ALLIED HOLDINGS INC
Form 10-Q
January 07, 2005

Table of Contents

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 September 30, 2004

or

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

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)

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

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

[ ] Yes [X] No

Outstanding common stock, no par value at December 31, 2004 8,919,153

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

INDEX

2

Table of Contents

PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands)

	September 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,902	$ 2,148
Restricted cash and cash equivalents	26,453	26,267
Receivables, net of allowance for doubtful accounts of $3,107 and $3,575 respectively	52,379	55,110
Inventories	5,031	4,983
Deferred income taxes	14,960	20,213
Prepayments and other current assets	18,726	12,644
Total current assets	124,451	121,365
PROPERTY AND EQUIPMENT, NET	142,974	155,573
GOODWILL, NET	90,739	90,203
OTHER ASSETS:		
Restricted cash and cash equivalents	56,213	55,817
Other non-current assets	31,931	32,777
Total other assets	88,144	88,594
Total assets	$446,308	$455,735
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 13,500	$ 16,374

Borrowings under revolving credit facility	18,226	
Accounts and notes payable	33,960	34,272
Accrued liabilities	89,730	80,937
Total current liabilities	155,416	131,583
LONG-TERM DEBT, less current maturities	218,208	230,126
POSTRETIREMENT BENEFITS OTHER THAN PENSIONS	4,921	5,302
DEFERRED INCOME TAXES	14,960	20,213
OTHER LONG-TERM LIABILITIES	62,526	59,697
STOCKHOLDERS (DEFICIT) EQUITY:		
Preferred stock, no par value; 5,000 shares authorized, none outstanding		
Common stock, no par value; 20,000 shares authorized, 8,889 and 8,764 shares outstanding at September 30, 2004 and December 31, 2003, respectively		
Additional paid-in capital	48,512	47,511
Treasury stock at cost, 139 shares at September 30, 2004 and December 31, 2003	(707)	(707)
Accumulated deficit	(55,459)	(35,024)
Accumulated other comprehensive loss, net of tax	(2,069)	(2,966)
Total stockholders (deficit) equity	(9,723)	8,814
Total liabilities and stockholders (deficit) equity	$446,308	$455,735

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

Table of Contents

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
REVENUES	$207,599	$197,089	$656,459	$640,759
OPERATING EXPENSES:				
Salaries, wages and fringe benefits	111,298	107,369	359,163	348,446
Operating supplies and expenses	36,371	29,960	114,930	103,108
Purchased transportation	27,072	24,082	81,566	74,632
Insurance and claims	11,401	8,260	30,205	29,094
Operating taxes and licenses	6,848	6,992	21,503	22,989
Depreciation and amortization	9,517	11,011	29,832	34,688
Rents	2,008	1,579	5,753	4,819
Communications and utilities	1,455	1,745	4,760	5,213
Other operating expenses	2,105	2,791	7,056	8,175
Loss (gain) on disposal of operating assets, net	305	153	(705)	612
Total operating expenses	208,380	193,942	654,063	631,776
Operating (loss) income	(781)	3,147	2,396	8,983
OTHER INCOME (EXPENSE):				
Interest expense	(8,754)	(7,366)	(23,699)	(22,120)
Investment income (loss)	567	(398)	755	2,935
Foreign exchange gain (loss), net	1,735	(62)	614	2,386
Other, net	(91)	1,976	(191)	1,976
	(6,543)	(5,850)	(22,521)	(14,823)
LOSS BEFORE INCOME TAXES	(7,324)	(2,703)	(20,125)	(5,840)
INCOME TAX (PROVISION) BENEFIT	(310)	728	(310)	1,573

NET LOSS	($ 7,634)	($ 1,975)	($ 20,435)	($ 4,267)
LOSS PER COMMON SHARE: BASIC AND DILUTED	($ 0.87)	($ 0.23)	($ 2.35)	($ 0.50)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING: BASIC AND DILUTED	8,791	8,507	8,705	8,459

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

Table of Contents

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)
(Unaudited)

	For the Nine Months Ended September 30,	
	2004	**2003**
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	($ 20,435)	($ 4,267)
Reconciliation of net loss to net cash provided by operating activities:		
Interest expense paid in kind		1,065
Amortization of deferred financing costs	2,094	3,007
Depreciation and amortization	29,832	34,688
(Gain) loss on disposal of operating assets, net	(705)	612
Foreign exchange (gain) loss, net	(614)	(2,386)
Deferred income taxes		(3,402)
Compensation expense related to stock options and grants	475	290
Amortization of Teamsters Union contract costs		1,000
Change in operating assets and liabilities:		
Receivables, net of allowance for doubtful accounts	(236)	6,471
Inventories	(27)	336
Prepayments and other assets	(2,597)	1,968
Accounts and notes payable	(6,005)	(9,676)
Accrued liabilities	10,795	(4,155)
Net cash provided by operating activities	12,577	25,551
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(18,054)	(11,547)
Proceeds from sale of property and equipment, net	2,117	287
Increase in restricted cash and cash equivalents	(582)	(81,165)
Decrease in restricted investments		60,732
Funds deposited with insurance carriers	(32,024)	(22,680)
Funds returned from insurance carriers	33,743	18,058
Decrease in the cash surrender value of life insurance	147	2
Net cash used in investing activities	(14,653)	(36,313)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to (repayments of) revolving credit facilities, net	18,226	(20,280)
Additions to long-term debt		99,875
Repayment of long-term debt	(14,792)	(74,905)
Payment of deferred financing costs		(3,031)
Proceeds from insurance financing arrangements	28,608	15,228
Repayments of insurance financing arrangements	(26,225)	(15,287)
Proceeds from issuance of common stock	526	282
Other, net		65
Net cash provided by financing activities	6,343	1,947
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	487	746
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,754	(8,069)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,148	9,448
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,902	$ 1,379

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

Table of Contents

ALLIED HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2004 and 2003

(1) Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q of Regulation S-X. They do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2003. The statements contained herein reflect all adjustments (including normal recurring accruals), which are, in the opinion of management, necessary to present fairly the financial condition, results of operations and cash flows for the periods presented. Operating results for the three and nine-month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. 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 2003 Annual Report on Form 10-K.

(2) Use of Estimates

The preparation of the interim consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and goodwill; valuation allowances for receivables and deferred income tax assets; self-insurance reserves; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

(3) Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, (FASB), issued FASB Interpretation No. 46 *Consolidation of Variable Interest Entities and Interpretation of ARB No. 51,* or FIN 46, as revised in December 2003, which addresses the consolidation by business enterprises of variable interest entities. FIN 46 is immediately effective for all variable interest entities created after January 31, 2003. For variable interest entities created prior to this date, the provisions of FIN 46 must be applied no later than the first interim period ending after March 15, 2004; however, all public companies were required to apply the unmodified provisions of FIN 46 to entities considered special purpose entities by the end of the first reporting period ending after December 15, 2003. The adoption of FIN 46 did not have any impact on the Company s financial statements.

In December 2003, the Financial Accounting Standards Board revised SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits* (Statement No. 132R). Statement No. 132R requires, among other things, the disclosure of the components of the net periodic benefit costs recognized during interim periods such disclosures are included in this Form 10-Q.

(4) Restatements and Reclassifications

During 2003, and as discussed in the Company s 2003 Annual Report on Form 10-K, the Company evaluated the classification of its cash and investments which were pledged to collateralize letters of credit required by third-party insurance companies for the settlement of insurance claims. The Company concluded that because of the restriction on certain of its cash and investments, such cash and investments should have been designated as restricted in the statement of cash flows. Accordingly, the Company has restated its previously issued financial statements as of September 30, 2003 to exclude restricted cash of $82.0 million from the cash and cash equivalents totals in the consolidated statement of cash flows for the nine months ended September 30, 2003.

As discussed in the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2004, the Company enters into notes payable with third parties to finance certain insurance arrangements. During 2004, the Company evaluated its insurance financing arrangements and determined that borrowings and repayments in connection with

Table of Contents

these insurance financing arrangements should be reclassified from operating activities to financing activities in the consolidated statement of cash flows. The Company also concluded that certain additional insurance financing arrangements should be presented in the balance sheets on a gross basis, as assets and obligations, rather than on a net basis. Additionally, the Company concluded that funds deposited with and returned from the Company s insurance carriers related to its insurance financing arrangements should be disclosed as cash flows from investing activities rather than cash flows from operating activities. A summary of the effects of these restatements and reclassifications on the Company s consolidated statement of cash flows for the nine months ended September 30, 2003 includes (in thousands):

	September 30, 2003	
	As Previously Reported	As Restated
Change in operating assets and liabilities:		
Receivables, net of allowance for doubtful accounts	$ 1,840	$ 6,471
Prepayments and other assets	16,359	1,968
Short-term investments	60,732	
Accrued liabilities	(18,596)	(4,155)
Net cash provided by operating activities	81,602	25,551
Cash flows from investing activities:		
Increase in restricted cash and cash equivalents		(81,165)
Increase in restricted investments		60,732
Funds deposited with insurance carriers		(22,680)
Funds returned from insurance carriers		18,058
Net cash used in investing activities	(11,258)	(36,313)
Cash flows from financing activities:		
Proceeds from insurance financing arrangements		15,228
Repayments of insurance financing arrangements		(15,287)
Net cash provided by financing activities	2,006	1,947
Cash and cash equivalents at the beginning of the period	10,253	9,448
Cash and cash equivalents at the end of the period	83,349	1,379

During the Company s review of the third quarter of 2004, certain adjustments were identified related to prior quarters of 2004 and prior years. The impact of adjusting these items was a $704,000 increase in the net loss for the three months ended September 30, 2004 and a $722,000 decrease in the net loss for the nine months ended September 30, 2004. Basic and diluted loss per share was increased by $0.08 for the three months ended September 30, 2004 and decreased by $0.08 for the nine months ended September 30, 2004 as a result of adjusting these items. The Company believes that these adjustments were not material to the consolidated financial statements of any prior period and were not material to the consolidated financial statements for the quarter ended September 30, 2004.

(5) Prepayments and Other Current Assets

Prepayments and other current assets consist of the following at September 30, 2004 and December 31, 2003 (in thousands):

	September 30, 2004	December 31, 2003
Tires on tractors and trailers	$ 6,810	$ 6,779
Prepaid insurance and deposits	4,430	2,067
Prepaid licenses	2,608	1,471
Other	4,878	2,327
	$ 18,726	$ 12,644

Table of Contents

(6) Goodwill

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company does not amortize goodwill but reviews it annually for impairment or on an interim basis if an event occurs or circumstances change that would potentially reduce the fair value of goodwill below its carrying value. The Company s reporting units are the Allied Automotive Group and the Axis Group. The following table sets forth the carrying value of goodwill by reporting unit as of September 30, 2004 and December 31, 2003 (in thousands):

	Allied Automotive Group	Axis Group	Total
Balance as of December 31, 2003	$77,983	$12,220	$90,203
Increase in carrying amount due to a change in currency rates	533	3	536
Balance as of September 30, 2004	$78,516	$12,223	$90,739

(7) Other Non-Current Assets

Other non-current assets consist of the following at September 30, 2004 and December 31, 2003 (in thousands):

	September 30, 2004	December 31, 2003
Cash surrender value of life insurance	$ 6,053	$ 6,201
Deferred financing costs	7,625	9,718
Prepaid pension cost	14,333	14,166
Deposits and other	3,920	2,692
	$31,931	$32,777

The Company amortizes deferred financing costs related to its 8 5/8% senior notes and revolving credit facility using the straight-line method. The accumulated amortization related to these costs was $5.8 million and $4.6 million at September 30, 2004 and December 31, 2003, respectively. Deferred financing costs related to its term loan are amortized using the effective interest rate method. The accumulated amortization for the costs related to its term loan was $1.3 million and $0.4 million at September 30, 2004 and December 31, 2003, respectively.

(8) Accounts and Notes Payable and Accrued Liabilities

The Company enters into notes payable with third parties for insurance financing arrangements. The Company has outstanding notes payable of $5.6 and $3.2 million for insurance financing arrangements as of September 30, 2004 and December 31, 2003, respectively, due in monthly installments, generally within one year.

Accrued liabilities consists of the following at September 30, 2004 and December 31, 2003 (in thousands):

	September 30, 2004	**December 31, 2003**
Wages and benefits	$ 36,378	$ 35,180
Claims and insurance reserves	32,866	31,425
Other	20,486	14,332
	$ 89,730	$ 80,937

Table of Contents

(9) Employee Benefit Plans

The following table sets forth the components of the Company s net periodic benefit cost for the pension and postretirement benefit plans for the three and nine-month periods ended September 30, 2004 and 2003 (in thousands):

	Three Months Ended September 30,			
	Pension Benefits		Postretirement Medical Benefits	
	2004	2003	2004	2003
Service cost	$ 22	$ 28	$ 12	$ 12
Interest cost	677	832	144	138
Expected return on assets	(1,158)	(965)		
Amortization of:				
Unrecognized net actuarial loss	(36)	438		
Prior service cost	12	15	(16)	(16)
Transition asset	8	(6)		
Recognized actuarial loss	54	67	16	16
Net period benefit cost	$ (421)	$ 409	$156	$150

	Nine Months Ended September 30,			
	Pension Benefits		Postretirement Medical Benefits	
	2004	2003	2004	2003
Service cost	$ 67	$ 53	$ 36	$ 35
Interest cost	2,028	1,617	432	414
Expected return on assets	(2,726)	(1,875)		
Amortization of:				
Unrecognized net actuarial loss	675	851		
Prior service cost	36	29	(49)	(47)
Transition asset	(2)	(12)		
Recognized actuarial loss	163	130	50	48
Net period benefit cost	$ 241	$ 793	$469	$450

The Company contributed approximately $700,000 to its defined benefit pension plans and approximately $980,000 to its postretirement plans during the nine-month period ended September 30, 2004. Further, the Company contributed $3.8 million to its defined benefit pension plans and approximately $300,000 to its postretirement plans during the fourth quarter of 2004.

(10) Long-Term Debt

Long-term debt consists of the following at September 30, 2004 and December 31, 2003 (in thousands):

	September 30, 2004	December 31, 2003
Term loan	$ 81,708	$ 96,500
Senior notes	150,000	150,000
	231,708	246,500
Less current maturities of long-term debt	(13,500)	(16,374)
	$218,208	$230,126

Table of Contents

The Company s Credit Facility (the Credit Facility and amendments thereto are collectively referred to as the Credit Facility) as amended in September 2003 provides the Company with a $90 million revolvin