financing
activities
23,719 3,009

**EFFECT OF EXCHANGE RATE
CHANGES ON CASH AND
CASH EQUIVALENTS**
68 (781)

**NET INCREASE
(DECREASE) IN CASH AND
CASH EQUIVALENTS**
9,876 (9,380)
**CASH AND CASH
EQUIVALENTS AT
BEGINNING OF YEAR**
2,373 13,984

**CASH AND CASH
EQUIVALENTS AT END OF
PERIOD**
\$12,249 \$4,604

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)

Note 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 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, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. 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 2000 Annual Report on Form 10-K.

Note 2. Long-Term Debt and Supplemental Guarantor Information

On September 30, 1997, the Company issued \$150 million of 8 5/8 % senior notes (the Notes) through a private placement. Subsequently, the senior 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 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., Axis Logistica, S. de R.L. de C.V. and Axis Netherlands C.V. do not guarantee the Company's obligations under the Notes (the Nonguarantor Subsidiaries). 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, 2001
(In Thousands)
(Unaudited)**

~~ALLIED GUARANTEE GUARANTOR~~
~~HOLDINGS SUBSIDIARIES FINANCIAL CONSOLIDATED~~

CURRENT ASSETS:

Cash and cash equivalents				
	\$(142)	\$2,399	\$9,992	\$12,249
Short-term investments				
	64,756		64,756	
Receivables, net of allowance for doubtful accounts				
	23	91,487	3,279	94,789
Inventories				
	6,600	10		6,610
Deferred tax assets				
	10,109	1,608	251	11,968
Prepayments and other current assets				
	1,762	18,081	193	20,036
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total current assets				
	11,752	120,175	78,481	210,408

PROPERTY AND EQUIPMENT, NET

	12,521	214,952	3,600	231,073
--	--------	---------	-------	---------

OTHER ASSETS:

Goodwill, net				
	1,544	89,759		91,303
Other				

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

16,216	16,574	10,597	43,387
Deferred tax asset noncurrent			
35,943		(35,943)	
Intercompany receivables			
274,460		(274,460)	
Investment in subsidiaries			
33,662	15,019	(48,681)	

Total other assets
 361,825 121,352 10,597 (359,084) 134,690

Total assets
 \$386,098 \$456,479 \$92,678 \$(359,084) \$576,171

CURRENT LIABILITIES:

Current maturities of long-term debt			
\$156,167	\$2,295	\$	\$158,462
Trade accounts payable			
2,881	35,229	548	38,658
Intercompany payables			
272,146	2,314	(274,460)	
Accrued liabilities			
15,876	52,126	13,967	81,969

Total current liabilities
 174,924 361,796 16,829 (274,460) 279,089

LONG-TERM DEBT, less current maturities

190,000 3 190,003

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

9,565 9,565

DEFERRED INCOME TAXES

39,068 (35,943) 3,125

OTHER LONG-TERM LIABILITIES

31,701 41,514 73,215

STOCKHOLDERS EQUITY:

Common stock, no par value

Additional paid-in capital

46,500 90,733 13,279 (104,012) 46,500

Retained deficit (earnings)

(16,622) (65,771) 23,294 42,477 (16,622)

Cumulative other comprehensive income, net of tax

(7,997) (10,616) (2,238) 12,854 (7,997)

Treasury stock

(707) (707)

Total stockholders' equity
21,174 14,346 34,335 (48,681) 21,174

Total liabilities and stockholders' equity
\$386,098 \$456,479 \$92,678 \$(359,084) \$576,171

Table of Contents

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2000
(In Thousands)**

ALLIED HOLDINGS INC
GUARANTOR
CONSOLIDATED
ALLIED HOLDINGS INC
GUARANTOR
CONSOLIDATED
ALLIED HOLDINGS INC
GUARANTOR
CONSOLIDATED
ALLIED HOLDINGS INC
GUARANTOR
CONSOLIDATED
 (Unaudited) (Unaudited) (Unaudited) (Unaudited)

CURRENT ASSETS:

Cash and cash equivalents				
	\$(1,213)	\$2,063	\$1,523	\$ 2,373
Short-term investments				
	59,892		59,892	
Receivables, net of allowance for doubtful accounts				
	805	112,876	585	114,266
Inventories				
	7,415		7,415	
Deferred tax asset - current				
	8,009	1,600	582	10,191
Prepayments and other current assets				
	1,974	15,007	2,374	19,355
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total current assets	9,575	138,961	64,956	213,492

<hr/>				
<hr/>				
<hr/>				
<hr/>				
<hr/>				

PROPERTY AND EQUIPMENT, NET

	16,319	239,866	3,177	259,362
--	--------	---------	-------	---------

OTHER ASSETS:

Goodwill, net				
	1,633	93,526		95,159
Other				
	15,732	16,372	10,422	42,526

Deferred tax asset noncurrent
 17,585 (17,585)
 Intercompany receivables
 260,850 (260,850)
 Investment in subsidiaries
 80,057 14,072 (94,129)

Total other assets
 375,857 123,970 10,422 (372,564) 137,685

Total assets
 \$401,751 \$502,797 \$78,555 \$(372,564) \$610,539

CURRENT LIABILITIES:

Current maturities of long-term debt
 \$ \$109 \$ \$ \$109
 Trade accounts payable
 1,590 43,475 910 45,975
 Intercompany payables
 259,268 1,582 (260,850)
 Accrued liabilities
 16,592 51,684 11,211 79,487

Total current liabilities
 18,182 354,536 13,703 (260,850) 125,571

LONG-TERM DEBT, less current maturities
 324,428 448 324,876

POSTRETIREMENT BENEFITS OTHER THAN PENSIONS
 9,943 9,943

DEFERRED INCOME TAXES
 38,999 (17,585) 21,414

OTHER LONG-TERM LIABILITIES
 36,660 32,934 69,594

STOCKHOLDERS EQUITY:

Common stock, no par value

Additional paid-in capital
 45,990 81,180 13,612 (94,792) 45,990

Retained earnings (deficit)
 20,602 (10,171) 20,309 (10,138) 20,602

Cumulative other comprehensive income, net of tax
 (6,744) (8,798) (2,003) 10,801 (6,744)

Treasury stock
 (707) (707)

Total stockholders' equity

59,141 62,211 31,918 (94,129) 59,141

Total liabilities and stockholders' equity

\$401,751 \$502,797 \$78,555 \$(372,564) \$610,539

Operating (loss) income
 (11,347) (28,412) 1,259 (38,500)

OTHER INCOME (EXPENSE):

Equity in earnings of joint ventures, net of tax
 3,299 294 3,593

Gain on sale of assets
 2,719 2,719

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 of subsidiaries
 (45,483) 45,483

(45,983) (20,143) 1,975 45,483 (18,668)

(LOSS) INCOME BEFORE INCOME TAXES

(57,330) (48,555) 3,234 45,483 (57,168)

INCOME TAX BENEFIT (PROVISION)

20,106 827 (989) 19,944

NET (LOSS) INCOME

\$ (37,224) \$(47,728) \$2,245 \$45,483 \$(37,224)

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2000
(In Thousands)
(Unaudited)**

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$3,728	\$813,804	\$25,574	\$(27,978)	\$815,128
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	3,609	438,208	441,817		
Operating supplies and expenses	856	139,953	28	140,837	
Purchased transportation	79,967		79,967		
Insurance and claims	36,042	24,577	(24,250)	36,369	
Operating taxes and licenses	8	31,483	31,491		
Depreciation and amortization	321	45,085	280	45,686	
Rents	57	6,556	6,613		
Communications and utilities	12	5,538	5,550		

Other operating expenses
 1,549 10,465 151 (3,728) 8,437

Total operating expenses
 6,412 793,297 25,036 (27,978) 796,767

Operating (loss) income
 (2,684) 20,507 538 18,361

OTHER INCOME (EXPENSE):

Equity in earnings (loss) of joint ventures, net of tax
 4,359 (158) 4,201

Loss on sale of assets
 (97) (97)

Interest expense
 (22,111) (25,591) (372) 23,004 (25,070)

Interest income
 22,977 294 3,386 (23,004) 3,653

Equity in net income of subsidiaries
 2,079 (2,079)

2,945 (21,035) 2,856 (2,079) (17,313)

INCOME (LOSS) BEFORE INCOME TAXES

261 (528) 3,394 (2,079) 1,048

INCOME TAX BENEFIT (PROVISION)

983 (124) (663) 196

NET INCOME (LOSS)

\$1,244 \$(652) \$2,731 \$(2,079) \$1,244

Operating (loss) income
 (1,299) (10,565) 317 (11,547)

OTHER INCOME (EXPENSE):

Equity in earnings of joint ventures, net of tax
 862 192 1,054

Loss on sale of assets
 (24) (24)

Interest expense
 (8,442) (8,204) (61) 7,566 (9,141)

Interest income
 7,536 43 411 (7,566) 424

Equity in losses of subsidiaries
 (17,366) 17,366

(18,272) (7,323) 542 17,366 (7,687)

(LOSS) INCOME BEFORE INCOME TAXES

(19,571) (17,888) 859 17,366 (19,234)

INCOME TAX BENEFIT (PROVISION)

6,925 (85) (252) 6,588

NET (LOSS) INCOME
 \$ (12,646) \$(17,973) \$607 \$17,366 \$(12,646)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2000
 (In Thousands)
 (Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	INGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	\$ 1,243	\$ 235,973	\$ 8,392	\$ (9,261)	\$ 236,347
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	1,833	130,871		132,704	
Operating supplies and expenses	56	40,885	12		40,953
Purchased transportation	23,513			23,513	
Insurance and claims	10,813	8,431	(8,018)		11,226
Operating taxes and licenses	2	9,648		9,650	
Depreciation and amortization	262	14,693	96		15,051
Rents	19	2,095		2,114	
Communications and utilities	4	1,331		1,335	
Other operating expenses	273	3,671	(1,243)		2,701

Total operating expenses
 2,449 237,520 8,539 (9,261) 239,247

Operating loss
 (1,206) (1,547) (147) (2,900)

OTHER INCOME (EXPENSE):

Equity in earnings (loss) of joint ventures, net of tax
 1,557 (55) 1,502
 Loss on sale of assets
 (84) (84)
 Interest expense
 (7,216) (8,569) (133) 7,597 (8,321)
 Interest income
 7,595 94 1,552 (7,597) 1,644
 Equity in net losses of subsidiaries
 (7,400) 7,400

(7,021) (7,002) 1,364 7,400 (5,259)

(LOSS) INCOME BEFORE INCOME TAXES

(8,227) (8,549) 1,217 7,400 (8,159)

INCOME TAX BENEFIT (PROVISION)

3,617 (40) (28) 3,549

NET (LOSS) INCOME

\$ (4,610) \$(8,589) \$1,189 \$7,400 \$(4,610)

Table of Contents

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

ALLIED GUARANTEE GUARANTOR
HOLDINGS SUBSIDIARIES FINANCIAL CONSOLIDATED

CASH FLOWS FROM OPERATING ACTIVITIES:

Net (loss) income
\$(37,224) \$(47,728) \$2,245 \$45,483 \$(37,224)

Adjustments to reconcile net (loss) income to net cash (used in)
provided by operating activities:

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 (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

Total adjustments

16,542 56,047 11,759 (45,483) 38,865

Net cash (used in) provided by operating activities

(20,682) 8,319 14,004 1,641

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)

Net cash provided by (used in) investing activities
2,956 (12,525) (5,983) (15,552)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of long-term debt, net
21,739 1,741 23,480
Proceeds from issuance of common stock
303 303
Other, net
(3,245) 2,498 683 (64)

Net cash provided by financing activities
18,797 4,239 683 23,719

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS

303 (235) 68

NET INCREASE IN CASH AND CASH EQUIVALENTS

1,071 336 8,469 9,876

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

(1,213) 2,063 1,523 2,373

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$(142) \$2,399 \$9,992 \$ 12,249

Table of Contents

**SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2000
(In Thousands)
(Unaudited)**

~~ALLIED HOLDINGS INC~~ ~~GUARANTOR~~
~~HOLDINGS~~ ~~SUBSIDIARIES~~ ~~ELIMINATIONS~~ ~~CONSOLIDATED~~

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)
\$1,244 \$(652) \$2,731 \$(2,079) \$1,244

Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:

Depreciation and amortization
321 45,085 280 45,686
Loss on sale of property and equipment
97 97
Deferred income taxes
567 119 (582) 104
Compensation expense related to stock options and grants
452 452
Equity in (earnings) loss of joint ventures
(4,359) 158 (4,201)
Equity in net income of subsidiaries
(2,079) 2,079
Amortization of Teamsters Union signing bonus
1,850 1,850
Change in operating assets and liabilities:

Receivables, net of allowance for doubtful accounts
(80) (2,144) (142) (2,366)
Inventories
(7) (7)
Prepayments and other current assets
(127) (1,623) 33 (1,717)
Intercompany receivables and payables
(12,049) 12,695 (646)
Trade accounts payable
124 (6,416) (295) (6,587)
Accrued liabilities
843 (15,233) 5,757 (8,633)

Total adjustments
 (12,028) 30,064 4,563 2,079 24,678

Net cash (used in) provided by operating activities
 (10,784) 29,412 7,294 25,922

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property and equipment
 (141) (14,955) (876) (15,972)
 Intercompany sale of property and equipment
 (8,716) 8,716
 Proceeds from sale of property and equipment
 799 799
 Purchase of business, net of cash acquired
 (8,185) (8,185)
 Return of capital
 11,999 (11,999)
 Intercompany dividend received (paid)
 4,349 (4,349)
 Increase in short-term investments
 (14,044) (14,044)
 Increase in cash surrender value of life insurance
 (128) (128)

Net cash provided by (used in) investing activities
7,491 (30,101) (14,920) (37,530)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of long-term debt, net
690 81 771
Proceeds from issuance of common stock
626 626
Repurchase of common stock
(282) (282)
Other, net
787 313 794 1,894

Net cash provided by financing activities
1,821 394 794 3,009

**EFFECT OF EXCHANGE RATE CHANGES ON
CASH AND CASH EQUIVALENTS**

315 (1,096) (781)

**NET (DECREASE) INCREASE IN CASH AND CASH
EQUIVALENTS**

(1,472) 20 (7,928) (9,380)

**CASH AND CASH EQUIVALENTS AT BEGINNING
OF YEAR**

1,852 3,179 8,953 13,984

**CASH AND CASH EQUIVALENTS AT END OF
PERIOD**

\$380 \$3,199 \$1,025 \$ 4,604

Table of Contents

Note 3. Comprehensive Loss

Comprehensive income was a loss of \$11.9 million for the third quarter of 2001 versus a loss of \$5.6 million for the third quarter of 2000, and a loss of \$38.5 million for the first nine months of 2001 versus a loss of \$1.7 million for the first nine months of 2000. The difference between comprehensive income and net income is the change in the foreign currency translation adjustment, net of income taxes.

Note 4. Accounting for Derivative Instruments and Hedging Activities

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The statement establishes accounting and reporting standards requiring 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.

From time to time, the Company enters into futures 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. The Company does not enter into fuel hedging contracts for speculative purposes. At September 30, 2001, the Company did not have any outstanding fuel hedging contracts or other derivative instruments that fall under the provisions of SFAS No. 133.

Note 5. Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board approved Statement of SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 prospectively prohibits the pooling of interest 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 amortization of existing goodwill will cease on December 31, 2001. Any goodwill resulting from acquisitions completed after June 30, 2001 will not be amortized. SFAS No. 142 also establishes a new method of testing goodwill for impairment on an annual basis or on an interim basis if an event occurs or circumstances change that would reduce the fair value of a reporting unit below its carrying value. The adoption of SFAS No. 142 will result in the Company's discontinuation of amortization of its goodwill; however, the Company will be required to test its goodwill for impairment under the new standard beginning in the first quarter of 2002, which could have an adverse effect on the Company's future results of operations if an impairment occurs.

Table of Contents

In June 2001, the Financial Accounting Standards Board issued Statement 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 Statement No. 143 in the first quarter of fiscal 2003. Management has determined the adoption of this statement will not have a material effect on the Consolidated Financial Statements of the Company.

In August 2001, The Financial Accounting Standards Board issued Statement 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 plans to adopt Statement No. 144 in the first quarter of fiscal 2003. Management is currently evaluating the effect of this statement on the Consolidated Financial Statements of the Company.

Note 6. Workforce Reduction Accrual

The Company has implemented a program to achieve a significant reduction in corporate overhead expenses. Targeted in the plan are workforce reductions and additional efforts to decrease discretionary spending and eliminate fixed costs. The components of the workforce reduction accrual are as follows (Dollars in millions):

	Year	Quarter Ended		
	Ended			
	December	March 31,	June 30,	September
	31,	2001	2001	30,
	2000			2001
Beginning Balance	\$ 0.0	\$ 1.6	\$ 4.7	\$ 4.0
Expense	2.5	5.0	0.6	1.6
Payments	(0.9)	(1.9)	(1.3)	(2.6)
Ending Balance	1.6	4.7	4.0	3.0
Number of terminated employees during quarter	100	65	20	63

Note 7. Segment Reporting

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

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 provides distribution, automobile inspection, auction, and logistics services for the automotive industry. The following is a summary of certain financial information relating to the two segments (In thousands):

14

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues unaffiliated customers:				
Allied Automotive Group	\$197,168	\$230,192	\$651,982	\$793,560
Axis Group	6,842	6,146	20,402	21,497
Corporate/other	9	71		
	\$204,010	\$236,347	\$672,384	\$815,128
Depreciation and amortization:				
Allied Automotive Group	\$13,343	\$12,880	\$40,132	\$39,200
Axis Group	977	806	2,768	2,247
Corporate/other	825	1,365	2,550	4,239
	\$15,145	\$15,051	\$45,450	\$45,686

Operating (loss) profit:

Allied Automotive Group				
	\$(10,483)	\$(1,475)	\$(27,701)	\$24,138
Axis Group				
	502	84	900	222
Corporate/other				
	(1,566)	(1,509)	(11,699)	(5,999)

(11,547) (2,900) (38,500) 18,361
 Reconciling items:

Equity income in joint ventures				
	1,054	1,502	3,593	4,201
Gain (loss) on sale of assets				
	(24)	(84)	2,719	(97)
Interest expense				
	(9,141)	(8,321)	(26,994)	(25,070)
Interest income				
	424	1,644	2,014	3,653

(Loss) income before income taxes
 \$(19,234) \$(8,159) \$(57,168) \$1,048

Capital expenditures:

Allied Automotive Group
 \$1,321 \$4,763 \$16,381 \$9,780
 Axis Group
 11 856 1,826 1,780
 Corporate/other
 1,275 67 4,412

\$1,332 \$6,894 \$18,274 \$15,972

September 30,
2001

December 31,
2000

Total assets:
 Allied Automotive Group
 \$387,017 \$437,945
 Axis Group
 67,641 64,869
 Corporate/other
 121,513 107,725

\$576,171 \$610,539

████████████████████
████████████████████

Table of Contents

Geographic financial information for 2001 and 2000 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues:				
United States	\$170,222	\$195,219	\$555,489	\$672,397
Canada	33,788	41,128	116,895	142,731
	\$204,010	\$236,347	\$672,384	\$815,128

Note 8. Equity Investments

Axis Group has entered into three joint ventures for the purpose of managing the distribution of vehicles in the United Kingdom and Brazil. The Company is accounting for the investments under the equity method of accounting with its share of the ventures' earnings or loss reflected as equity in earnings (loss) of joint ventures in the consolidated statements of operations. The related equity investments are included in other assets in the accompanying consolidated balance sheets.

Equity in earnings for these joint ventures is recorded net of income taxes in the consolidated statements of operations by the Company. Income taxes related to the joint ventures were \$.6 million and \$1.7 million for the three and nine months ended September 30, 2001 and \$2,000 and \$1.2 million for the three and nine months ended September 30, 2000. Included in the 2001 results are \$1.7 million in fees related to management services provided to the joint venture and \$1.5 million for similar fees is included in the 2000 results.

The majority of the Company's equity in earnings of joint ventures in 2001 was derived from its joint venture in the United Kingdom, Ansa Logistics Limited. Summarized unaudited financial information of Ansa Logistics Limited for the periods ended September 30, 2001 and 2000, is as follows (in thousands):

September 30, December 31,

Edgar Filing: ALLIED HOLDINGS INC - Form 10-Q

	<u>2001</u>	<u>2000</u>
Current assets	\$30,738	\$34,799
Other assets		
4,015 5,019		

Total assets
\$34,753 \$39,818

Current liabilities
\$18,413 \$32,194

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30	
	2001	2000	2001	2000
Revenues	\$ 28,965	\$ 24,125	\$ 85,066	\$ 79,890
Operating income	\$ 2,963	\$ 2,505	\$ 7,840	\$ 7,789
Income from continuing operations	\$ 3,178	\$ 2,620	\$ 8,218	\$ 7,903
Net income	\$ 1,971	\$ 1,624	\$ 5,095	\$ 4,900

Note 9. Litigation

The Company is routinely a party to litigation incidental to its business, primarily involving claims for personal injury and property damage incurred in the transportation of vehicles. The Company does not believe that any of such pending litigation, if adversely determined, would have a material adverse effect on the Company.

The Company is defending two pieces of related litigation in the Supreme Court of Erie County, New York: 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. I2000/8184. 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 has 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 the court has 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 that are virtually identical to the cross-claims asserted 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 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.

The Company is defending a third piece of related litigation in the United States District Court for the Southern District of Florida, Ryder Systems, Inc. v. Allied Holdings, Inc., AH Acquisition Corp. and Allied Automotive Group, Inc., Case No. 01-3553-CIV-HUCK. The claims at issue in this case center around the Allied parties' September 1997 stock acquisition of certain corporations wholly-owned by Ryder. Through that acquisition, Allied parties agreed to assume financial responsibility for certain third-

Table of Contents

party injury claims arising on or before the September 1997 closing date. Ryder's four-count complaint alleges in count one that the Allied parties have breached their agreement with Ryder by failing to undertake certain logistical actions to actually substitute Allied parties for Ryder under an insurance policy covering these third-party claims and with various states' agencies who regulate matters such as self-insured workers' compensation. In counts two through four, the complaint alleges that, if the contract does not create these obligations, the legal doctrines of promissory estoppel, good faith and fair dealing, and negligent misrepresentation, create them. The Allied parties have moved to dismiss all counts of the complaint or, alternatively, to transfer the case to the Northern District of Georgia. With respect to the entirety of this litigation, the Company intends to continue its vigorous defense against the claims asserted, as management believes all of those claims are without merit. While the ultimate results of this litigation cannot be predicted, management does not expect that the resolution of these proceedings will have a material adverse effect on the Company's consolidated financial position or results of operations.

Note 10. Reclassifications

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

Table of Contents

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

Results of Operations

Revenues were \$204.0 million for the third quarter of 2001 versus revenues of \$236.3 million for the third quarter of 2000, a decrease of 13.7%. For the nine-month period ended September 30, 2001 revenues were \$672.4 million, versus revenues of \$815.1 million for the nine-month period ended September 30, 2000, a decrease of 17.5%.

Allied has initiated an aggressive plan to revitalize the Company. The key elements of the turnaround plan include:

- Focus on Execution
- De-leverage the Company
- Eliminate Non-contributory Expense
- Eliminate Non-performing Assets
- Better Management of Cash
- Price Adjustments
- Optimize Invested Assets
- Implement Strategic Growth Plan

Unanticipated adjustments in new vehicle production by the auto manufacturers led to lower vehicle delivery volumes and a decline in revenues and earnings during the third quarter. The events of September 11, 2001 caused a significant drop in new vehicle productions during the balance of the month. The Company estimates its vehicle deliveries were reduced by approximately 85,000 units during September 2001 following the terrorist acts, which reduced net earnings by approximately \$2 million for the month.

As part of the initiative to adjust pricing, effective on or about September 6, 2001, the Company implemented an administrative processing fee for vehicles transported on behalf of its clients in the United States and Canada. Allied has implemented the new processing fee with clients representing approximately 85% of its annual revenues. The remaining portion of Allied's business is under a contract which prohibits the implementation of the fee at the present time. The administrative processing fee is approximately an 8.5% price increase over the Company's previous rates.

The Company experienced a net loss of \$12.6 million for the third quarter of 2001 versus a net loss of \$4.6 million for the third quarter of 2000. Basic and diluted loss per share for the third quarter of 2001 was \$1.56 versus basic and diluted loss per share of \$0.58 for the third quarter of 2000. For the nine-month period ended September 30, 2001, the net loss was \$37.2 million, versus net income of \$1.2 million for the nine-month period ended September 30, 2000. Basic and diluted loss per share for the nine-month period ended September 30, 2001 were \$4.60 versus basic and diluted earnings per share of \$0.16 for the nine-month period ended September 30, 2000.

As part of the initiative to eliminate non-performing assets, Allied announced that it will close certain non-performing and non-core terminal locations within the U.S. and Canada. Allied closed its Doremus, NJ facility on July 1, 2001. In the first nine months of 2001, the operations of Allied at Doremus, NJ generated approximately \$4.8 million in revenues and posted an operating loss of approximately \$1.4 million. Allied intends to close its Houston, TX, Selkirk, NY and Edison, NJ terminal facilities during the fourth quarter of 2001. In the first nine months of 2001, the operations of the automotive group at Houston, Selkirk and Edison generated approximately \$23 million in revenues and posted operating losses of approximately \$4 million.

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

Table of Contents

Salaries, wages and fringe benefits increased from 56.2% of revenues for the third quarter of 2000 to 58.2% of revenues for the third quarter of 2001, and increased from 54.2% of revenues for the first nine months of 2000 to 58.2% of revenues for the first nine months of 2001. The increase was due in part to severance charged to expense of \$4.9 million in the first six months of 2001 and \$1.6 million in the third quarter of 2001 included in the Company's workforce and overhead reduction program, as well as annual wage increases for remaining employees. In addition, the significant drop in vehicle deliveries caused operating inefficiencies that increased salaries, wages, and fringe benefits as a percentage of revenues.

Operating supplies and expenses decreased from 17.3% of revenues for the third quarter of 2000 to 16.6% of revenues for the third quarter of 2001, and also decreased from 17.3% of revenues for the first nine months of 2000 to 17.1% of revenues for the first nine months of 2001. The decrease was due primarily to an increase in the percentage of units hauled by owner operators versus company drivers. Owner operators are responsible for related operating expenses. In addition, operating supplies and expenses declined due to a decrease in parts and maintenance expense related to vigorous expense reduction programs and decreasing volumes, combined with lower fuel costs.

Purchased transportation increased from 10.0% of revenues in the third quarter of 2000 to 11.4% of revenues in the third quarter of 2001, and increased from 9.8% of revenues for the first nine months of 2000 to 11.2% of revenues for the first nine months of 2001. As volumes decline, units are hauled by drivers with the highest seniority and owner operators generally have more seniority than company drivers in the current workforce. The number of owner operators stayed relatively constant from year to year while the number of company drivers decreased, resulting in higher purchased transportation for 2001 compared to 2000.

Insurance and claims expense increased from 4.8% of revenues for the third quarter of 2000 to 5.2% of revenues for the third quarter of 2001, and increased from 4.5% of revenues for the first nine months of 2000 to 5.6% of revenues for the first nine months of 2001. The increase was a result of an increase in cargo claims expense and costs related to higher auto, general liability and property insurance premiums that were unaffected by the decline in vehicles delivered.

Depreciation and amortization expense increased from 6.4% of revenues in the third quarter of 2000 to 7.4% of revenues in the third quarter of 2001, and increased from 5.6% of revenues for the first nine months of 2000 to 6.8% of revenues for the first nine months of 2001. The increase as a percentage of revenues was due primarily to a sharp decline in vehicles delivered which reduced revenues. Depreciation and amortization expense stayed relatively constant in 2001 versus 2000; depreciation and amortization expense was \$15.1 million in the third quarter of 2001 versus \$15.0 million in the third quarter of 2000, and \$45.4 million for the first nine months of 2001 versus \$45.7 million for the first nine months of 2000.

Loss/gain on sale of assets increased from a loss of \$97,000 for the first nine months of 2000 to a gain of \$2,719,000 for the first nine months of 2001. The Company disposed of excess real estate and other assets in Canada during the second quarter of 2001.

Table of Contents

Interest expense as a percentage of revenues increased from 3.5% of revenues for the third quarter of 2000 to 4.5% of revenues for the third quarter of 2001, and increased from 3.1% of revenues for the first nine months of 2000 to 4.1% for the first nine months of 2001. The increase was due to higher interest rates charged under the Company's revolving credit facility and senior subordinated notes as a result of the amendments in the second quarter of 2001, as well as higher long-term debt levels and additional costs related to the amendments.

Financial Condition, Liquidity and Capital Resources

Net cash provided by operating activities totaled \$1.6 million for the nine-month period ended September 30, 2001 versus net cash provided by operating activities of \$25.9 million for the nine-month period ended September 30, 2000. The decline in cash provided by operating activities was due primarily to reduced earnings during the first nine months of 2001 versus 2000, offset with a favorable change in operating assets and liabilities as the Company has implemented measures to improve asset utilization.

Net cash used in investing activities totaled \$15.6 million for the nine-month period ended September 30, 2001 versus \$37.5 million for the nine-month period ended September 30, 2000. The decrease was due primarily to the purchase of CT Group, a logistics service group, in 2000 for \$8.2 million, combined with a change in the investment portfolio mix of the Company's captive insurance company which increased short-term investments by \$14.0 million and reduced cash and cash equivalents by a like amount in 2000.

Net cash provided by financing activities totaled \$23.7 million for the nine-month period ended September 30, 2001 versus \$3.0 million for the nine-month period ended September 30, 2000. The increase was due to an increase in borrowings during 2001 as a result of lower operating cash flow.

In April 2001 the Company amended its revolving credit facility and its senior subordinated notes to avoid defaults relating to its financial covenants. The maturity date of the amended revolving credit facility has been accelerated from September 30, 2002 to January 31, 2002.

The Company's future cash flow would be insufficient to meet its debt payment obligations if it is required to repay the outstanding balance of the Credit Facility at its currently scheduled maturity in January 2002. The Company's ability to meet its principal payment obligations at the January 2002 maturity will depend on whether it can arrange a refinancing, restructuring or extension of such facility on satisfactory terms within that time frame. The Company is engaged in discussions with a number of lenders to replace its revolving credit facility, and completion of the financing is anticipated by January 2002.

If the Company is unable to refinance, restructure or extend its Credit Facility, the Company may be required to sell additional assets, reduce or delay capital investments or seek to raise additional capital, among other things. The Company cannot give any

Table of Contents

assurance that any refinancing, restructuring or extension of the current Credit Facility would be possible, that any assets could be sold, or, if sold, of the timing of the sales and the amount of proceeds realized from those sales, or that additional capital could be obtained on acceptable terms, if at all. The Company's inability to refinance, restructure or extend its indebtedness on commercially reasonable terms would have a material adverse effect on its business, financial condition, and results of operations. Additionally, the Company has been advised by its independent public accountants that if the Company is unable to refinance, restructure or extend its indebtedness, the auditor's report on the consolidated financial statements for the year ended December 31, 2001 may contain a paragraph regarding uncertainties as to the Company's ability to continue as a going concern. The debt under the Company's Credit Facility is secured by liens on all of its assets, and the Company's failure to pay these obligations when due would permit the lenders to pursue their remedies under the Credit Facility.

The Company's ability to obtain sufficient cash to make scheduled payments on its debt obligations as they become due until the January 2002 maturity will depend on future cash flow from operations, sales of assets and the Company's financial performance, which will be affected by a range of economic, competitive and business factors. The Company cannot control many of these factors, such as general economic and financial conditions in the automotive industry and the economy at large.

Allied is continuing its efforts in regard to the potential sale of its Axis Group, Inc. subsidiary. Allied is currently engaged in discussions with prospective buyers of Axis and expects to complete a transaction regarding Axis by January 2002.

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, 2001, which are recorded at a fair value of \$64.8 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 \$6.5 million.

Interest Rates The Company primarily issues long-term debt obligations to support general corporate purposes including capital expenditures and working capital needs. The majority of the Company's long-term debt obligations bear a fixed rate of interest. A one-percentage point increase in interest rates affecting the Company's floating rate long-term debt would reduce pre-tax income by \$1.6 million over the next 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.

Table of Contents

Fuel Prices The Company 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, the Company periodically follows a policy of hedging a portion of its anticipated diesel fuel consumption. The instruments used are principally readily marketable exchange traded futures contracts that are designated as hedges. The changes in market value of such contracts have a high correlation to the price changes of diesel fuel. Gains and losses resulting from fuel hedging transactions are recognized when the underlying fuel being hedged is used. In addition, the Company has contractual agreements with certain customers that provide for fuel surcharges that mitigate the exposure to risk associated with fuel price increases. A 10% increase in diesel fuel prices would reduce pre-tax income by \$4.7 million over the next fiscal year.

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, 2001, are \$97.3 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 \$9.7 million. The Company does not use derivative financial instruments to hedge its exposure to changes in foreign currency exchange rates.

Seasonality and Inflation

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 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. Inflation has not significantly affected the Company's results of operations.

Cautionary Notice Regarding Forward-Looking Statements

Statements in this quarterly report on Form 10-Q contains 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 efforts to reduce costs, (iv) the adequacy of the Company's sources of cash to finance its current and future operations and (v) 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. These forward-looking statements involve a number of risks and uncertainties. Among others, factors that could cause actual results to differ materially 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; loss or

Table of Contents

reduction of revenues generated by the Company's major customers; the variability of quarterly results and seasonality of the automotive distribution industry; 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; changes in regulatory requirements which are applicable to the Company's business; changes in vehicle sizes and weights which may adversely impact vehicle deliveries per load; the ability to maintain the rates charged to customers; risks associated with doing business in foreign countries; problems related to information technology systems and computations that must be made by the Company or its customers and vendors in 2001 or beyond; and the risk factors listed herein from time to time in the Company's Securities and Exchange Commission reports, including but not limited to, its Annual Reports on Form 10-K or 10 Q.

Table of Contents

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings.

Refer to Note 9 on Page 16 of this Report on Form 10-Q for information on legal proceedings.

Item 5. Other Information.

On July 13, 2001, the Company announced that it had been advised by the New York Stock Exchange (NYSE) that the Company had fallen below the continued listing standard requiring stockholders' equity of not less than \$50 million and total market capitalization of not less than \$50 million. Allied submitted a detailed plan to the Listing and Compliance Committee of the NYSE demonstrating how the Company plans to be in compliance with the continued listing standard on or before November 29, 2002, the deadline set by the NYSE. The Committee has accepted the plan and the Company is currently subject to quarterly monitoring for compliance with the plan.

In connection with the implementation of the administrative processing fee, effective September 7, 2001 Allied Automotive Group, Inc. entered into an amendment to its contract with UPS Autogistics, Inc. regarding the distribution of vehicles for Ford Motor Company extending the term of the agreement for 12 months as to ramp locations and 15 months as to plant locations. The amended agreement provides that the contract may be terminated on 75 days notice by either party. Allied Automotive Group also entered into an amendment to its contract with General Motors effective September 6, 2001, in order to provide for the payment of the administrative processing fee. The amended agreement is for a term of 30 months expiring March 6, 2004.

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

(a)	Exhibits	Description
	(10.1)*	Agreement between Allied Automotive Group, Inc. and UPS Autogistics, Inc. dated September 30, 2001.
	(10.2)*	Agreement between Allied Automotive Group, Inc., and General Motors Corporation dated September 6, 2001.

* Portions of the agreement are omitted pursuant to a request for confidential treatment filed with the SEC on November 13, 2001.

(b) Reports on Form 8-K: None

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.

Allied Holdings, Inc.

November 13, 2001
/s/Hugh E. Sawyer

(Date) Hugh E.
Sawyer on behalf of
Registrant as
President and Chief
Executive
Officer November 13,
2001 /s/Daniel H.
Popky

(Date) Daniel H.
Popky on behalf of
Registrant as Senior
Vice President,
Finance and Chief
Financial Officer