

ALLIED HOLDINGS INC  
Form 10-Q  
November 15, 2006

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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 September 30, 2006**

**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)

**www.alliedholdings.com**

(Web Page)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act of 1934).

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Outstanding common stock, no par value at November 4, 2006 8,980,329

**ALLIED HOLDINGS, INC. AND SUBSIDIARIES  
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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ALLIED HOLDINGS, INC. AND SUBSIDIARIES****(Debtor-in-Possession since July 31, 2005)****CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,862	\$ 4,117
Restricted cash, cash equivalents and other time deposits	32,537	32,830
Receivables, net of allowances of \$1,970 and \$2,218 as of September 30, 2006 and December 31, 2005, respectively	50,139	61,427
Inventories	5,181	5,132
Deferred income taxes		128
Prepayments and other current assets	20,683	59,434
<b>Total current assets</b>	<b>114,402</b>	<b>163,068</b>
Property and equipment, net of accumulated depreciation	128,940	123,904
Goodwill, net	3,545	3,545
Other assets:		
Restricted cash, cash equivalents and other time deposits	66,059	69,764
Deferred income taxes	127	
Other noncurrent assets	24,083	22,835
<b>Total other assets</b>	<b>90,269</b>	<b>92,599</b>
<b>Total assets</b>	<b>\$ 337,156</b>	<b>\$ 383,116</b>

**LIABILITIES AND STOCKHOLDERS DEFICIT**

Current liabilities not subject to compromise:		
Debtor-in-possession credit facility	\$ 156,172	\$ 151,997
Accounts and notes payable	29,097	57,196
Accrued liabilities	74,645	83,317
Deferred income taxes	145	
<b>Total current liabilities</b>	<b>260,059</b>	<b>292,510</b>
Long-term liabilities not subject to compromise:		
Postretirement benefits other than pensions	4,314	4,412
Deferred income taxes		143
Other long-term liabilities	70,361	74,096

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Total long-term liabilities	74,675	78,651
Liabilities subject to compromise	199,199	199,322
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, no par value. Authorized 5,000 shares; none outstanding		
Common stock, no par value. Authorized 20,000 shares; 8,980 shares outstanding at September 30, 2006 and December 31, 2005		
Additional paid-in capital	48,825	48,545
Treasury stock, 139 shares at cost	(707)	(707)
Accumulated deficit	(223,832)	(214,631)
Accumulated other comprehensive loss, net of tax	(21,063)	(20,574)
Total stockholders' deficit	(196,777)	(187,367)
Total liabilities and stockholders' deficit	\$ 337,156	\$ 383,116

See accompanying notes to these consolidated financial statements.

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands, except per share data)**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Revenues	\$ 202,151	\$ 203,090	\$ 688,361	\$ 656,594
Operating expenses:				
Salaries, wages and fringe benefits	104,897	110,285	345,373	349,618
Operating supplies and expenses	43,221	41,781	142,224	127,405
Purchased transportation	26,111	28,586	89,689	88,829
Insurance and claims	10,006	8,587	31,174	27,165
Operating taxes and licenses	6,616	6,785	21,669	22,196
Depreciation and amortization	6,927	6,698	21,426	21,940
Rents	1,842	1,810	5,334	5,608
Communications and utilities	1,438	1,185	4,876	4,575
Other operating expenses	2,064	2,655	6,112	9,714
Impairment of goodwill				79,172
Gain on disposal of operating assets, net	(5)	(85)	(260)	(462)
Total operating expenses	203,117	208,287	667,617	735,760
Operating (loss) income	(966)	(5,197)	20,744	(79,166)
Other income (expense):				
Interest expense (excludes contractual interest of \$3,234 and \$9,703 for the three and nine months ended September 30, 2006, respectively and \$2,156 for the three and nine months ended September 30, 2005)	(5,537)	(9,571)	(24,603)	(32,522)
Investment income	1,252	847	3,500	1,863
Foreign exchange gains, net	257	1,893	1,842	1,282
Total other income (expense)	(4,028)	(6,831)	(19,261)	(29,377)
(Loss) income before reorganization items and income taxes	(4,994)	(12,028)	1,483	(108,543)
Reorganization items	(2,082)	(3,929)	(10,372)	(3,929)
Loss before income taxes	(7,076)	(15,957)	(8,889)	(112,472)
Income tax (expense) benefit	(122)	(39)	(312)	11,368
Net loss	\$ (7,198)	\$ (15,996)	\$ (9,201)	\$ (101,104)

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Basic and diluted loss per common share:

Net loss:

Basic and diluted	\$ (0.80)	\$ (1.78)	\$ (1.02)	\$ (11.26)
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Weighted-average number of common shares

outstanding:

Basic and diluted	8,980	8,980	8,980	8,980
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See accompanying notes to these consolidated financial statements.

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>
Cash flows from operating activities:		
Net loss	\$ (9,201)	\$ (101,104)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,426	21,940
Impairment of goodwill		79,172
Gain on disposal of assets	(260)	(462)
Write-off and amortization of deferred financing costs	5,706	7,368
Interest expense paid in kind	3,045	
Foreign exchange gains	(1,842)	(1,282)
Reorganization items	10,372	3,929
Deferred income taxes	3	(11,261)
Stock-based compensation expense	280	
Change in operating assets and liabilities:		
Receivables, net of allowances	11,765	2,729
Inventories	9	(547)
Prepayments and other assets	29,986	(3,009)
Accounts and notes payable	2,054	7,593
Accrued liabilities	(14,084)	(292)
Net cash provided by operating activities before payment of reorganization items	59,259	4,774
Reorganization items paid	(9,629)	(712)
Net cash provided by operating activities	49,630	4,062
Cash flows from investing activities:		
Purchases of property and equipment	(25,668)	(12,574)
Proceeds from sales of property and equipment	927	2,851
Decrease (increase) in restricted cash, cash equivalents and other time deposits	3,998	(19,686)
Funds deposited with insurance carriers	(1,008)	(8,182)
Funds returned from insurance carriers	3,395	4,131
Net cash used in investing activities	(18,356)	(33,460)
Cash flows from financing activities:		
(Repayment of) addition to debtor-in-possession revolving credit facility, net	(8,870)	41,517
Repayment of pre-petition revolving credit facilities, net		(2,972)
Additions to debtor-in-possession term debt	10,000	100,000
Additions to pre-petition term debt		25,000



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Repayment of pre-petition term debt		(123,266)
Payment of deferred financing costs	(345)	(8,079)
Proceeds from insurance financing arrangements	178	8,470
Repayments of insurance financing arrangements	(29,964)	(10,122)
Proceeds from issuance of common stock		124
Net cash (used in) provided by financing activities	(29,001)	30,672
Effect of exchange rate changes on cash and cash equivalents	(528)	106
Net change in cash and cash equivalents	1,745	1,380
Cash and cash equivalents at beginning of period	4,117	2,516
Cash and cash equivalents at end of period	\$ 5,862	\$ 3,896
Supplemental cash flow information:		
Cash paid (refunds received) during the period for:		
Interest	\$ 17,807	\$ 22,737
Income taxes, net	234	(492)
Supplemental disclosure of noncash financing activity:		
Interest paid in kind via addition to term debt	\$ 3,045	\$

See accompanying notes to these consolidated financial statements.

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

*(Throughout this Quarterly Report on Form 10-Q, we will use the terms we, our, us and Allied to refer to Allied Holdings, Inc. (a Georgia corporation) and its subsidiaries on a consolidated basis and, as the context requires, to Allied Holdings, Inc. and its subsidiaries that filed for Chapter 11 pursuant to the U.S Bankruptcy Code.)*

**(1) Organization and Operations**

*Company Overview*

We are a vehicle-hauling company providing a range of logistics and other support services to the automotive industry. Our principal operating divisions are Allied Automotive Group, Inc. (Allied Automotive Group) and Axis Group, Inc. ( Axis Group ). Allied Automotive Group, through its subsidiaries, is engaged in the business of transporting automobiles, light trucks, and sports-utility vehicles ( SUVs ) from manufacturing plants, ports, auctions, and railway distribution points to automobile dealerships. Axis Group, through its subsidiaries, is engaged in the business of securing and managing vehicle distribution services, automobile inspections, auction and yard management services, vehicle tracking, vehicle accessorization, and dealer preparatory services for the automotive industry.

*Chapter 11 Overview*

On July 31, 2005 ( the Petition Date ), Allied Holdings, Inc. and substantially all of its subsidiaries (the Debtors ) filed voluntary petitions seeking protection under Chapter 11 of the U.S. Bankruptcy Code ( Chapter 11 ). Our captive insurance subsidiary, Haul Insurance Limited, as well as our subsidiaries in Mexico and Bermuda (the Non-debtors ) were not included in the Chapter 11 filings. Our Canadian subsidiaries obtained approval for creditor protection under the Companies Creditors Arrangement Act in Canada and are included among the subsidiaries that filed voluntary petitions seeking bankruptcy protection. Like Chapter 11, the Companies Creditors Arrangement Act in Canada allows for reorganization under the protection of the court system.

The Debtors are currently operating their business as debtors-in-possession under the jurisdiction of the U.S. Bankruptcy Court for the Northern District of Georgia ( Bankruptcy Court ) and cannot engage in transactions considered to be outside of the ordinary course of business without obtaining Bankruptcy Court approval. We currently have the exclusive right to file a plan of reorganization until January 17, 2007 and to solicit acceptance of the plan through March 21, 2007. The exclusivity period can be extended at our request, if approved by the Bankruptcy Court. However, we can provide no assurance that any request to extend the exclusivity period, to the extent necessary, will be approved. Proceedings between the Petition Date and the date that the plan of reorganization is consummated will be referred to as the Chapter 11 Proceedings. See Note 3 for other disclosures required by entities in reorganization under the Bankruptcy Code.

**(2) Accounting and Reporting Policies**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and are based on the Security and Exchange Commission's Regulation S-X and its instructions to Form 10-Q. They do not include all of the information and notes required by generally accepted accounting principles ( GAAP ) for complete financial statements. However, except as disclosed in this report, management believes that there have been no material changes in the information that we disclosed in the notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring items, necessary to present fairly the financial condition, results of operations and cash flows for the interim periods presented. These interim financial statements should be read in conjunction with the financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2005. As a result of our

Chapter 11 filings, we have applied the guidance in the American Institute of Certified Public Accountants' Statement of Position 90-7 ( SOP 90-7 ), *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*.

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

The accompanying unaudited consolidated financial statements have been prepared on the going concern basis, which assumes that we will continue in operation for the foreseeable future and will realize our assets and discharge our post-petition liabilities in the ordinary course of business. However, continuation as a going concern is predicated upon, among other things, the confirmation of a plan of reorganization, compliance with the provisions of the debtor-in-possession facility, our ability to obtain an extension of the maturity date of the revolving credit facility portion of the debtor-in-possession facility, our ability to reach an agreement with the International Brotherhood of Teamsters ( IBT or Teamsters ) on a new collective bargaining agreement, our ability to generate sufficient cash from operations, our ability to obtain financing sufficient to satisfy our future obligations and our ability to comply with the terms of the ultimate plan of reorganization.

The term loans under our debtor-in-possession facility have maturity dates of June 30, 2007. However, the revolving credit facility portion of the facility has a maturity date of February 2, 2007. We have requested an extension of this maturity date to June 30, 2007, but can provide no assurance that the extension will be granted.

We can provide no assurance that we will be able to reach an agreement with the Teamsters in the U.S. on a new collective bargaining agreement as necessary to allow us to emerge from Chapter 11, or that such contract will be on terms acceptable to us or that such contract will not result in increased labor costs, labor disruptions, increased employee turnover, higher risk management costs, work stoppages, or lost customer market share, which could, in turn, have a material adverse effect on our financial condition, results of operations or customer relationships.

The accompanying unaudited consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should we be unable to continue as a going concern, nor do they include any adjustments to the carrying values of assets and liabilities that might be required as a result of the plan of reorganization. A plan of reorganization could substantially change the amounts currently recorded in the accompanying unaudited consolidated financial statements. Asset and liability carrying amounts do not purport to represent the realizable or settlement values that will be reflected in the plan of reorganization and it is not possible to estimate the impact of the Chapter 11 Proceedings on our financial statements.

As a result of the Chapter 11 Proceedings, we may take, or be required to take, actions that may cause assets to be realized or liabilities to be settled for amounts other than those reflected in these financial statements.

Certain reclassifications have been made to the prior period financial statements in order to conform to the current period presentation.

*Use of Estimates and Seasonality*

The preparation of financial statements in accordance with GAAP requires that management make a number of estimates and assumptions relating to the reported amount of assets and liabilities and disclosures about contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the period. Significant items subject to estimates and assumptions include the carrying amounts of property and equipment and goodwill; valuation allowances for receivables and deferred income tax assets; self-insurance reserves; assets and obligations related to employee benefits; liabilities subject to compromise; and reorganization items. Actual results could differ from those estimates.

Our revenues are seasonal, with the second and fourth quarters generally experiencing higher revenues than the first and third quarters as a result of the higher volume of vehicles shipped. The volume of vehicles shipped is generally higher during the second quarter as North American light vehicle production has historically been at its highest level during this quarter due to higher consumer sales of automobiles, light trucks and SUVs in the spring and early summer. The introduction of new models in the fall of each year, combined with the manufacturers' motivation to ship vehicles before calendar year end, increase shipments to dealers through the fourth quarter. During the first and third quarters, vehicle shipments typically decline due to lower production volume during those periods. The third quarter volume does benefit from the introduction of new models, but the net volume for the quarter is typically lower than the second and fourth quarters due to the scheduled original-equipment manufacturer ( OEM ) plant shutdowns, which

generally occur early in the third quarter. The first quarter volume is negatively impacted by the holiday shutdown in December of each year and the relatively low inventory of vehicles to ship as a result of maximizing shipments at the end of the year. As a result of these and other factors, our operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

**(3) Accounting for Reorganization**

As a result of our Chapter 11 filings, we have applied the guidance in SOP 90-7 in the preparation of the accompanying unaudited consolidated financial statements. SOP 90-7 does not change the application of GAAP in the preparation of financial statements. However, SOP 90-7 does require that financial statements, for periods including and subsequent to the filing of a Chapter 11 petition, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business and also that liabilities subject to compromise be segregated from those not subject to compromise. In accordance with SOP 90-7 we have:

separated liabilities that are subject to compromise from liabilities that are not subject to compromise;

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

distinguished transactions and events that are directly associated with the reorganization from the ongoing operations of the business; and

ceased accruing interest on the 8<sup>5</sup>/<sub>8</sub>% senior notes ( Senior Notes ).

*Liabilities Subject to Compromise*

Liabilities subject to compromise include certain known liabilities incurred by the Debtors prior to the Petition Date. Liabilities subject to compromise exclude pre-petition claims for which the Debtors have received the Bankruptcy Court's approval to pay, such as claims related to active employees and retirees, maintenance of insurance programs, cargo damage claims and claims related to certain critical service vendors. Liabilities subject to compromise are included at amounts expected to be allowed by the Bankruptcy Court and are subject to future adjustments that may result from negotiations, actions by the Bankruptcy Court, developments with respect to disputed claims or matters arising out of the proof of claims process whereby a creditor may prove that the amount of a claim differs from the amount that we have recorded.

The bar date set by the Bankruptcy Court for the submission of claims by creditors was February 17, 2006. A number of proofs of claim were filed against the Debtors by various creditors and security holders and we have not reconciled these claims to our records. As part of the claims reconciliation process, the Debtors will review these claims for validity. As claims are reconciled, the Debtors may need to record additional liabilities subject to compromise.

Adjustments arising out of the claims reconciliation process could have a material effect on our financial statements. We ceased the recording of interest on liabilities subject to compromise, primarily the Senior Notes, as of the Petition Date. Contractual interest on the Senior Notes in excess of reported interest was approximately \$3.2 million and \$9.7 million for the three and nine months ended September 30, 2006, respectively. As of September 30, 2006, contractual interest not accrued since the Petition Date was approximately \$15.1 million, excluding any potential compound or default interest arising from events of default related to the Chapter 11 Proceedings.

Liabilities subject to compromise are as follows at September 30, 2006 and December 31, 2005 (in thousands):

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Accounts payable	\$ 24,905	\$ 24,922
Senior Notes	150,000	150,000
Accrued interest on Senior Notes	4,313	4,313
Multiemployer pension withdrawal liabilities	15,847	15,847
Accrued claims and insurance reserves	3,003	3,109
Other accrued liabilities	1,131	1,131
	<b>\$ 199,199</b>	<b>\$ 199,322</b>

*Reorganization Items*

Reorganization items are presented separately in the accompanying unaudited consolidated statements of operations and represent expenses that we have identified as directly relating to the Chapter 11 Proceedings. These items for the three and nine months ended September 30, 2006 and 2005 are summarized as follows (in thousands):

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Legal and professional fees	\$ 1,382	\$ 2,203	\$ 7,909	\$ 2,203
Write-off of deferred financing costs		1,442		1,442
Employee retention plan	618		2,208	
Other reorganization items	82	284	255	284
	\$ 2,082	\$ 3,929	\$ 10,372	\$ 3,929

*Condensed Financial Statement Information of the Debtors and Non-debtors*

As disclosed above, the Non-debtors were not among the subsidiaries that filed for Chapter 11. Presented below are unaudited condensed consolidating financial statement information of the Debtors and the Non-debtors:

**Condensed Consolidating Balance Sheet Information**  
**September 30, 2006**  
**(In thousands)**

	<b>Debtors</b>	<b>Non-Debtors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Current assets	\$ 73,255	\$ 41,121	\$ 26	\$ 114,402
Intercompany receivables (payables)	19,036	(19,036)		
Property and equipment, net	125,559	3,381		128,940
Goodwill, net	3,545			3,545
Investment in subsidiaries	25,271	6,223	(31,494)	
Other assets	22,969	67,300		90,269
Total assets	\$ 269,635	\$ 98,989	\$ (31,468)	\$ 337,156
Liabilities not subject to compromise:				
Current liabilities	\$ 238,557	\$ 22,805	\$ (1,303)	\$ 260,059
Other noncurrent liabilities	27,718	46,957		74,675
Liabilities subject to compromise	199,199			199,199
Stockholders (deficit) equity	(195,839)	29,227	(30,165)	(196,777)
Total liabilities and stockholders (deficit) equity	\$ 269,635	\$ 98,989	\$ (31,468)	\$ 337,156

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**ALLIED HOLDINGS, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession since July 31, 2005)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**  
**Condensed Consolidating Balance Sheet Information**  
**December 31, 2005**  
**(In thousands)**

	<b>Debtors</b>	<b>Non-Debtors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Current assets	\$ 121,807	\$ 41,261	\$	\$ 163,068
Intercompany receivables (payables)	14,744	(14,744)		
Property and equipment, net	120,212	3,692		123,904
Goodwill, net	3,545			3,545
Investment in subsidiaries	21,169	6,223	(27,392)	
Other assets	22,366	70,233		92,599