ALLIED HOLDINGS INC
Form 10-Q
August 14, 2002

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

Outstanding common stock, No par value at July 19, 2002	8,386,051

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PART I

FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 19,471	$ 10,543
Short-term investments	66,023	64,794
Receivables, net of allowance for doubtful accounts of $5,403 and $11,058, respectively	61,902	72,292
Inventories	5,150	5,349
Deferred tax assets	34,394	32,403
Prepayments and other current assets	18,940	18,921
Total current assets	205,880	204,302
PROPERTY AND EQUIPMENT, NET	194,426	214,641
OTHER ASSETS:		
Goodwill, net	86,114	90,230
Other	26,770	24,219
Total other assets	112,884	114,449
Total assets	$ 513,190	$ 533,392
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,500	$ 2,625
Trade accounts payable	40,669	40,232
Accrued liabilities	84,231	82,963
Total current liabilities	128,400	125,820
LONG-TERM DEBT, less current maturities	261,483	286,533
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	9,171	9,363
DEFERRED INCOME TAXES	23,849	21,383
OTHER LONG-TERM LIABILITIES	73,261	72,296

STOCKHOLDERS EQUITY:		
Common stock, no par value; 20,000 shares authorized, 8,362 and 8,274 shares outstanding at June 30, 2002 and December 31, 2001, respectively		
Additional paid-in capital	46,829	46,520
Treasury stock at cost, 139 shares at June 30, 2002 and December 31, 2001	(707)	(707)
Retained deficit	(22,033)	(18,894)
Accumulated other comprehensive loss, net of tax	(7,063)	(8,922)
Total stockholders equity	17,026	17,997
Total liabilities and stockholders equity	$ 513,190	$ 533,392

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

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ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2002	2001	2002	2001
REVENUES	$ 238,984	$ 250,195	$ 452,243	$ 468,374
OPERATING EXPENSES:				
Salaries, wages and fringe benefits	127,513	140,589	246,049	272,306
Operating supplies and expenses	35,906	39,895	66,811	81,337
Purchased transportation	25,328	28,666	47,107	51,962
Insurance and claims	12,929	13,768	23,500	27,057
Operating taxes and licenses	8,630	8,507	17,093	17,133
Depreciation and amortization	13,282	15,281	26,945	30,305
Rents	1,856	1,592	3,210	3,662
Communications and utilities	1,873	1,914	3,865	3,952
Other operating expenses	1,455	3,590	4,715	7,613
Loss (gain) on disposal of operating assets, net	315	(2,576)	(714)	(2,743)
Total operating expenses	229,087	251,226	438,581	492,584
Operating income (loss)	9,897	(1,031)	13,662	(24,210)
OTHER INCOME (EXPENSE):				
Equity in earnings of UK and Brazil joint ventures, net of tax		1,330		2,539
Interest expense	(7,610)	(9,387)	(15,732)	(17,853)
Interest income	615	626	887	1,590
Gain on early extinguishment of debt			2,750	
Other, net			(207)	
	(6,995)	(7,431)	(12,302)	(13,724)
INCOME (LOSS) BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,902	(8,462)	1,360	(37,934)
INCOME TAX (EXPENSE) BENEFIT	(793)	2,746	(407)	13,356
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,109	(5,716)	953	(24,578)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX			(4,092)	
NET INCOME (LOSS)	$ 2,109	($5,716)	($3,139)	($24,578)
BASIC & DILUTED NET INCOME (LOSS) PER COMMON SHARE:				

INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
BASIC	$ 0.25	($0.71)	$ 0.12	($3.04)
DILUTED	$ 0.24	($0.71)	$ 0.11	($3.04)
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX				
BASIC			($0.50)	
DILUTED			($0.47)	
NET INCOME (LOSS)				
BASIC	$ 0.25	($0.71)	($0.38)	($3.04)
DILUTED	$ 0.24	($0.71)	($0.36)	($3.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
BASIC	8,300	8,086	8,259	8,083
DILUTED	8,781	8,086	8,793	8,083

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

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ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Six Months Ended June 30,	
	2002	**2001**
	(Unaudited)	**(Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($3,139)	($24,578)
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	377	
Amortization of deferred financing costs	2,028	1,653
Depreciation and amortization	26,945	30,305
Cumulative effect of change in accounting principle	5,194	
Gain on disposal of assets and other, net	(507)	(2,743)
Deferred income taxes	(634)	(13,356)
Compensation expense related to stock options and grants	148	138
Equity in earnings of joint ventures		(2,539)
Amortization of Teamsters Union contract costs	1,200	1,202
Change in operating assets and liabilities:		
Receivables, net of allowance for doubtful accounts	10,957	20,827
Inventories	238	415
Prepayments and other current assets	92	(1,635)
Trade accounts payable	217	(4,084)
Accrued liabilities	1,993	12,620
Total adjustments	45,498	42,803
Net cash provided by operating activities	42,359	18,225
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,470)	(16,942)
Proceeds from sale of property and equipment	2,857	4,745
Investment in joint ventures		(464)
Proceeds from sale of equity investment in joint venture	2,700	
Increase in short-term investments	(1,229)	(2,590)
Increase in the cash surrender value of life insurance	(317)	(240)
Net cash used in investing activities	(3,459)	(15,491)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayments) additions to revolving credit facilities, net	(60,723)	11,869
Additions to long-term debt	82,751	
Repayment of long-term debt	(43,830)	(104)
Payment of deferred financing costs	(8,829)	(2,507)
Proceeds from issuance of common stock	161	217
Other, net	373	281
Net cash (used in) provided by financing activities	(30,097)	9,756

EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	125	(1,429)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,928	11,061
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,543	2,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 19,471	$ 13,434

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 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 six month periods ended June 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 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 stockholders and distribution to stockholders. The Company had comprehensive income of $4.1 million for the second quarter of 2002 versus a comprehensive loss of $4.0 million for the second quarter of 2001. For the first six months of 2002, the Company had a comprehensive loss of $1.3 million, versus a comprehensive loss of $26.6 million for the first six months of 2001. The difference between comprehensive income and net income is the foreign currency translation 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.

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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 is evaluating additional forward purchase commitments. The Company does not enter into fuel hedging contracts for speculative purposes. At June 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 statements during 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 Statement No. 146, Accounting for Costs 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 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.

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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 consistent with the Company s internal planning. 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 six months ended June 30, 2002.

The following table sets forth the carrying value of goodwill by reporting unit as of June 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	1,073	5	1,078
Impairment loss		(5,194)	(5,194)
Balance as of June 30, 2002	$ 73,912	$ 12,202	$ 86,114

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

	For the three months ended June 30		For the six months ended June 30	
	2002	2001	2002	2001
Reported net income (loss) before cumulative effect of accounting change	$ 2,109	$ (5,716)	$ 953	$ (24,578)
Add back after-tax amounts:				
Goodwill amortization		598		1,150
Adjusted net income (loss) before cumulative effect of accounting change	$ 2,109	$ (5,118)	$ 953	$ (23,428)
Income (loss) per share before accounting change:				
Basic	0.25	(0.71)	0.12	(3.04)
Diluted	0.24	(0.71)	0.11	(3.04)
Goodwill amortization				
Basic		0.07		0.14
Diluted		0.07		0.14
Adjusted basic income (loss) per share before accounting change				
Basic	$ 0.25	$ (0.64)	$ 0.12	$ (2.90)
Diluted	$ 0.24	$ (0.64)	$ 0.11	$ (2.90)

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7. Fleet Refurbishment Program

As part of the Company s turnaround plan, the Company is focusing on maintaining the existing fleet through an extensive refurbishment program which is expected to increase the useful life of a rig to an average of 15 years. These refurbishments are depreciated over an estimated useful life of 6 years, using the straight-line method of depreciation. The program began in 2002 and is expected to be completed in 2004 at an approximate total cost of $45 to $55 million for the refurbishment of approximately 1,500 rigs over the three year period. As of June 30, 2002 total capital expenditures related to the refurbishment program were approximately $5 million. The Company estimates it will spend approximately $8 to $12 million on the program in the second half of fiscal year 2002.

8. Workforce Reduction Expense

As part of its turnaround initiatives, the Company has implemented a program to achieve a significant reduction in corporate overhead expenses and to upgrade certain personnel. Targeted in the plan are workforce reductions and additional efforts to decrease discretionary spending and eliminate fixed costs. The Company terminated approximately 90 and 85 corporate and field employees during the six months ended June 30, 2002 and the six months ended June 30, 2001 respectively. The 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 six months ended June 30, 2002 and 2001, (in thousands):

	Three Months Ended		Six Months Ended	
	June 30 2002	June 30 2001	June 30 2002	June 30 2001
Beginning balance	$ 2,100	$ 4,700	$ 3,700	$ 1,600
Additions to reserve charged to salaries, wages, & fringe benefits	500	600	900	5,600
Cash payments	(900)	(1,300)	(2,900)	(3,200)
Ending balance	$ 1,700	$ 4,000	$ 1,700	$ 4,000

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9. Long-Term Debt

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

	June 30, 2002	December 31, 2001
Revolving credit facility	$ 114,983	$ 98,900
Senior notes	150,000	150,000
Senior subordinated notes		40,258
	264,983	289,158
Less: current maturities of long-term debt	(3,500)	(2,625)
	$ 261,483	$ 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 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 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) (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 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 June 30, 2002, $38.2 million was outstanding under the Revolver, and approximately $24.6 million was committed under letters of credit. As of June 30, 2002 the Company had approximately $33.2 million available under the Revolver. The Revolver matures on February 25, 2005.

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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 June 30, 2002, the amount outstanding for the Term Loans was $11.2 million for Term Loan A, $25.2 million for Term Loan B, $11.1 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 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.

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%. In addition, the PIK interest on Term Loans B and C to be paid at maturity is included in the loan balances.

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 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 participants 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.

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 provides distribution, automobile inspection, auction, yard management, intramodal transport, accessorization and dealer prep for the automotive industry.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues unaffiliated customers:				
Allied Automotive Group	$ 231,480	$ 242,790	$ 438,090	$ 454,814
Axis Group	7,504	7,405	14,153	13,560
	$ 238,984	$ 250,195	$ 452,243	$ 468,374
Depreciation and amortization:				
Allied Automotive Group	$ 11,808	$ 13,506	$ 23,998	$ 26,789
Axis Group	730	897	1,437	1,791
Corporate/other	744	878	1,510	1,725
	$ 13,282	$ 15,281	$ 26,945	$ 30,305
Operating profit (loss):				
Allied Automotive Group	$ 10,447	$ 1,455	$ 16,002	$ (14,674)
Axis Group	1,480	1,049	1,643	597
Corporate/other	(2,030)	(3,535)	(3,983)	(10,133)
	9,897	(1,031)	13,662	(24,210)
Reconciling items:				
Equity income in joint ventures		$ 1,330		$ 2,539
Interest expense	(7,610)	(9,387)	(15,732)	(17,853)
Interest income	615	626	887	1,590
Gain on early extinguishment of debt			2,750	
Other, net			(207)	
Income (loss) before income taxes	$ 2,902	$ (8,462)	$ 1,360	$ (37,934)
Capital expenditures:				
Allied Automotive Group	$ 4,778	$ 8,072	$ 7,386	$ 15,060
Axis Group	66	1,291	84	1,815
Corporate/other				67
	$ 4,844	$ 9,363	$ 7,470	$ 16,942

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	June 30, 2002	December 31, 2001
Total assets:		
Allied Automotive Group	$ 327,295	$ 353,558
Axis Group	34,554	43,881
Corporate/other	151,341	135,953
	$ 513,190	$ 533,392

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
United States	$ 193,744	$ 203,969	$ 371,972	$ 385,267
Canada	45,240	46,226	80,271	83,107
	$ 238,984	$ 250,195	$ 452,243	$ 468,374

12. 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.

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SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
JUNE 30, 2002
In Thousands
(Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CURRENT ASSETS:					
Cash and cash equivalents		$ 2,092	$ 17,379		$ 19,471
Short-term investments			66,023		66,023
Receivables, net of allowance for doubtful accounts		58,987	2,915		61,902
Inventories		5,150			5,150
Deferred tax asset	30,901	2,666	827		34,394
Prepayments and other current assets	867	17,950	123		18,940
Total current assets	31,768	86,845	87,267		205,880
PROPERTY AND EQUIPMENT, NET	10,235	180,832	3,359		194,426
OTHER ASSETS:					
Goodwill, net	1,515	84,599			86,114
Other	21,568	4,204	998		26,770
Deferred tax asset	11,831			(11,831)	
Intercompany receivables	48,157			(48,157)	
Investment in subsidiaries	51,551	7,972		(59,523)	
Total other assets	134,622	96,775	998	(119,511)	112,884
Total assets	$ 176,625	$ 364,452	$ 91,624	($119,511)	$ 513,190
CURRENT LIABILITIES:					
Current maturities of long-term debt		$ 3,500			$ 3,500
Trade accounts payable	1,744	38,722	203		40,669
Deferred tax liability					
Intercompany payables		48,129	28	(48,157)	
Accrued liabilities	4,310	56,955	22,966		84,231
Total current liabilities	6,054	147,306	23,197	(48,157)	128,400
LONG-TERM DEBT, less current maturities	150,000	111,483			261,483
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS		9,171			9,171
DEFERRED INCOME TAXES		35,680		(11,831)	23,849
OTHER LONG-TERM LIABILITIES	3,545	32,601	37,115		73,261
STOCKHOLDERS EQUITY:					

Common stock, no par value					
Additional paid-in capital	46,829	165,779	13,927	(179,706)	46,829
Treasury stock	(707)				(707)
Retained (deficit) earnings	(22,033)	(126,949)	17,385	109,564	(22,033)
Cumulative other comprehensive loss, net of tax	(7,063)	(10,619)		10,619	(7,063)
Total stockholders equity	17,026	28,211	31,312	(59,523)	17,026
Total liabilities and stockholders equity	$ 176,625	$ 364,452	$ 91,624	($119,511)	$ 513,190

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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	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	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)
Cumulative other comprehensive loss, net of tax	(8,922)	(13,934)		13,934	(8,922)
Total stockholders equity	17,997	(12,544)	33,055	(20,511)	17,997
Total liabilities and stockholders equity	$ 320,600	$ 396,306	$ 85,186	($268,700)	$ 533,392

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SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2002
In Thousands
(Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	$ 2,535	$ 238,716	$ 9,397	($11,664)	$ 238,984
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	1,959	125,554			127,513
Operating supplies and expenses	461	35,399	46		35,906
Purchased transportation		25,328			25,328
Insurance and claims		12,927	9,131	(9,129)	12,929
Operating taxes and licenses	54	8,576			8,630
Depreciation and amortization	744	12,420	118		13,282
Rents	424	1,431	1		1,856
Communications and utilities	141	1,729	3		1,873
Other operating expenses	691	3,164	135	(2,535)	1,455
Loss on disposal of operating assets, net		315			315
Total operating expenses	4,474	226,843	9,434	(11,664)	229,087
Operating (loss) income	(1,939)	11,873	(37)		9,897
OTHER INCOME (EXPENSE):					
Interest expense	(11,714)	(2,280)	(43)	6,427	(7,610)
Interest income	6,379	20	643	(6,427)	615
Gain on early extinguishment of debt					
Intercompany dividends	818	(818)			
Equity in earnings of subsidiaries	9,498	36		(9,534)	
	4,981	(3,042)	600	(9,534)	(6,995)
INCOME BEFORE INCOME TAXES	3,042	8,831	563	(9,534)	2,902
INCOME TAX (EXPENSE) BENEFIT	(933)	998	(858)		(793)
NET INCOME (LOSS)	$ 2,109	$ 9,829	($295)	($9,534)	$ 2,109

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2001
In Thousands
(Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	$ 2,475	$ 249,749	$ 9,538	($11,567)	$ 250,195
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	2,325	138,264			140,589
Operating supplies and expenses	72	39,773	50		39,895

Purchased transportation		28,666			28,666
Insurance and claims		13,900	8,960	(9,092)	13,768
Operating taxes and licenses	46	8,461			8,507
Depreciation and amortization	878	14,214	189		15,281
Rents	509	1,080	3		1,592
Communications and utilities	98	1,810	6		1,914
Other operating expenses	1,846	4,125	94	(2,475)	3,590
Gain on disposal of operating assets, net		(2,576)			(2,576)
Total operating expenses	5,774	247,717	9,302	(11,567)	251,226
Operating (loss) income	(3,299)	2,032	236		(1,031)
OTHER INCOME (EXPENSE):					
Equity in earnings of joint ventures, net of tax		1,218	112		1,330
Interest expense	(9,046)	(8,073)	(56)	7,788	(9,387)
Interest income	7,785	49	580	(7,788)	626
Intercompany dividends	1,729	(1,729)			
Equity in (losses) earnings of subsidiaries	(5,238)	220		5,018	
	(4,770)	(8,315)	636	5,018	(7,431)
(LOSS) INCOME BEFORE INCOME TAXES	(8,069)	(6,283)	872	5,018	(8,462)
INCOME TAX BENEFIT (EXPENSE)	2,353	696	(303)		2,746
NET (LOSS) INCOME	($5,716)	($5,587)	$ 569	$ 5,018	($5,716)

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SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2002
In Thousands
(Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	$ 5,070	$ 451,483	$ 19,019	($23,329)	$ 452,243
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	3,435	242,614			246,049
Operating supplies and expenses	787	65,939	85		66,811
Purchased transportation		47,107			47,107
Insurance and claims		23,498	18,261	(18,259)	23,500
Operating taxes and licenses	108	16,985			17,093
Depreciation and amortization	1,510	25,198	237		26,945
Rents	847	2,360	3		3,210
Communications and utilities	326	3,533	6		3,865
Other operating expenses	1,856	7,708	221	(5,070)	4,715
Gain on disposal of operating assets, net		(714)			(714)
Total operating expenses	8,869	434,228	18,813	(23,329)	438,581
Operating (loss) income	(3,799)	17,255	206		13,662
OTHER INCOME (EXPENSE):					
Interest expense	(20,129)	(8,182)	(132)	12,711	(15,732)
Interest income	12,614	34	950	(12,711)	887
Gain on early extinguishment of debt	2,750				2,750
Other, net			(207)		(207)
Intercompany dividends	978	(978)			
Equity in earnings of subsidiaries	4,240	133		(4,373)	
	453	(8,993)	611	(4,373)	(12,302)
(LOSS) INCOME BEFORE INCOME TAXES & CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(3,346)	8,262	817	(4,373)	1,360
INCOME TAX BENEFIT (EXPENSE)	207	972	(1,586)		(407)
(LOSS) INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(3,139)	9,234	(769)	(4,373)	953
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX		(4,092)			(4,092)
NET (LOSS) INCOME	($3,139)	$ 5,142	($769)	($4,373)	($3,139)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2001
In Thousands
(Unaudited)

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
REVENUES	$ 4,950	$ 467,525	$ 19,033	($23,134)	$ 468,374
OPERATING EXPENSES:					
Salaries, wages and fringe benefits	7,446	264,860			272,306
Operating supplies and expenses	975	80,309	53		81,337
Purchased transportation		51,962			51,962
Insurance and claims		27,702	17,539	(18,184)	27,057
Operating taxes and licenses	93	17,040			17,133
Depreciation and amortization	1,725	28,224	356		30,305
Rents	1,041	2,618	3		3,662
Communications and utilities	112	3,834	6		3,952
Other operating expenses	3,606	8,823	134	(4,950)	7,613
Gain on disposal of operating assets, net		(2,743)			(2,743)
Total operating expenses	14,998	482,629	18,091	(23,134)	492,584
Operating (loss) income	(10,048)	(15,104)	942		(24,210)
OTHER INCOME (EXPENSE):					
Equity in earnings of joint ventures, net of tax		2,437	102		2,539
Interest expense	(17,069)	(16,132)	(96)	15,444	(17,853)
Interest income	15,495	112	1,427	(15,444)	1,590
Intercompany dividends	1,980	(1,980)			
Equity in (losses) earnings of subsidiaries	(28,117)	416		27,701	
	(27,711)	(15,147)	1,433	27,701	(13,724)
(LOSS) INCOME BEFORE INCOME TAXES	(37,759)	(30,251)	2,375	27,701	(37,934)
INCOME TAX BENEFIT (EXPENSE)	13,181	912	(737)		13,356
NET (LOSS) INCOME	($24,578)	($29,339)	$ 1,638	$ 27,701	($24,578)

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	($3,139)	$ 5,142	($769)	($4,373)	($3,139)
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		377			377
Amortization of deferred financing costs	2,028				2,028
Depreciation and amortization	1,510	25,198	237		26,945
Cumulative effect of change in accounting principle		5,194			5,194
Gain on disposal of assets and other, net		(507)			(507)
Deferred income taxes	1,832	(1,891)	(575)		(634)
Compensation expense related to stock options and grants	148				148
Equity in earnings of subsidiaries	(4,240)	(133)		4,373	
Amortization of Teamsters Union contract costs		1,200			1,200
Change in operating assets and liabilities:					
Receivables, net of allowance for doubtful accounts	24	10,692	241		10,957
Inventories		233	5		238
Prepayments and other current assets	294	(194)	(8)		92
Intercompany receivables and payables	185,670	(181,911)	(3,759)		
Trade accounts payable	(1,009)	1,176	50		217
Accrued liabilities	(2,847)	(6,678)	11,890		2,365
Total adjustments	180,660	(147,244)	8,081	4,373	45,870
Net cash provided by (used in) operating activities	177,521	(142,102)	7,312		42,731
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment		(7,470)			(7,470)
Intercompany sale of property and equipment	(2)	2			
Proceeds from sale of property and equipment		2,857			2,857
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			(1,229)		(1,229)
Increase in cash surrender value of life insurance	(317)				(317)
Net cash provided by (used in) investing activities	(32,616)	28,660	497		(3,459)

CASH FLOWS FROM FINANCING ACTIVITIES:					
(Repayments) additions to revolving credit facilities, net	(98,900)	38,177			(60,723)
Additions to long-term debt		82,751			82,751
Repayment of long-term debt	(37,498)	(6,332)			(43,830)
Payment of deferred financing costs	(8,829)				(8,829)
Proceeds from issuance of common stock	161				161
Other, net	(48)	122	299		373
Net cash (used in) provided by financing activities	(145,114)	114,718	299		(30,097)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(247)			(247)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(209)	1,029	8,108		8,928
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	209	1,063	9,271		10,543
CASH AND CASH EQUIVALENTS AT END OF PERIOD		$ 2,092	$ 17,379		$ 19,471

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SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2001
In Thousands

	ALLIED HOLDINGS	GUARANTOR SUBSIDIARIES	NONGUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	($24,578)	($29,339)	$ 1,638	$ 27,701	($24,578)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:					
Amortization of deferred financing costs	2,028	(375)			1,653
Depreciation and amortization	1,725	28,224	356		30,305
Gain on sale disposal of assets and other, net		(2,743)			(2,743)
Deferred income taxes	(15,000)	1,644			(13,356)
Compensation expense related to stock options and grants	138				138
Equity in earnings of joint ventures		(2,437)	(102)		(2,539)
Equity in losses (earnings) of subsidiaries	28,117	(416)		(27,701)	
Amortization of Teamsters Union contract costs		1,202			1,202
Change in operating assets and liabilities:					
Receivables, net of allowance for doubtful accounts	774	22,897	(2,844)		20,827
Inventories		415			415
Prepayments and other current assets	407	(4,151)	2,109		(1,635)
Intercompany receivables and payables	(9,071)	7,667	1,404		
Trade accounts payable	899	(5,040)	57		(4,084)
Accrued liabilities	6,579	(4,648)	10,689		12,620
Total adjustments	16,596	42,239	11,669	(27,701)	42,803
Net cash (used in) provided by operating activities	(7,982)	12,900	13,307		18,225
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment	(67)	(16,155)	(720)		(16,942)
Intercompany sale of property and equipment	811	(811)			
Proceeds from sale of property and equipment		4,745			4,745
Investment in joint ventures			(464)		(464)
Intercompany dividend received (paid)	1,980	(1,980)			
Increase in short-term investments			(2,590)		(2,590)
Increase in cash surrender value of life insurance	(240)				(240)
Net cash provided by (used in) investing activities	2,484	(14,201)	(3,774)		(15,491)
CASH FLOWS FROM FINANCING ACTIVITIES:					
(Repayments) additions to revolving credit facilities, net	10,676	1,193			11,869

Additions to long-term debt					
Repayment of long-term debt		(104)			(104)
Payment of deferred financing costs	(2,507)				(2,507)
Proceeds from issuance of common stock	217				217
Other, net	(2,314)	1,243	1,352		281
Net cash provided by financing activities	6,072	2,332	1,352		9,756
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(508)	(921)		(1,429)
NET INCREASE IN CASH AND CASH EQUIVALENTS	574	523	9,964		11,061
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	(1,213)	2,063	1,523		2,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD	($639)	$ 2,586	$ 11,487		$ 13,434

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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 June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Revenues	100.0%	100.0%	100.0%	100.0%