ALLIED HOLDINGS INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

[**x**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 **For the quarterly period ended March 31, 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 reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Outstanding common stock, no par value at April 30, 2002 8,361,526

ALLIED HOLDINGS, INC. & SUBSIDIARIES

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PART I

FINANCIAL INFORMATION

PART 1 FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

ALLIED HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	March 31 2002 (Unaudited)	December 31 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,615	$ 10,543
Short-term investments	64,658	64,794
Receivables, net of allowance for doubtful accounts of $10,511 and $11,058 at March 31, 2002 and December 31, 2001, respectively	62,684	72,292
Inventories	5,241	5,349
Deferred tax assets	34,334	32,403
Prepayments and other current assets	17,490	18,921
Total current assets	204,022	204,302
PROPERTY AND EQUIPMENT, NET	202,436	214,641
OTHER ASSETS:		
Goodwill, net	90,174	90,230
Other	30,820	24,219
Total other assets	120,994	114,449
Total assets	$ 527,452	$ 533,392
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,507	$ 2,625
Trade accounts payable	37,713	40,232
Accrued liabilities	88,978	82,963
Total current liabilities	130,198	125,820
LONG-TERM DEBT, less current maturities	276,534	286,533
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	9,535	9,363
DEFERRED INCOME TAXES	21,612	21,383
OTHER LONG-TERM LIABILITIES	72,803	72,296
STOCKHOLDERS EQUITY:		
Common stock, no par value; 20,000 shares authorized, 8,252 and 8,274 shares outstanding at March 31, 2002 and December 31, 2001, respectively		
Additional paid-in capital	46,603	46,520
Treasury stock, 139 shares at cost at March 31, 2002 and December 31, 2001, respectively	(707)	(707)

Retained deficit	(20,050)	(18,894)
Accumulated other comprehensive loss, net of tax	(9,076)	(8,922)
Total stockholders equity	16,770	17,997
Total liabilities and stockholders equity	$ 527,452	$ 533,392

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

ALLIED HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	For the Three Months Ended March 31	
	2002	**2001**
REVENUES	$213,259	$218,179
OPERATING EXPENSES:		
Salaries, wages and fringe benefits	118,536	131,717
Operating supplies and expenses	30,905	41,442
Purchased transportation	21,779	23,296
Insurance and claims	10,571	13,289
Operating taxes and licenses	8,463	8,626
Depreciation and amortization	13,663	15,191
Rents	1,354	2,070
Communications and utilities	1,992	2,038
Other operating expenses	3,260	3,856
Gain on sale of operating assets	(1,029)	(167)
Total operating expenses	209,494	241,358
Operating income (loss)	3,765	(23,179)
OTHER INCOME (EXPENSE):		
Equity in earnings of UK and Brazil joint ventures, net of tax		1,209
Interest expense	(8,122)	(8,466)
Interest income	272	964
Other	(207)	
	(8,057)	(6,293)
LOSS BEFORE INCOME TAXES & EXTRAORDINARY ITEM	(4,292)	(29,472)
INCOME TAX BENEFIT	1,431	10,610
NET LOSS BEFORE EXTRAORDINARY ITEM	(2,861)	(18,862)
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF DEBT, NET OF TAX	1,705	
NET LOSS	$ (1,156)	$ (18,862)
BASIC AND DILUTED NET LOSS PER COMMON SHARE:		
NET LOSS BEFORE EXTRAORDINARY ITEM	$ (0.35)	$ (2.35)
EXTRAORDINARY GAIN ON EARLY EXTINGUISHMENT OF DEBT	0.21	
NET LOSS	$ (0.14)	$ (2.35)

COMMON SHARES OUTSTANDING BASIC AND DILUTED	8,252	8,020

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

ALLIED HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	For the Three Months Ended March 31	
	2002	2001

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

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-month period ended March 31, 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 reporting 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 owners and distribution to owners. The Company had a comprehensive loss of $1.3 million in the first quarter of 2002 versus a comprehensive loss of $22.6 million in the first quarter of 2001. The difference between comprehensive loss and net loss is the foreign currency translation adjustment and minimum pension liability, 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 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 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 until August 2002 at determinable prices defined within the agreement. The Company does not enter into fuel hedging contracts for speculative purposes. At March 31, 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 and accordingly incurred no amortization expense of goodwill during the three months ended March 31, 2002. Included in the accompanying consolidated statements of operations is amortization expense related to goodwill of approximately $0.9 million, for the three months ended March 31, 2001.

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. In accordance with SFAS No. 142, the Company has six months, subsequent to the adoption of the statement, to complete the first step of the transitional goodwill impairment test. Pursuant to the adoption of SFAS No. 142, the Company has established its reporting units based on its reporting structure in a reasonable and supportable manner. The Company s reporting units are the Allied Automotive Group subsidiary and the Axis Group subsidiary. The Company expects to complete the transitional test within the six-month period and will report the results of that testing subsequent to its completion. Pursuant to the adoption of SFAS No. 142, the Company will annually test goodwill for impairment.

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 2003. Management will evaluate the impact of the adoption of this statement on the consolidated financial statements during fiscal 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 earnings or financial position 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. Management will evaluate the impact of the adoption of this statement on the consolidated financial statements during fiscal 2002.

6. Workforce Reduction Expense

The Company has implemented a program to achieve a significant reduction in corporate overhead expenses as well as upgrade certain personnel as a result of turnaround initiatives. Targeted in the plan are workforce reductions and additional efforts to decrease discretionary spending and eliminate fixed costs. The Company terminated approximately 76 and 65 corporate and field employees during the three months ended March 31, 2002 and three months ended March 31, 2001, respectively. The Company had $2.1 million and $3.7 million of workforce reduction liabilities at March 31, 2002 and December 31, 2001, respectively. The following table summarizes the activity in the accrual for termination benefits for the three months ended March 31, 2002 and the three months ended March 31, 2001, (in thousands):

	Three Months Ended	
	March 31 2002	**March 31 2001**
Beginning balance	$ 3,700	$ 1,600
Additions to reserve charged to salaries, wages, fringe benefits	400	5,000
Cash payments	(2,000)	(1,900)
Ending balance	$ 2,100	$ 4,700

7. Long-Term Debt

Long-term debt consisted of the following:

	March 31 2002	**December 31 2001**
Revolving credit facility	$130,041	$ 98,900
Senior notes	150,000	150,000
Senior subordinated notes		40,258
	280,041	289,158
Less current maturities of long-term debt	(3,507)	(2,625)
	$276,534	$286,533

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.

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 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 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) (collectively, the Credit Facility). Proceeds from the Term Loans were used to repurchase the $40 million of Senior Subordinated Notes for $37.25 million. In conjunction with the extinguishment of debt, the Company recognized an extraordinary gain of approximately $1.7 million, net of income taxes 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 March 31, 2002, $49.4 million was outstanding under the Revolver, and approximately $20.5 million was committed under letters of credit. As of March 31, 2002 the Company had approximately $33.6 million available under the Revolver.

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 $29.25 million Term Loan D. The Term Loans (except Term Loan D) mature on February 25, 2005. Term Loan D matures on February 26, 2005.

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 interest paid in kind of 3.5% that will be payable upon maturity. The minimum interest 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 interest paid in kind of 5% that will be payable upon maturity. The minimum interest 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%

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. As of March 31, 2002, the amount outstanding for the Term Loans was $15.3 million for Term Loan A, $25.0 million for Term Loan B, $11.0 million for Term Loan C and $29.25 million for Term Loan D.

Borrowings under the Credit Facility are secured by a first priority security interest on assets of the Company and certain of its subsidiaries, including a pledge of stock of certain subsidiaries. In addition, certain subsidiaries of the Company jointly and severally guarantee the obligations of the Company under the Credit Facility.

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 charge 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 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.

8. 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. The amendment resulted in a curtailment of the plan effective April 30, 2002. The Company s net pension cost for 2001 was $2.6 million.

9. 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 provides distribution, automobile inspection, auction, and logistics services for the automotive industry.

	Three Months Ended March 31	
	2002	**2001**
Revenues unaffiliated customers:		
Allied Automotive Group	$206,610	$212,024
Axis Group	6,649	6,155
Total	$213,259	$218,179
Depreciation and amortization:		
Allied Automotive Group	$ 12,190	$ 13,450
Axis Group	707	894
Corporate/other	766	847
Total	$ 13,663	$ 15,191
Operating profit (loss):		
Allied Automotive Group	$ 5,555	$ (16,129)
Axis Group	163	(452)
Corporate/other	(1,953)	(6,598)
Total	3,765	(23,179)
Reconciling items:		
Equity income in UK and Brazil joint ventures		1,209
Interest expense	(8,122)	(8,466)
Interest income	272	964
Other, net	(207)	
Loss before income taxes and extraordinary item	$ (4,292)	$ (29,472)

	March 31 2002	December 31 2001
Total assets:		
Allied Automotive Group	$332,675	$353,558
Axis Group	40,651	43,881
Corporate/other	154,126	135,953
Total	$527,452	$533,392
Capital expenditures:		
Allied Automotive Group	$ 2,608	$ 6,988
Axis Group	18	524
Corporate/other		67
Total	$ 2,626	$ 7,579

Geographic financial information for the three months ended March 31, 2002 and 2001 is as follows (in thousands):

	Three Months Ended March 31	
	2002	2001
Revenues:		
United States	$178,228	$181,298
Canada	35,031	36,881
Total	$213,259	$218,179

Revenues are attributed to the respective countries based on the location of the origination terminal.

10. Subsequent Events

On April 15, 2002, the Company sold its interests in its joint venture in Brazil to Coimex Empreendimentos E Participacoes Ltda, and Itaguacu Comercio E Participacoes Ltda for approximately $3 million. $2.7 million of cash was received at closing and the remaining $0.3 million will be paid to the Company by December 31, 2002. The joint venture was established in January 1998 and held by the Company s Axis Group subsidiary. The proceeds from the sale were used to reduce the Company s outstanding debt. The Company s interest in its joint venture in Brazil was approximately $3.0 million at March 31, 2002.

11. 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.

Supplemental Condensed Consolidating Balance Sheet
March 31, 2002
(In thousands)
(Unaudited)

	Allied Holdings	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 517	$ 693	$ 18,405	$	$ 19,615
Short-term investments			64,658		64,658
Receivables, net of allowance for doubtful accounts	11	59,317	3,356		62,684
Inventories		5,235	6		5,241
Deferred tax asset current	33,589	494	251		34,334
Prepayments and other current assets	879	16,494	117		17,490
Total current assets	34,996	82,233	86,793		204,022
Property and equipment, net	10,977	188,019	3,440		202,436
Other assets:					
Goodwill, net	1,515	88,659			90,174
Other	21,925	4,860	4,035		30,820
Deferred tax asset noncurrent	14,129			(14,129)	
Intercompany receivables	26,551			(26,551)	
Investment in subsidiaries	70,350	8,534		(78,884)	
Total other assets	134,470	102,053	4,035	(119,564)	120,994
Total assets	$ 180,443	$ 372,305	$ 94,268	$ (119,564)	$ 527,452
Current liabilities:					
Current maturities of long-term debt	$	$ 3,507		$	$ 3,507
Trade accounts payable	1,762	35,715	236		37,713
Intercompany payables		21,710	4,841	(26,551)	
Accrued liabilities	8,366	58,879	21,733		88,978
Total current liabilities	10,128	119,811	26,810	(26,551)	130,198
Long-term debt, less current maturities	150,000	126,534			276,534
Postretirement benefits other than pensions		9,535			9,535
Deferred income taxes		35,741		(14,129)	21,612
Other long-term liabilities	3,545	33,694	35,564		72,803
Stockholders equity:					
Common stock, no par value					
Additional paid-in capital	46,603	182,023	13,849	(195,872)	46,603
Treasury stock	(707)				(707)
Retained (deficit) earnings	(20,050)	(121,573)	18,519	103,054	(20,050)
Cumulative other comprehensive loss, net of tax	(9,076)	(13,460)	(474)	13,934	(9,076)

Total stockholders equity	16,770	46,990	31,894	(78,884)	16,770
Total liabilities and stockholders equity	$ 180,443	$ 372,305	$ 94,268	$ (119,564)	$ 527,452

Supplemental Condensed Consolidating Balance Sheet
December 31, 2001
(In thousands)
(Unaudited)

	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:					