

ALLIED HOLDINGS INC  
Form 10-Q/A  
January 14, 2005

**Table of Contents**

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

**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)**

---

**(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

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

Yes  No

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

---

---

---

**TABLE OF CONTENTS**

**PART I FINANCIAL INFORMATION**

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

**PART II OTHER INFORMATION**

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

**SIGNATURES**

**EXHIBIT INDEX**

**EX-31.1 SECTION 302 CERTIFICATION OF THE CEO**

**EX-31.2 SECTION 302 CERTIFICATION OF THE CFO**

**EX-32.1 SECTION 906 CERTIFICATION OF THE CEO**

**EX-32.2 SECTION 906 CERTIFICATION OF THE CFO**

---

**Table of Contents**

**EXPLANATORY NOTE**

This Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 is being filed to amend the disclosure included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations regarding the change in workers' compensation expense for the three and nine months ended September 30, 2004 as part of the Company's discussion on salaries, wages and fringe benefit expense. This amendment discloses that the increase in workers' compensation expense for the three and nine months ended September 30, 2004 was \$0.6 million and \$7.6 million, respectively, rather than the previously disclosed increases of \$2.0 million and \$9.0 million for the three and nine months ended September 30, 2004, respectively. No other changes have been made to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004.

**PART 1 FINANCIAL INFORMATION**

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

**Executive Summary**

The Company, through its subsidiaries, generates revenues by providing services to the automotive industry. Allied Automotive Group is the largest motor carrier in North America specializing in the transportation of new automobiles, light trucks and SUVs.

In October of 2004, Allied Automotive Group renewed its vehicle delivery agreement with DaimlerChrysler Corporation (DaimlerChrysler). The agreement with DaimlerChrysler will extend Allied Automotive Group's current contract through September 30, 2005. The contract renewal includes an increase in the underlying base rates paid by DaimlerChrysler to Allied for vehicle delivery services effective October 1, 2004. Under the renewed agreement, Allied will cease performing all or a portion of its vehicle delivery services for DaimlerChrysler at six locations in North America. Allied generated approximately \$13.5 million in revenues from these vehicle delivery services in 2003. Allied will continue to serve DaimlerChrysler at 24 locations in North America, which generated approximately \$80.3 million in revenues in 2003. On January 3, 2005 the Company renewed its contract with Toyota Motor Sales USA, Inc. (Toyota) to extend the term through December 20, 2005. The renewal includes an increase in base rates paid by Toyota to the Company effective as of November 15, 2004.

In the third quarter of 2004, the Company's results were adversely affected by a significant increase in fuel costs that was not fully recovered through fuel surcharges with customers. Prior to August of 2004, Allied Automotive Group had fuel surcharges in place with customers who comprised approximately 59% of the Company's 2003 revenues. Allied Automotive Group currently has in place fuel surcharges with customers who comprise substantially all of its revenues. However, the fuel surcharges in regard to a customer who comprised approximately 36% of the Company's 2003 revenues may be terminated at any time at the sole discretion of this customer. There is a contractual maximum amount of fuel surcharge recoveries with this customer for any calendar year. While the Company does not expect its fuel surcharge recoveries with this customer to reach the maximum recovery amount in 2004, at current fuel prices the Company expects that the fuel surcharge recoveries with this customer will reach the maximum amount recoverable during the second quarter of 2005.

**Results of Operations**

The following table sets forth the percentage relationship of expense items to revenues for the periods indicated:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Revenues	100%	100%	100%	100%
Operating expenses:				
Salaries, wages and fringe benefits	53.6	54.5	54.7	54.4
Operating supplies and expenses	17.5	15.2	17.5	16.1
Purchased transportation	13.0	12.2	12.4	11.6

---

**Table of Contents**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Insurance and claims	5.5	4.2	4.6	4.5
Operating taxes and licenses	3.3	3.5	3.3	3.6
Depreciation and amortization	4.6	5.6	4.5	5.4
Rents	1.0	0.8	0.9	0.8
Communications and utilities	0.7	0.9	0.7	0.8
Other operating expenses	1.0	1.4	1.1	1.3
Gain (loss) on disposal of operating assets, net	0.2	0.1	(0.1)	0.1
<b>Total operating expenses</b>	<b>100.4</b>	<b>98.4</b>	<b>99.6</b>	<b>98.6</b>
Operating (loss) income	(0.4)	1.6	0.4	1.4
Other income (expense):				
Interest expense	(4.2)	(3.8)	(3.6)	(3.5)
Investment income	0.3	(0.2)	0.1	0.5
Foreign exchange gain (loss), net	0.8	0.0	0.1	0.4
Other, net	0.0	1.0	0.0	0.3
Loss before income taxes	(3.5)	(1.4)	(3.0)	(0.9)
Income tax (expense) benefit	(0.2)	0.4	(0.1)	0.2
Net loss	(3.7)%	(1.0)%	(3.1)%	(0.7)%

***Three and Nine Months Ended September 30, 2004 Compared to Three and Nine Months Ended September 30, 2003***

Revenues were \$207.6 million in the third quarter of 2004 compared to revenues of \$197.1 million in the third quarter of 2003, an increase of \$10.5 million, or 5.3%. The increase is due primarily to a 2.3% increase in vehicle deliveries and a \$3.45 increase in revenue per unit. For the nine-month period ended September 30, 2004, revenues were \$656.5 million, versus revenues of \$640.8 million for the nine-month period ended September 30, 2003, an increase of \$15.7 million, or 2.5%, with an increase in revenue per unit of \$2.35. Overall, vehicle deliveries in 2004 remained relatively constant as compared to 2003; however, revenue per unit in 2004 increased over 2003 primarily due to longer length of haul, an increase in fuel surcharges that are recorded as a component of revenue, as well as the strengthening of the Canadian dollar relative to the US dollar which affected the Company's Canadian operating subsidiary.

The Company recorded a net loss of \$7.6 million in the third quarter of 2004 versus a net loss of \$2.0 million in the third quarter of 2003. Results for the third quarter of 2004 were adversely impacted by significantly higher fuel costs that were only partially offset by fuel surcharges, increased risk management expense, higher repair and maintenance costs and an increase in benefits for its unionized workforce. The increased costs in the third quarter of 2004 were partially offset by increased revenues and revenue per unit, as well as a reduction in certain fixed overhead costs. 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. Included in the third quarter results for 2004 were foreign exchange gains of \$1.7 million compared to a loss of \$62,000 in the third quarter of 2003 and an increase in investment income on

collateral held by the Company's captive insurance company of \$1.0 million as compared to the third quarter of 2003. Included in the third quarter of 2003 was a pre-tax gain of \$2.0 million related to the settlement of litigation with Ryder Systems.

The Company recorded a net loss of \$20.4 million for the nine-month period ended September 30, 2004 versus a net loss of \$4.3 million for the nine-month period ended September 30, 2003. Results for the first nine months of 2004 were adversely impacted by excess costs associated with lower than expected OEM shipment levels in January 2004, dramatically higher fuel prices during the second and third quarters, benefit increases for the Company's unionized workforce, the financial impact of the terms of the previously disclosed General Motors' contract renewal, and an increase to the Company's self-insurance reserves during the second quarter of 2004. As noted above, 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 \$722,000 decrease in the net loss for the nine months ended September 30, 2004.

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

---



**Table of Contents**

Salaries, wages and fringe benefits decreased from 54.5% of revenues in the third quarter of 2003 to 53.6% of revenues in the third quarter of 2004, and increased from 54.4% of revenues for the nine-month period ended September 30, 2003 to 54.7% of revenues for the nine-month period ended September 30, 2004. The decrease for the third quarter of 2004 as compared to the third quarter of 2003 was due primarily to improved driver and line-haul productivity and a decrease in wages and benefits provided to the Company's non-bargaining employees, which more than offset the increase in benefit costs related to the Company's unionized workforce. For the nine-month period ended September 30, 2004 versus the nine-month period ended 2003, the decrease in wages and benefits provided to non-bargaining employees was completely offset by benefit cost increases for its unionized workforce. Workers compensation expense increased by \$0.6 million in the third quarter of 2004 as compared to the third quarter of 2003, and increased by \$7.6 million for the first nine months of 2004 as compared to the same period in 2003. Workers compensation expense for the three and nine-month periods ended September 30, 2004 increased over the same periods in 2003 primarily due to increases in the reserve for workers' compensation claims to provide for the deterioration of claims that were incurred in prior years. In order to more effectively manage these risk management costs in future periods, the Company has implemented initiatives to improve claims management and to settle outstanding claims expeditiously. Despite adverse development for prior years, the Company has experienced positive trends in its workers' compensation metrics for current year claims. Lost time days have decreased by approximately 33.6% and 16.0% for the three and nine-month periods ended September 30, 2004, respectively, versus the three and nine-month periods ended September 30, 2003.

Operating supplies and expenses increased from 15.2% of revenues in the third quarter of 2003 to 17.5% of revenues in the third quarter of 2004, and increased from 16.1% of revenues for the nine-month period ended September 30, 2003 to 17.5% of revenues for the nine-month period ended September 30, 2004. The increase was due primarily to an increase in fuel costs, repair and maintenance costs and the outsourcing of the Company's remaining information and technology services commencing in the first quarter of 2004. The average price for fuel was approximately 25% higher during the third quarter of 2004 than the average price for fuel during the third quarter of 2003, which resulted in additional expense of approximately \$4.0 million. For the nine-month period ended September 30, 2004 the average price for fuel increased by approximately 12%, which resulted in additional expense of approximately \$5.8 million. Prior to August 2004, the Company had fuel surcharges, which are recorded as a component of revenue, with customers comprising only 59% of the Company's 2003 revenues. The Company now receives fuel surcharges under contracts with substantially all of its customers. The fuel surcharge allows the Company to mitigate rising fuel costs by passing on the additional costs to such customers. However, the customer fuel surcharges typically reset at the beginning of the quarter based on fuel prices in the previous quarter, which causes a quarter lag between when fuel cost increases are incurred and the benefit of the fuel surcharge begins. In addition, the fuel surcharge in regard to a single customer who comprised approximately 36% of the Company's 2003 revenues may be terminated at the sole discretion of this customer. There is a contractual maximum amount of fuel surcharge recoveries with this customer for any calendar year. While the Company does not expect its fuel surcharge recoveries with this customer to reach the maximum recovery amount in 2004, at current fuel prices the Company expects that the fuel surcharge recoveries with this customer will reach the maximum amount recoverable during the second quarter 2005.

Purchased transportation increased from 12.2% of revenues in the third quarter of 2003 to 13.0% of revenues in the third quarter of 2004, and increased from 11.6% of revenues for the nine-month period ended September 30, 2003 to 12.4% of revenues for the nine-month period September 30, 2004. The increase was due primarily to an increase in vehicle deliveries at locations that utilize brokers and handle traffic with a longer length of haul. All costs for owner-operators of Rigs are included in purchased transportation.

Insurance and claims expense increased from 4.2% of revenues in the third quarter of 2003 to 5.5% of revenues in the third quarter of 2004, and increased from 4.5% of revenues for the nine-month period ended September 30, 2003 to 4.6% of revenues for the nine-month period ended September 30, 2004. Auto and general liability expense increased from \$3.2 million in the third quarter of 2003 to \$5.6 million in the third quarter of 2004, and increased from

\$10.7 million for the nine-month period ended September 30, 2003 to \$12.8 million for the nine-month period ended September 30, 2004. The increase in auto and general liability expense in 2004 is due to the adverse development of certain current year claims, which is primarily a result of an increase in the severity during the third quarter of 2004 of a previously reported claim. Cargo claims expense increased by approximately \$0.9 million in the third of quarter of 2004 versus the third quarter of 2003 and decreased by \$1.1 million for the nine-month period ended September 30, 2004 versus the nine-month period ended September 30, 2003. The increase in cargo claims

---

**Table of Contents**

during the third quarter of 2004 as compared to the third quarter of 2003 is due primarily to damage related to a specific customer product launch. The decrease in cargo claims expense for the nine-month period ended September 30, 2004 as compared to the nine-month period ended September 30, 2003 is primarily a result of the Company's ongoing initiatives to improve quality and damage-free deliveries, as well as improved claims investigation procedures to reduce the payment of claims not caused by the Company. Damage free deliveries improved from 99.70% for the three and nine-month periods ended September 30, 2003 to 99.73% and 99.74%, respectively, for the three and nine-month periods ended September 30, 2004.

Depreciation and amortization decreased from 5.6% of revenues in the third quarter of 2003 to 4.6% of revenues in the third quarter of 2004, and decreased from 5.4% of revenues for the nine-month period ended September 30, 2003 to 4.5% of revenues for the nine-month period ended September 30, 2004. The decrease for the three and nine-month periods ended September 30, 2004 versus the three and nine-month periods ended September 30, 2003 was due primarily to the overall reduction in capital expenditures in fiscal years 2002 and 2003 resulting in a decrease in the asset base and less depreciation expense as remaining assets become fully depreciated. As previously disclosed, the Company has instituted a Rig remanufacturing program to remanufacture existing owned Rigs rather than purchase new Rigs. The Company remanufactured 49 owned Rigs and replaced or overhauled approximately 95 engines in its tractor fleet during the three months ended September 30, 2004 compared to its remanufacturing of approximately 38 Rigs and overhauling or replacing 36 engines during the third quarter of 2003. During the nine-month period ended September 30, 2004 the Company remanufactured 113 owned Rigs and replaced or overhauled approximately 285 engines compared to its remanufacturing of 188 Rigs and overhauling or replacing 186 engines during the nine-month period ended September 30, 2003. In addition, the Company leased 21 Rigs during the three months ended September 30, 2004 bringing the total Rigs leased during 2004 to 51 Rigs. These leases are operating leases and as such contributed to a decrease in depreciation expense. The Company did not lease any Rigs during 2003.

The gain on the disposal of assets increased from a loss of \$0.6 million for the nine-month period ended September 30, 2003 to a gain of \$0.7 million for the nine-month period ended September 30, 2004. The increase is due primarily to a gain from the sale of excess land located in Canada during the first quarter of 2004.

Investment income increased from a loss of \$0.4 million in the third quarter of 2003 to income of \$0.6 million in the third quarter of 2004, and decreased from income of \$2.9 million for the nine-month period ended September 30, 2003 to \$0.8 million for the nine-month period ended September 30, 2004. The increase in investment income during the third quarter of 2004 as compared to the third quarter of 2003 was due primarily to losses rewarded in 2003 on the collateral assets held by the Company's captive insurance company that were invested in debt securities. The decrease in investment income for the nine-month period ended September 30, 2004 as compared to the nine-month period ended September 30, 2003 was due primarily to holding the collateral assets mainly in cash in 2004 versus a mixed portfolio of cash, fixed income and debt and equity securities during 2003 that yielded higher investment income. At September 30, 2004 and 2003 the collateral at the Company's captive insurance company was held in cash.

Foreign exchange gains, net increased from a loss of \$62,000 in the third quarter of 2003 to a gain of \$1.7 million in the third quarter of 2004 and decreased from a gain of \$2.4 million for the nine-month period ended September 30, 2003 to a gain of \$0.6 million for the nine-month period ended September 30, 2004. The increase in the third quarter of 2004 over the third quarter of 2003 was due primarily to an increase in the value of the Canadian dollar as compared to the US dollar, which affected the Company's operating subsidiary in Canada. The strengthening of the Canadian dollar generated favorable exchange rate changes during the third quarter of 2004, when the Canadian dollar value increased by approximately 5.9% as compared to an unfavorable decrease of approximately 0.5% during the third quarter of 2003. During the first nine months of 2004 the Canadian dollar improved by approximately 1.9% as compared to approximately 16.5% during the first nine months of 2003.

Interest expense increased from \$7.4 million in the third quarter of 2003 to \$8.8 million in the third quarter of 2004, and increased from \$22.1 million for the nine-month period ended September 30, 2003 to \$23.7 million for the nine-month period ended September 30, 2004. The increase for the three and nine-month periods is due primarily to an increase in the effective interest rate on Term Loan A, increased interest expense associated with higher borrowings related to insurance financing arrangements, and interest accrued on a proposed settlement with the Canadian taxing authority.

---

## **Table of Contents**

Income tax expense increased from a benefit of \$728,000 in the third quarter of 2003 to an expense of \$310,000 in the third quarter of 2004, and increased from a benefit of \$1.6 million for the nine-month period ended September 30, 2003 to an expense of \$310,000 for the nine-month period ended September 30, 2004. The increase in income tax expense for the three and nine-month periods ended September 30, 2004 versus the three and nine-month periods ended September 30, 2003 was due to the conclusion by management in the fourth quarter of 2003 that it was not more likely than not that the deferred tax assets would be recovered, resulting in the need for an additional valuation allowance against the net deferred income tax assets. For the nine-month period ended September 30, 2003, the Company recognized a benefit for the future realization of its deferred tax assets at its estimated annual effective tax rate. For the nine-month period ended September 30, 2004, a valuation allowance offsets the benefit related to net deferred tax assets and the current expense of \$310,000 was related to foreign income taxes.

## **Financial Condition, Liquidity and Capital Resources**

The Company's sources of liquidity are funds provided by operations and borrowings under its Credit Facility with a syndicate of lenders. The Company's primary liquidity needs are for the payment of operating expenses, the leasing, remanufacturing and maintenance of Rigs and terminal facilities, and the payment of interest and principal associated with debt.

Net cash used in operating activities totaled \$12.6 million for the nine-month period ended September 30, 2004 versus net cash provided by operating activities of \$25.6 million for the nine-month period ended September 30, 2003. The decrease in cash provided by operations is a result of the increase in the Company's net loss, and a decrease in depreciation expense of \$4.9 million and an increase in deferred taxes of \$3.4 million that were offset by an increase in cash generated from working capital of \$6.9 million.

Net cash used in investing activities totaled \$14.7 million for the nine-month period ended September 30, 2004 versus \$36.3 million for the nine-month period ended September 30, 2003. The decrease in cash used in investing activities was due primarily to a net decrease of \$19.8 million in restricted cash and restricted investments, which were a result of increased collateral requirements in 2003 for the payment of estimated self-insurance claims. The decrease is also due to the timing of funds deposited with and returned from insurance carriers related to the Company's insurance financing arrangements. Net cash received from the Company's insurance carriers was \$1.7 million for the nine-month period ended September 30, 2004 versus a net cash outflow of \$4.6 million for the nine-month period ended September 30, 2003. Insurance carriers reimbursed the majority of cash on deposit to the Company in the first quarter of 2004, whereas the insurance carriers reimbursed cash on deposit to the Company throughout the year during 2003.

Cash paid to purchase capital items increased by \$6.5 million in 2004, while cash proceeds from the sale of assets increased by \$1.8 million. Cash used for capital items related mainly to the fleet remanufacturing and the purchase of new and used Rigs. Cash proceeds for the sale of assets in 2004 were related primarily to the sale of excess land in Canada during the first quarter. The Company did not sell any significant assets in the first nine months of 2003.

The Company expects to capitalize the remanufacturing cost of approximately 135 Rigs during 2004 and as of September 30, 2004 had remanufactured 113 owned Rigs. Capital expenditures for fiscal year 2004 are expected to be in the range of \$21 million to \$23 million. This estimate is down from the previously disclosed estimate of \$24 million to \$28 million. The Company has lowered its estimate of capital expenditure requirements for fiscal year 2004 due to a decrease in the original 2004 estimates for North American vehicle production, the Company's ability to lease certain of its new and remanufactured Rigs, as well as the Company's decision to reduce capital expenditures to maintain liquidity for the ongoing operational needs of the Company.

Net cash provided by financing activities totaled \$6.3 million for the nine-month period ended September 30, 2004 versus \$2.0 million for the nine-month period ended September 30, 2003. Cash provided by financing activities

increased due to borrowings needed to fund operations and increased capital spending, as well as requirements from insurance carriers to pre-fund substantially all of the Company's estimated self-insured losses during the first quarter of 2004. During 2003, the Company funded only a portion of its estimated self-insured loss for 2003. The Company anticipates financing the pre-funding of its estimated self-insured losses for 2005. In the event the Company is unable to finance this pre-funding, it will be required to use borrowings under its Revolver to pre-fund the estimated losses.

---

**Table of Contents**

At September 30, 2004, \$18.2 million was outstanding under the Revolver, and approximately \$37.1 million of the Revolver was committed under letters of credit and the Company had approximately \$29.4 million available under the Revolver as of September 30, 2004. As part of the previously disclosed settlement agreement with Ryder System Inc. ( Ryder ), the Company has a letter of credit in favor of Ryder for \$7.5 million, which is included in the \$37.1 million letters of credit under the Revolver. The Company had agreed to increase the letter of credit by \$1.0 million each quarter through the first quarter of 2005. Pursuant to mutual agreement, the parties amended the settlement on August 13, 2004 to provide that the \$1.0 million increase scheduled for the second quarter of 2004 was to be made in the third quarter of 2004 and such increase was made in the third quarter in addition to the \$1.0 million increase required for the third quarter of 2004. The Company is required to increase the letter of credit by \$1.0 million in the first quarter of 2005. Ryder may only draw the letter of credit if the Company fails to pay workers' compensation and liability claims assumed by the Company in the Ryder Automotive Carrier Group acquisition. The Company has provided the letter of credit in favor of Ryder because Ryder has issued a letter of credit to its insurance carrier relating to the workers' compensation and liability claims assumed by the Company. By March 31, 2005, and periodically thereafter, an actuarial valuation will be made to determine the remaining outstanding amount of workers' compensation and liability claims assumed by the Company, and the letter of credit issued by the Company in favor of Ryder will be adjusted accordingly.

Borrowings under the Company's 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 and excluding restricted cash and cash equivalents, and restricted investments. If the Company were unable to repay any borrowing under its Credit Facility when due, the lenders thereunder would have the right to proceed against the collateral granted to them to secure the debt. Any default under the Company's debt instruments, particularly any default that resulted in acceleration of indebtedness or foreclosure on collateral, would have a material adverse effect on the Company.

The Credit Facility sets forth a number of affirmative, negative, and financial covenants binding on the Company. The Credit Facility contains a subjective acceleration clause which permits the lenders to accelerate the maturity date of the Credit Facility if an event or development occurs which could reasonably be expected to have a material adverse effect on the Company, as defined in the Credit Facility. The negative covenants limit the ability of the Company to, among other things, incur debt, incur liens, make investments, sell assets, or declare or pay any dividends on its capital stock. The financial covenants require the Company to maintain a minimum consolidated earnings before interest, taxes, depreciation and amortization, and gains and losses on disposal of operating assets amount and also include a maximum leverage ratio. The Company obtained the consent of its lenders under the Credit Facility to deliver its financial statements, as required by the Credit Facility, for the three and nine-month periods ended September 30, 2004 on or before January 14, 2005 and the Company delivered such financial statements on January 7, 2005. As a result, the Company was in compliance with the requirements of the Credit Facility relating to the delivery of its financial statements at September 30, 2004.

Borrowings under the \$150.0 million 8 5/8% senior notes (the Notes ) are general unsecured obligations of the Company, are payable in semi-annual installments of interest only, and mature on October 1, 2007. The Company's obligations under the Notes are guaranteed fully and unconditionally 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 ) of which the Company owns 100 percent. There are no restrictions on the ability of Guarantor Subsidiaries to make distributions to the Company.

The Notes include a number of negative covenants, which are 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).

The Company's current liabilities exceed its current assets by \$31.0 million as of September 30, 2004. Included in the Company's current liabilities as of September 30, 2004 are borrowings under the Revolver of \$18.2 million, which are classified as a current liability based on the requirement of EITF 95-22, although it is not payable until September 2007 under the terms of the Credit Facility. The Company had approximately \$29.4 million available under the Revolver as of September 30, 2004. The amendment to the Credit Facility on November 23, 2004 provides additional liquidity of \$20 million through a Term Loan B, the proceeds of which were used to pay down the outstanding Revolver balance. The Company contributed approximately \$3.8 million to its defined benefit pension plans in December, 2004, which reduced the Company's availability under the Revolver by this amount.

---



## **Table of Contents**

Due to negative covenants associated with the Senior Notes, the Company presently does not have the capacity to incur a material amount of additional term debt. The Company will have the capacity to incur additional term debt in the future to the extent future principal payments are made on the existing term debt. The Company has been able to, and expects to continue to, generate sufficient cash flows from operations to meet its liquidity needs, provided that the Company uses the Revolver to cover seasonal working capital needs.

The Company also utilizes operating leases for its equipment needs. During the third quarter of 2004 the Company entered into one new operating lease for 21 Rigs. The commitment over the term of this lease is \$4.1 million. During the nine-month period ended September 30, 2004 the Company entered into three new operating leases for a total of 51 Rigs. The total commitment for these leases is \$8.5 million. All of the leases entered into during 2004 have a term of 5.5 years.

## **Quantitative and Qualitative Disclosures about Market Risk**

### *Disclosures About Market Risks*

The market risk inherent in the Company's market risk sensitive instruments and positions are the potential loss arising from adverse changes in investment prices, interest rates, fuel prices, and foreign currency exchange rates.

### *Investments*

The Company does not use derivative financial instruments in its investment portfolio. The Company places its investments in instruments that meet high credit quality standards, as specified in the Company's investment policy guidelines. The policy also limits the amount of credit exposure to any one issue, issuer, and type of instrument. At September 30, 2004, the Company did not have any investments.

### *Interest Rates*

The Company primarily issues long-term debt obligations to support general corporate purposes, including capital expenditures and working capital needs. The majority of the Company's long-term debt obligations bear a fixed rate of interest. The portion of the long-term debt obligation that does not bear a fixed rate of interest has an interest rate that may fluctuate within a three percentage point range based on the Company's leverage, as defined in the Credit Facility. A 3% increase in the interest rate of such debt would increase the Company's interest expense by \$2.5 million over the next fiscal year.

### *Stockholders' Deficit*

Losses for the first nine months of 2004 resulted in negative stockholders' equity at September 30, 2004. As a result of the Company's stockholders' deficit and covenants under its lending agreements, the Company is restricted from making any repurchases of its common stock and the payment of dividends. In addition, continued stockholders' deficit could cause the Company to become delisted from the American Stock Exchange.

### *Substantial Leverage*

The Company has consolidated indebtedness, which is substantial in relation to its stockholders' deficit. As of September 30, 2004, the Company had total debt including borrowings under the Credit Facility and the Notes of approximately \$249.9 million (excluding approximately \$123.7 million of trade and notes payables, which include insurance financing arrangements, and other current accrued liabilities) and stockholders' deficit of approximately \$9.7 million. In addition, the Company has additional capacity for borrowings available under its Revolver, which is

discussed above in Financial Condition, Liquidity and Capital Resources. Due to negative covenants associated with the Senior Notes, the Company presently does not have the capacity to incur a material amount of additional term debt. The Company will have the capacity to incur additional term debt in the future to the extent future principal payments are made on the existing term debt. The Company's leveraged financial position exposes it to the risk of increased interest rates, may impede its ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes, may make the Company more vulnerable to economic downturns and work stoppages, and limit its ability to withstand competitive pressures.

---

## **Table of Contents**

The Credit Facility sets forth a number of affirmative, negative, and financial covenants binding on the Company. The Credit Facility contains a subjective acceleration clause which permits the lenders to accelerate the maturity date of the Credit Facility if an event or development occurs which could reasonably be expected to have a material adverse effect on the Company, as defined in the Credit Facility. The negative covenants limit the ability of the Company to, among other things, incur debt, incur liens, make investments, sell assets, or declare or pay any dividends on its capital stock. The financial covenants require the Company to maintain a minimum consolidated earnings before interest, taxes, depreciation and amortization, and gains and losses on disposal of operating assets amount and also include a maximum leverage ratio. The Company obtained the consent of its lenders under the Credit Facility to deliver its financial statements as required by the Credit Facility, for the three and nine-month periods ended September 30, 2004 on or before January 14, 2005 and the Company delivered such financial statements on January 7, 2005. As a result, the Company was in compliance with the requirements of the Credit Facility relating to the delivery of its financial statements at September 30, 2004.

The Company will need to use a significant amount of its future cash flows to pay principal and interest on its substantial debt obligations, which will reduce the amount of money available for use in its operations, capital reinvestment, or for responding to potential business opportunities as they arise. The ability of the Company to generate the cash necessary to service its debt is subject to a number of external factors beyond its control, and there can be no assurance that the Company will be able to generate sufficient cash through its operations to enable it to meet its obligations. If the Company does not generate enough cash to enable it to meet its debt obligations, it may be required to take actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing its debt, or seeking additional equity capital. There can be no assurance that any of these actions could be affected on commercially reasonable terms, if at all, and the terms of existing or future indebtedness may restrict the Company from adopting any of these alternatives.

Any failure of the Company to comply with the covenants contained in its debt instruments, if not waived, or to adequately service its debt obligations, could result in a default under its debt instruments. If a default occurs under any of the Company's debt instruments, the lenders thereunder may elect to declare all borrowings outstanding, together with interest and other fees, to be immediately due and payable. Borrowings under the Company's Credit Facility are collateralized with the assets of the Company and certain of its subsidiaries. If the Company were unable to repay any borrowing under its Credit Facility when due, the lenders thereunder would have the right to proceed against the collateral granted to them to secure the debt. Any default under the Company's debt instruments, particularly any default that resulted in acceleration of indebtedness or foreclosure on collateral, would have a material adverse effect on the Company.

The Company received notice from the American Stock Exchange (the AMEX) that, as a result of its failure to timely file this Quarterly Report on Form 10-Q, it was not in compliance with Section 1003(d) of the AMEX Company Guide and was therefore subject to delisting. The Company submitted a compliance plan to the AMEX and believes that upon the filing of this Quarterly Report, the Company is now in compliance with Section 1003(d) of the AMEX Company Guide. The Company has also received notice from the AMEX that as a result of its negative shareholders equity, it is not in compliance with Section 1003(a) of the AMEX Company Guide. Pursuant to the notice from the AMEX, the Company had until December 27, 2004 to submit a compliance plan to the AMEX, and the Company filed this plan on December 21, 2004. The plan provides how the Company intends to comply with the shareholders equity requirements of Section 1003(a) of the AMEX Company Guide. If the AMEX accepts such plan, the Company will have until May 2006 to comply with the requirements of Section 1003(a) of the AMEX Company Guide. However, no assurance can be provided that such compliance plan will be accepted by the AMEX, or, if accepted, that the Company will be able to meet the milestones for compliance required to be set forth in the plan. If the plan is not accepted or the Company is unable to comply with the terms of the compliance plan submitted to the AMEX, the Company may be delisted from the AMEX.

*Labor Matters*

There can be no assurance that the Company will be able to negotiate new union contracts as the current contracts expire or that such contracts will be on terms acceptable to the Company or will not result in increased labor costs to the Company or work stoppages, which could have a material adverse effect on the Company.

---

## **Table of Contents**

### *Fuel Prices*

Allied Automotive Group is dependent on diesel fuel to operate its fleet of Rigs. Diesel fuel prices are subject to fluctuations due to unpredictable factors such as weather, government policies, and changes in global demand and global production. To reduce price risk caused by market fluctuations, Allied Automotive Group periodically purchases fuel in advance of consumption. A 10% increase in diesel fuel prices would reduce earnings by \$5.1 million over the next twelve months assuming levels of fuel consumption and pricing in the next twelve months are consistent with the third quarter of 2004. This reduction in earnings would be partially offset by the Company's fuel surcharge arrangements with its customers. Currently, the Company has in place fuel surcharges with substantially all of its customers. However, the fuel surcharges in regard to a single customer who comprised approximately 36% of the Company's 2003 revenues may be terminated at any time at the sole discretion of this customer. There is a contractual maximum amount of fuel surcharge recoveries from this customer for any calendar year. While the Company does not expect its fuel surcharge recoveries from this customer to reach the maximum recovery amount in 2004, at current fuel prices the Company expects that the fuel surcharge recoveries from this customer will exceed the maximum amount recoverable during the second quarter of 2005. Fuel prices in the third quarter of 2004 were approximately 25% higher than fuel prices in the third quarter of 2003.

### *Competition*

The automotive transportation industry is highly competitive, as Allied Automotive Group currently competes with other motor carriers of varying sizes, as well as with railroads. Allied Automotive Group also competes with non-union motor carriers and broker operations that sub-contract carhaul transportation services to low-cost independent owner-operators. The development of new methods of hauling vehicles could also lead to increased competition.

The carhaul business is labor intensive. Wages and benefits represented approximately \$111.3 million and \$359.2 million of the Company's consolidated operating expenses for the quarter and the nine months ended September 30, 2004 respectively. There has been an increase in the number of carhaul companies that utilize non-union labor, and the market share represented by such companies has increased. Carhaul companies that utilize non-union labor operate at a significant cost advantage as compared to Allied Automotive Group and other union carhaul companies due to lower labor costs, primarily as a result of lower benefit and pension costs. Non-union competitors also operate without work rules which apply to Allied Automotive Group and other union companies, which provide non-union companies with a competitive advantage. Railroads, which specialize in long-haul transportation, may be able to provide delivery services at a cost to customers that is less than the long-haul delivery cost of Allied Automotive Group's services. Allied Automotive Group could benefit from the temporary transportation of new vehicles due to potential rail car shortages throughout North America. The shortage of railroad capacity occasionally occurs in the carhaul industry and the trucking sector is sometimes called upon to provide supplemental capacity during these periods.

### *Risk Management Retention*

Because the Company retains liability for a significant portion of its risks, an increase in the number or severity of accidents, on the job injuries, other loss events over those anticipated, or adverse development of existing claims including wage and medical cost inflation could have a material adverse effect on the Company's profitability. While the Company currently has insurance coverage for claims above its retention levels, there can be no assurance that the Company will be able to obtain insurance coverage in the future.

The Company currently utilizes an inner-aggregate, which is a deductible subject to an annual limit, in certain insurance programs. The Company currently uses the inner-aggregate only for its initial layer of excess insurance

whereby losses in the excess layer that are within the inner-aggregate amount are retained by the Company up to an amount equal to the inner-aggregate's annual limit. Once the annual limit is met the deductible is no longer in effect.

Prior to January 1, 2004, for automobile liability claims in the United States, the Company retained the first \$500,000 of every claim with no aggregate and retained losses from \$500,000 to \$1.0 million subject to a \$1.5 million inner-aggregate deductible and also had a \$1.0 million inner-aggregate deductible for losses from \$1.0 to \$2.0 million, with an additional \$4.0 million aggregate limit for losses from \$2.0 to \$5.0 million. Effective January 1, 2004, the Company retains up to \$1.0 million liability for automobile liability claims in the United States with no aggregate and a \$7.0 million aggregate deductible for claims that exceed \$1.0 million, but are less than \$5.0 million per occurrence. In Canada, the Company retains liability up to CDN \$500,000 for each claim for

---

## **Table of Contents**

personal injury and property damage, a CDN \$500,000 inner-aggregate limit for losses from CDN \$500,000 to CDN \$1.0 million. Additionally, the Company retains liability of up to \$250,000 for each cargo damage claim in the United States and a CDN \$100,000 deductible for cargo damages in Canada.

### *Restrictions on Cash and Investments*

The Company uses restricted cash and restricted investments to collateralize letters of credit required by third-party insurance companies for the settlement of insurance claims. These assets are not available for the operations of the Company.

### *Dependence on Major Customers*

Allied Automotive Group's business is highly dependent upon General Motors, Ford Motor Company (managed by UPS Autogistics, Inc.), DaimlerChrysler, Toyota and Honda, its largest customers. Approximately 86% of the Company's 2003 revenues were generated through the Company's services provided for these customers. The Company operates under written contracts with each of these companies. The Company has historically been successful in negotiating the renewal of its contracts with each of its major customers prior to the expiration of such contracts. The Company renewed its contract with DaimlerChrysler effective October 1, 2004, approximately four months prior to the stated expiration date of such contract. The contract with General Motors expires in March 2006, the Ford contract expires in September 2005 for ramp locations and in December 2005 for plant locations, the contract with DaimlerChrysler expires in September 2005, the contract with Honda expires in March 2005 and the contract with Toyota expired in November 2004. On January 3, 2005 the Company renewed its contract with Toyota effective as of November 15, 2004 to extend the term through December 20, 2005. The contracts with Ford, DaimlerChrysler and Toyota can be terminated by location for any reason or no reason based on 60 to 150 days' notice. The contract with General Motors can be terminated by location for failure to comply with service and quality standards set forth in the contract. The Company has 30 days to cure any such noncompliance by location and General Motors may terminate by location on 60 days notice following a failure to cure. While the Company intends to continue its practice of negotiating with its customers in an effort to renew contracts prior to their expiration date, there can be no assurance that the Company will successfully renew contracts with its major customers prior to the expiration of such contracts.

Although Allied Automotive Group believes that its relationships with these customers are mutually satisfactory, there can be no assurance that these relationships will not be terminated in whole or in part in the future. Furthermore, automotive manufacturers are relying increasingly on fourth party logistics companies and re-engineering vehicle delivery practices, which could result in a reduction of services provided by the Company for some or all of its major customers. A significant reduction in the production levels, plant closings, or the imposition of vendor price reductions by these manufacturers, or the loss of General Motors, Ford, DaimlerChrysler, Toyota or Honda as a customer, or a significant reduction in the services provided for any of these customers by Allied Automotive Group would have a material adverse effect upon the Company. General Motors, DaimlerChrysler, and Ford, in particular, have publicly announced plans to significantly reduce vendor costs including those costs associated with logistics services.

The contract with General Motors includes reductions in the Company's rates for transportation services. The contract with General Motors requires General Motors to award certain new business to the Company. However, there can be no assurance that General Motors will award new business to the Company under terms and conditions acceptable to the Company. Since the renewal of the General Motors contract during the first quarter of 2004, Allied Automotive Group has agreed to retain its General Motors yard management services operation in consideration for a negotiated price increase with General Motors, which Allied Automotive Group believes will restore the profitability of these yard management services in the second half of 2004. Allied Automotive Group had previously disclosed that it would discontinue these yard services pursuant to the renewal of the vehicle delivery agreement with General Motors

during the first quarter of 2004.

*Foreign Currency Exchange Rates*

Although the majority of the Company's operations are in the United States, the Company does have foreign subsidiaries (primarily in Canada). The net investment in foreign subsidiaries translated into dollars using month-end exchange rates at September 30, 2004 was \$89.9 million. The potential impact on other comprehensive income

---



## **Table of Contents**

resulting from a hypothetical 10% change in quoted foreign currency exchange rates amounts to \$8.9 million. At September 30, 2004 a payable balance of \$29.6 million related to intercompany transactions was outstanding on the Company's Canadian subsidiary. The potential loss from a hypothetical 10% change in quoted foreign currency exchange rates related to this balance amounts to \$2.9 million as of September 30, 2004. The Company does not use derivative financial instruments to hedge its exposure to changes in foreign currency exchange rates.

### *Revenue Variability*

The Company's revenues are variable and can be impacted by sudden unexpected changes in OEM production levels, OEM quality holds or OEM plant closings. In addition, the Company's revenues are seasonal, with the second and fourth quarters generally experiencing higher revenues than the first and third quarters. The volume of vehicles shipped during the second and fourth quarters is generally higher due to the introduction of new models, which are shipped to dealers during those periods and the higher spring and early summer sales of automobiles, SUVs, and light trucks. During the first and third quarters, vehicle shipments typically decline due to lower sales volume during those periods and scheduled plant shut downs. Except for the impact of rising fuel costs discussed herein, inflation has not significantly affected the Company's results of operations.

### *Dependence on Automotive Industry*

The automotive transportation industry is dependent upon the volume of new automobiles, SUVs, and light trucks manufactured, imported and sold. The automotive industry is highly cyclical, and the demand for new automobiles, SUVs, and light trucks is directly affected by such external factors as general economic conditions in the United States, unemployment, consumer confidence, federal policies, continuing activities of war, terrorist activities, and the availability of affordable new car financing. As a result, the Company's results of operations are adversely affected by cyclical downturns in the general economy or in the automotive industry and by consumer preferences in purchasing new automobiles, SUVs, and light trucks. A significant decline in the volume of automobiles, SUVs, and light trucks manufactured as well as sold in North America could have a material adverse effect on the Company.

### *Contractual Obligations*

The Company has certain long-term contractual obligations, including operating lease obligations that include leases for Rigs and purchase and service contract commitments that are not required to be recorded in the Company's consolidated balance sheet.

### *Dependence on Key Personnel*

The success of the Company is dependent upon its senior management team, as well as its ability to attract and retain qualified personnel. The Company's Credit Facility provides that the facility may be terminated in the event Hugh E. Sawyer ceases to be involved in the day-to-day operation of the Company, unless a successor reasonably acceptable to the lenders is appointed within 150 days of his cessation of involvement with the Company. There is no assurance that the Company will be able to retain its existing senior management or to attract additional qualified personnel.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers as relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in future economic conditions or other business circumstances may affect the outcomes of management's estimates and

assumptions. Accordingly, actual results could differ from those anticipated.

The Company's critical accounting policies include the following:

**CLAIMS AND INSURANCE RESERVES** Claims and insurance reserves, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, automobile and general

---

## **Table of Contents**

liability, and products liability losses that are not covered by insurance. Costs related to these reserves are included in claims and insurance expense except for workers compensation, which is included in salaries, wages, and fringe benefits. The Company utilizes a third-party claims processor under the direction of management and uses third-party actuarial valuations to assist in the determination of its claims and insurance reserves, excluding products liability and cargo claims. The Company's third-party claims administrator sets claim reserves on a case-by-case basis. The Company's third-party actuaries utilize the aggregate data from those reserves, along with historical paid and incurred amounts, to determine, by loss year, the projected ultimate cost of all claims, reported and not yet reported, including adverse developments. The Company's product liability claims reserves are set on a case-by-case basis by the Company's claims administrators in conjunction with legal counsel handling the claims, and include an amount for claims incurred but not yet reported. Cargo claims are tracked by the Company and reserved on a case-by-case basis. The reserve for cargo claims includes an estimate of incurred but not reported claims. The process of determining reserves for all losses is subject to management's evaluation of accident frequency, the nature and severity of claims, litigation risks and historical claims experience adjusted for current industry trends.

The estimates for workers compensation, automobile and general liability, and products liability losses are discounted to their present value using management's estimate of weighted average risk free interest rates for each claim year. The claims and insurance reserves are adjusted periodically as such claims mature to reflect changes in estimates made by its third-party claims processors and changes in actuarial estimates based on actual experience. Adjustments to previously established reserves are included in operating results. If management uses different assumptions or if different conditions occur in future periods, future operating results or liquidity could be materially impacted.

**ACCOUNTS RECEIVABLE VALUATION RESERVES** Substantially all of the Company's revenues are derived from transporting new automobiles, SUVs, and light trucks from manufacturing plants, ports, auctions, and railway distribution points to automobile dealerships. Revenue is recorded when the vehicles are delivered to the dealerships. The Company makes significant estimates to determine the collectibility of its accounts receivable on the balance sheet. Estimates include assessments of the potential for customer billing adjustments based on the timing of delivery, the accuracy of pricing, as well as evaluation of the historical aging of customer accounts. In addition, estimates include periodic evaluations of the credit worthiness of customers including the impact of market and economic conditions on their viability to satisfy amounts owed to the Company. If significant billing adjustments or the financial condition of a major customer was to deteriorate, additional allowances may be required.

**ACCOUNTING FOR INCOME TAXES** As part of the process of preparing the Company's consolidated financial statements the Company is required to determine income taxes in each of the jurisdictions in which the Company operates. This process involves estimating actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items, such as depreciation expense, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheet. The Company must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent the Company believes that recovery is not more likely than not, the Company must establish a valuation allowance. To the extent the Company establishes a valuation allowance or increases this allowance in a period, the Company must include an expense within the tax provision in the statements of operations.

Significant management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against the deferred tax assets. The valuation allowance is based on management's estimate of taxable income by jurisdiction in which the Company operates and the period over which the deferred tax assets will be recoverable. The Company has recorded a valuation allowance against its net deferred tax assets due to net losses in 2003 and prior years, based on management's conclusion that it is not more likely than not that the deferred tax assets will be recovered.

**PENSION AND OTHER POSTRETIREMENT BENEFITS** The Company's pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions and Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other than Pensions. These assumptions include discount rates, health care cost trend rates, inflation, rate of compensation increases, expected return on plan assets, mortality rates, and other factors. Actual results that differ from the

---

## **Table of Contents**

Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. The Company believes that the assumptions utilized in recording the obligations under its plans are reasonable based on input from its outside actuaries and other advisors and information as to historical experience and performance. Differences in actual experience or changes in assumptions may affect the Company's pension and other postretirement obligations and future expense.

Tax assessments may arise several years after tax returns have been filed. Predicting the outcome of such tax assessments involves uncertainty; however, the Company believes that recorded tax liabilities adequately account for its analysis of probable outcomes.

**PROPERTY AND EQUIPMENT** The Company operates approximately 3,700 company-owned Rigs, revenue equipment, in connection with its business. Property and equipment, including revenue equipment, are stated at cost and depreciated using the straight-line method over the estimated useful life down to estimated salvage value. The Company also evaluates the carrying value of long-lived assets for impairment by analyzing the operating performance and future cash flows for those assets, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable, including the need to adjust the carrying value of the underlying assets if the sum of the expected cash flows is less than the carrying value. Impairment can be impacted by our projection of future cash flows, the level of actual cash flows and salvage values, the methods of estimation used for determining fair values and the impact of guaranteed residuals. Any changes in management's judgments could result in greater or lesser annual depreciation expense or additional impairment charges in the future.

**GOODWILL** The Company adopted SFAS 142 as of January 1, 2002. Pursuant to adoption, goodwill is no longer amortized but is evaluated annually for impairment, or on an interim basis if an event occurs or circumstances change that would indicate there may be a reduction of the fair value of goodwill below its carrying value. The fair value of goodwill is derived by using a discounted cash flow analysis. This analysis involves estimates and assumptions by management regarding future revenue streams and expenses. Changes to these assumptions and estimates could have a material effect on the carrying value of goodwill and result in an impairment charge in the Company's consolidated statements of operations.

**CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS** This Quarterly Report on Form 10-Q contains, and from time to time the Company and its officers, directors, or employees may make other forward-looking statements, including statements regarding, among other items, (i) the Company's strategy, intentions or expectations, (ii) general industry trends, competitive conditions and customer preferences, (iii) the Company's management information systems, (iv) the Company's remanufacturing program and anticipated capital expenditures, (v) the Company's efforts to reduce costs, (vi) the adequacy of the Company's sources of cash to finance its current and future operations, and (vii) the Company's ability to renew contracts with customers. This notice is intended to take advantage of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to such forward-looking statements. Without limiting the generality of the foregoing, the words believe, anticipate, seek, expect, estimate, intend, plan, and similar expressions are intended to identify such forward-looking statements. The forward-looking statements involve a number of risks and uncertainties.

Among others, factors that could cause actual results to differ materially from historical results or results expressed or implied by such forward-looking statements are the following: the ability of the Company to comply with the terms of its current debt agreements and customer contracts; economic recessions or downturns in new vehicle production or sales; war in the Middle East; increases in the cost and availability of fuel; the Company's ability to receive fuel surcharges; the highly competitive nature of the automotive distribution industry; dependence on the automotive industry and recent initiatives of customers to reduce vendor costs; loss or reduction of revenues generated by the Company's major customers or the loss of any such customers; the variability of OEM production and seasonality of

the automotive distribution industry; the Company's highly leveraged financial position; the ability of the Company to obtain financing in the future; labor disputes involving the Company or its significant customers; the dependence on key personnel who have been hired or retained by the Company; the availability of strategic acquisitions or joint venture partners; increased frequency and severity and costs of work related accidents and workers' compensation claims; availability of appropriate insurance coverages; changes in regulatory requirements which are applicable to the Company's business; changes in vehicle sizes and weights which may

---

**Table of Contents**

adversely impact vehicle deliveries per load; risks associated with doing business in foreign countries; the Company's ability to successfully implement internal controls and procedures that remediate the material weakness and ensure timely, effective and accurate financial reporting; and other risk factors set forth from time to time in the Company's Securities and Exchange Commission reports, including but not limited to, this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2003. Many of these factors are beyond the Company's ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. The Company disclaims any obligation to update or review any forward-looking statements contained in this Quarterly Report or in any statement referencing the risk factors and other cautionary statements set forth in this Quarterly Report.

**PART II OTHER INFORMATION**

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

(c) Exhibit Index

<b>Exhibit No.</b>	<b>Description</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification by Hugh E. Sawyer.
31.2	Rule 13a-14(a)/15d-14(a) Certification by David A. Rawden.
32.1	Section 1350 Certification by Hugh E. Sawyer.
32.2	Section 1350 Certification by David A. Rawden.

---

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIED HOLDINGS, INC.

Date: January 13, 2005

By: /s/ HUGH E. SAWYER  
Hugh E. Sawyer,  
*President and Chief Executive  
Officer*

Date: January 13, 2005

By: /s/ DAVID A. RAWDEN  
David A. Rawden,  
*Executive Vice President and  
Chief  
Financial Officer  
(Principal Financial and  
Accounting  
Officer)*

---



**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Rule 13a-14(a)/15d-14(a) Certification by Hugh E. Sawyer.
31.2	Rule 13a-14(a)/15d-14(a) Certification by David A. Rawden.
32.1	Section 1350 Certification by Hugh E. Sawyer.
32.2	Section 1350 Certification by David A. Rawden.