ALLIED HOLDINGS INC
Form 10-K
April 13, 2004

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2003.

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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 ID Number)*

160 Clairemont Avenue, Suite 200, Decatur, Georgia 30030

(Address of principal executive office)

Registrant s telephone number, including area code **(404) 373-4285**

Securities registered pursuant to Section 12(b) of the Act:

No par value Common Stock	**American Stock Exchange**
(Title of Class)	*(Name of Exchange on which Registered)*

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o No þ

The number of shares outstanding of the Registrant s common stock as of March 19, 2004 was 8,854,173.

The aggregate market value of the common stock held by nonaffiliates of the Registrant, based upon the closing sales price of the common stock as of June 30, 2003 as reported on the American Stock Exchange, was approximately $18.8 million. Shares of the Registrant s common stock owned by its directors and executive officers were excluded from this aggregate market value calculation; however, shares owned by the Registrant s institutional shareholders were included.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for Registrant s 2004 Annual Meeting of Shareholders to be held May 19, 2004 are incorporated by reference in Part III.

ALLIED HOLDINGS, INC.

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PART I

Item 1. ***Business***

1. General

Allied Holdings, Inc. (the Company or Allied), founded in 1934, is a holding company that operates through its wholly owned subsidiaries. The Company s principal operating subsidiaries are Allied Automotive Group, Inc. (collectively with its subsidiaries referred to as the Allied Automotive Group or Automotive Group) and Axis Group, Inc. (Axis or the Axis Group). Allied Automotive Group is the largest motor carrier in North America specializing in the transportation of new and pre-owned automobiles, sport utility vehicles (SUVs), and light trucks utilizing specialized tractor trailers (Rigs or Rig) and serves and supports all of the major domestic and foreign automotive manufacturers. The Axis Group provides distribution services to the used and new finished vehicle distribution market and other segments of the automotive industry that complement the Automotive Group s services.

Allied Automotive Group offers a full range of automotive delivery services including transporting new, used and off-lease vehicles to dealers from plants, rail ramps, ports and auctions, and providing vehicle rail-car loading and unloading services. Allied Automotive Group represented approximately 97% of the Company s consolidated 2003 revenues. Allied Automotive Group operates primarily in the short-haul segment of the automotive transportation industry with an average length of haul of less than 200 miles. General Motors, Ford, DaimlerChrysler, Toyota and Honda represent the Company s largest customers, accounting for in total approximately 86% of 2003 revenues. Allied Automotive Group also provides services to all other major foreign manufacturers, including Mazda, Nissan, Isuzu, Volkswagen, Hyundai, and KIA. All of Allied Automotive Group s major car hauling competitors are privately held and there is minimal public information available with respect to such companies, but Allied Automotive Group believes that its 2003 revenues were substantially greater than those of its closest competitor.

The Company provides vehicle distribution and transportation support services to the pre-owned and new vehicle markets through the Axis Group. These services complement Allied Automotive Group s new vehicle distribution services operations. Axis provides carrier management services for various automotive clients, leases patented-designed equipment for containerized shipment of vehicles, operates a computerized vehicle tracking system for Toyota, and provides vehicle processing services at ports and inland distribution centers. Axis, through its subsidiaries CT Services, Inc. and Axis Canada, provides a variety of related support services to the pre-owned vehicle market, including vehicle inspections, title storage, marshalling and rail yard management. In addition, Axis provides similar logistics and distribution services in Mexico through its subsidiary, Axis Logistica.

2. Services

Allied Automotive Group is the largest motor carrier in North America specializing in the transportation of new automobiles, SUVs and light trucks for all the major domestic and foreign automotive manufacturers. Allied Automotive Group also believes it can increase the number of secondary market vehicles (used automobiles) it delivers by utilizing its large fleet and expansive terminal network to deliver secondary market vehicles on a backhaul basis.

The Company provides corresponding services to its customers through its Axis Group subsidiary. Axis Group is aggressively pursuing opportunities to provide distribution and support services to customers in the automotive industry and seeks to leverage its proprietary information systems in order to efficiently provide such services. These services include identifying new and innovative distribution methods for customers, providing solutions to improve the management of inventory of new and used vehicles, and providing reconditioning services to the used and remarketed vehicle market. Axis Group has also targeted growth in the secondary markets through expansion of its carrier management services.

Information regarding revenues, operating profit and total assets of each operating segment of the Company for the fiscal years 2001 through 2003, and information regarding revenues and long-lived assets of the Company attributed to the geographic areas in which the Company conducted business during those fiscal years, is set forth in note 17 of the Company s consolidated financial statements included in this Annual Report on Form 10-K.

3. Customer Relationships

Allied Automotive Group has written multi-year contracts with substantially all of its customers. Allied Automotive Group s contracts with its customers establish rates for the transportation of vehicles and generally are based upon a fixed rate per vehicle transported and a variable rate for each mile a vehicle is transported, including an administrative processing fee. The contracts provide that the rate per vehicle may vary depending on the size and weight of the vehicle and can be terminated by either party upon specified days notice. The contracts between Allied Automotive Group and its customers who comprise approximately 59% of the Company s 2003 revenues, permit Allied Automotive Group to recover for increases in fuel prices. None of Allied Automotive Group s contracts with its customers allow it to recover increases in fuel taxes or labor costs unless it is mutually agreed to by Allied Automotive Group and its customers.

Allied Automotive Group operates under a contract with Autogistics for Ford vehicles (with a term of 36 months as to ramp locations and 39 months as to plant locations) which provides that the Allied Automotive Group is the primary carrier for 22 locations in the United States and 10 Canadian locations. This contract expires in September 2005 for ramp locations and December 2005 for plant locations. Each party to the contract has the right to terminate the agreement by location on 75 days notice. Allied Automotive Group has a contract with DaimlerChrysler that expires on January 31, 2005, under which it is the primary carrier for 16 locations in the United States and 13 in Canada. This contract may be terminated by location on 150 days notice by either party. Allied Automotive Group has a contract with General Motors that expires in March 2006 and provides that Allied Automotive Group is the primary carrier for 36 locations in the United States and Canada. General Motors does not have the right to resource business under the terms of the contract unless Allied Automotive Group fails to comply with service or quality standards, by location, provided the Company has 30 days to cure noncompliance. In the event the Company does not cure noncompliance, General Motors must give 60 days notice to terminate at a specific location. Allied Automotive Group operates under an agreement with Toyota that expires in November 2004. This contract may be terminated by either party on 60 days notice.

4. Proprietary Management Information Systems

The Company, through its subsidiaries, has made a long-term commitment to utilize technology to serve its customers. Allied Automotive Group s advanced management information system is a unique, centralized, fully integrated information system utilizing a mainframe computer together with client servers. The system is based on a company-wide information database, which allows Allied Automotive Group to quickly respond to customer information requests without having to combine data files from several sources. Updates with respect to vehicle load, dispatch and delivery are immediately available for reporting to customers and for better control and tracking of customer vehicle inventories. Through electronic data interchange (EDI), Allied Automotive Group communicates directly with manufacturers in the process of delivering vehicles and electronically bills and collects from manufacturers. Allied Automotive Group also utilizes EDI to communicate with inspection companies, railroads, port processors, and other carriers.

Subsidiaries of Allied Automotive Group also utilize the information system to allow them to operate their businesses more efficiently. For example, the information systems of Allied Automotive Group automatically design an optimal load for each Rig, taking into account factors such as the capacity of the Rig, the size of the vehicles, the route, the drop points, applicable weight and height restrictions and the formula for paying drivers. The system also determines the most economical and efficient load sequence and drop sequence for the vehicles to be transported. Axis has developed and utilizes a yard management system and a vehicle track and trace system that includes an estimated time of arrival engine to identify product delivery dates to final dealer destinations.

5. Management Strategy

The Company has adopted a performance management strategy that it believes contributes to driver productivity, cargo claim prevention, enhanced efficiency, safety, and the stability of its operations. The Company s management strategy and culture is results-driven and designed to enhance employee performance through high standards, accountability, precise metrics, careful selection, and continuous training of new employees, with individual performance goals established for each employee and performance measured regularly through the Company s management information system. During 2003, the Company continued to make significant changes and additions to its management team which the Company believes has increased the quality and leadership ability of this group.

Specifically, David Rawden, who joined Allied Holdings as Senior Vice President in March 2002, was appointed Executive Vice President and Chief Financial Officer in February 2004. Mr. Rawden heads the Company s corporate finance operations. From March 2002 until February 2004, Mr. Rawden was Senior Vice President of the Company s Business Process Engineering Department, which is responsible for re-engineering core processes throughout the organization to maximize speed and efficiency. Mr. Rawden was also responsible for the Company s risk management activities, including cargo claims, workers compensation and traffic accidents, as well as information technology. In October 2003, Robert Chambers was appointed President of Axis Group, Inc. From February 2000 until October 2003, Mr. Chambers was President of certain subsidiaries of Axis. Mr. Chambers was the owner of CT Group, Inc., CT Services, Inc. and Cordin Transportation, Inc. prior to the acquisition of such companies by Axis in February 2000.

In addition to strategies directly focused on the Company s management team, Allied Holdings has an Employee Stock Purchase Plan that provides all employees the opportunity to purchase shares of the Company s common stock. This Plan is intended to provide a strong incentive for employees to achieve the Company s goals and align the interests of the employees with those of the Company s shareholders.

In August 2003, the Company awarded 250 shares of common stock to each full time nonbargaining U.S. employee other than those at the level of Senior Vice President or above. The shares vest one year from the date of issuance. In addition, the Company agreed to award 250 shares of common stock in August 2004 to each full time nonbargaining unit employee in Canada as of August 1, 2003 other than those at the level of Senior Vice President or above.

6. Risk Management and Insurance

The Company defines its risks and secures appropriate insurance programs and coverages at cost effective rates. Allied Automotive Group utilizes third party administrators to administer workers compensation, auto and general liability claims. Allied Automotive Group is self-insured for workers compensation claims in Florida, Georgia, Kentucky, Missouri, and Ohio. Liability and workers compensation claims are subject to periodic audits by Allied Automotive Group s commercial insurance carriers. In the United States, the Company retains liability up to $650,000 for each workers compensation claim and $500,000 for each claim for automobile and general liability, including personal injury and property damage claims. In addition to the $500,000 per occurrence deductible for automobile liability, there is a $1.5 million aggregate deductible for those claims that exceed the $500,000 per occurrence deductible, subject to a $1.0 million per claim limit. Prior to January 1, 2004, Allied had a $1.0 million inneraggregate limit for losses from $1.0 to $2.0 million, and an additional $4.0 million aggregate limit for losses from $2.0 to $5.0 million. Effective January 1, 2004, Allied retains up to $1.0 million liability for automobile claims 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. Furthermore, the Company retains liability up to $250,000 for each cargo damage claim. In Canada, the Company retains liability up to CDN $500,000 for each claim for personal injury and property damage. Also, in Canada, there is a CDN $500,000 inner aggregate limit for losses from CDN $500,000 to 1.0 million. For cargo damage in Canada, the Company has a CDN $100,000 deductible.

The Company records the estimated cost of the uninsured portion of the claims. The amount recorded is based on management s evaluation of the nature and severity of claims and estimates of future claim development based on historical trends.

If Allied Automotive Group were to experience a material increase in the frequency or severity of accidents or workers compensation claims or unfavorable developments in existing claims, the Company s operating results could be adversely affected. The Company formed Haul Insurance Limited in December 1995 as a captive insurance subsidiary to provide reinsurance coverage to its licensed insurance carriers for certain types of losses within the retentions indicated, primarily non-self insured workers compensation, automobile liability and general liability, as indicated above. Other coverages are provided by nonrelated primary and reinsurance companies.

The Company is required to provide letters of credit to its insurance companies and various states in order to facilitate the payment of injury, accident, theft, and other loss claims. The Company is required to collateralize these letters of credit. There can be no assurance that the Company will be able to reduce the amount of the letters of credit or underlying collateral.

7. Equipment, Maintenance and Fuel

Allied Automotive Group has historically invested in both new equipment and remanufacturing of existing equipment, which have served to increase efficiency and extend the useful life of Rigs. Currently, new 75-foot Rigs cost approximately $170,000 and have a useful life of approximately 15 years when properly maintained and remanufactured. Allied Automotive Group operates approximately 3,700 company-owned Rigs with an average age of 7.3 years based on the original purchase date or the remanufacturing date if the Rig has been remanufactured. The average remaining life of the company-owned Rigs, assuming a total useful life of 15 years, is 5 years.

During 2003, Allied Automotive Group spent approximately $9.4 million on a fleet remanufacturing program, remanufacturing approximately 220 of its owned active Rigs. Remanufacturing a Rig costs approximately $43,000 per Rig compared to a cost per new Rig of approximately $170,000. In addition, in accordance with the fleet remanufacturing program, Allied replaced engines in approximately 280 Rigs during 2003 at an additional cost of $5.4 million. In 2004, Allied Automotive Group expects to spend approximately $25-35 million on its fleet.

All of Allied Automotive Group s terminals have access to a central parts warehouse through the management information system. The system calculates maximum and minimum parts inventory quantities based upon usage and automatically reorders parts. Minor modifications of equipment are performed at terminal locations. Major modifications involving change in length, configuration, or load capacity are performed by the trailer manufacturers.

In order to reduce fuel costs, Allied Automotive Group purchased approximately 37% of its fuel in bulk in 2003. Also, fuel is purchased by drivers on the road from a few major suppliers that offer competitive discounts and central billing.

8. Competition

After the acquisition of certain subsidiaries of Ryder System, Inc. (Ryder) in 1997, Allied Automotive Group became the largest transporter of new vehicles in the United States and Canada. In the years 1997 through 2001 after the Ryder acquisition, Allied Automotive Group lost market share primarily due to increased non-unionized competition. In 2001, Allied Automotive Group s market share was also impacted by the decision to close four unprofitable terminal locations. In 2002, Allied Automotive Group s market share was further affected by its decision to exit substantially all business with Nissan in the United States. In 2003, the Company s revenues from business gains with existing customers exceeded revenues from business losses, exclusive of revenues lost as a result of the Company s decisions to return certain business to its customers. Allied Automotive Group continues as the largest motor carrier in North America specializing in the transportation of new automobiles, SUVs and light trucks for all the major domestic and foreign automotive manufacturers.

Automotive manufacturers are making fundamental changes to their vehicle distribution systems in an effort to increase the speed of delivery of finished vehicles to dealers with a goal of reducing inventory and improving the reliability of delivery, including the use of fourth party logistics companies by automotive manufacturers. An example is the relationship between Ford and Autogistics, Inc., a subsidiary of UPS Logistics, whereby Ford has engaged Autogistics to oversee its delivery network. All Ford vehicles in North America are shipped under the direction of Autogistics. In addition, General Motors has formed Vector SCM, a joint venture with CNF, Inc., which is General Motors global lead logistics service provider, and DaimlerChrysler has formed Insight, a joint venture with the Union Pacific Railroad. Management of Allied Automotive Group believes that the formation of these joint ventures will provide it with an opportunity to collaborate more directly with logistics professionals. The Company s aspiration is to increase market share on the basis of superior customer value propositions, and by differentiating itself from its competitors on the basis of its experienced drivers, effective management, productive and service-driven operations, extensive and flexible distribution network, and superior management of risk, particularly in cargo claims, worker injuries and traffic accidents. The Company also desires to differentiate its service based on the speed and reliability of its execution. However, there can be no assurance that the use of fourth party logistics companies by the automotive manufacturer will not have a negative impact on the Allied Automotive Group.

Major motor carriers specializing in the delivery of new vehicles that are competitors of the Allied Automotive Group include Leaseway, Jack Cooper, Cassens, Hadley and E & L, all of which utilize union labor, and Swift, Wagoneer and Fleet Car, all of which utilize non-union labor. In February 2004, the principal shareholder of Hadley and E & L announced a tentative agreement to acquire Leaseway. The combined entity would be the second largest car haul company in North America. The Company s competitors may be able to provide similar services to those provided by Allied Automotive Group at lower costs. The number of motor carriers, as well as the market share represented by motor carriers utilizing non-union labor has increased and, as a result, these non-union carriers may be able to provide delivery services at a cost to customers that is less than the cost of Allied s services.

9. Employees and Owner Operators

Subsidiaries of the Company have approximately 6,200 employees, including approximately 4,000 drivers, who are employees of Allied Automotive Group. All employee drivers and shop and yard personnel of Allied Automotive Group are currently represented by various labor unions. The majority of the employees of the operating subsidiaries of Allied Automotive Group are covered by a Master Agreement with the International Brotherhood of Teamsters (IBT or Teamsters) in the United States that expires on May 31, 2008. The Master Agreement was negotiated and executed by subsidiaries of Allied Automotive Group and is identical to the agreement with the National Automobile Transporters Labor Division (the NATLD) and the IBT. The Agreement covers all of the terminals and operations of the participants in the United States in this multi-employer, multi-union bargaining unit and provides for increases of 1.1% to 3.0% per year in wages and benefits in excess of the prior contract with the IBT.

On March 24, 2003 the Company successfully negotiated the renewal of its contract with its employees represented by the Teamsters Union in Eastern Canada. The Company had been operating under a contract that expired on October 31, 2002. The new contract will expire on October 31, 2005. The contract covers the drivers, mechanics and yard personnel represented by the Teamsters Union in the provinces of Ontario and Quebec, and represents approximately 70% of the Company s total bargaining unit employees in Canada.

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

Subsidiaries of Allied Automotive Group also utilize approximately 630 owner-operators, with approximately 120 of these owner-operators driving exclusively from terminals in Canada for Allied Systems (Canada) Company, a subsidiary of Allied Automotive Group, and approximately 510 driving exclusively from terminals in the United States for Allied Systems, Inc. The owner-operators are either paid a percentage of the revenues they generate or receive normal driver pay plus a truck allowance.

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10. Regulation

Certain subsidiaries of the Company are regulated in the United States by the United States Department of Transportation (DOT) and various state agencies, and in Canada by the National Transportation Agency of Canada and various provincial transport boards. Truck and trailer length, height, width, maximum weight capacity and other specifications are regulated federally in the United States, as well as by individual states and, in Canada, by provinces. In recent years, the automotive manufacturers have increased the percentage of vehicles that are light trucks and SUVs as well as increased the size and weight of many vehicles. As a result of these increases and because of the regulations on truck and trailer length, height, width, and maximum weight capacity, the number of vehicles Allied Automotive Group delivers per load has decreased. Allied Automotive Group successfully negotiated rate increases on most of its SUV and light truck business in 1999 to account for this reduction in the number of deliveries per load.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. Effective January 1, 2004, the DOT changed the regulations regarding hours of service for drivers of commercial motor vehicles. Because of the relatively short length of the Company s average haul, the Company expects that approximately 40% of its drivers will be unaffected by the new regulations. For the remaining drivers, the new regulations will increase or decrease the flexibility and hours of service. Where flexibility and hours of service are reduced, the Company may face additional operating costs to maintain current service levels. The Company does not expect the affect of the new regulations to be material to the Company s results of operations. The DOT also regulates certain safety features incorporated in the design of Rigs. The motor carrier transportation industry is subject to regulatory and legislative changes which can affect the economics of the industry by requiring changes in operating policies or influencing the demand for, and the cost of providing, services to shippers. While the Company believes it is in material compliance with these various regulatory requirements, any failure to so comply, as well as any changes in the regulation of the industry through legislative, judicial, administrative or other action, could have a material adverse effect on the Company.

In addition, Allied Automotive Group s terminal operations are subject to environmental laws and regulations enforced by federal, state, provincial, and local agencies, including those related to the treatment, storage and disposal of wastes, and those related to the storage and handling of lubricants. Allied Automotive Group maintains regular ongoing testing programs for those underground storage tanks (USTs) located at its terminals for compliance with environmental laws and regulations.

11. Revenue Variability

The Company s revenues are variable and can be impacted by sudden unexpected changes in original equipment manufacturer (OEM) production levels or unanticipated changes in product type or configuration. 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, light trucks and SUVs. During the first and third quarters, vehicle shipments typically decline due to lower sales volume during those periods and scheduled plant shutdowns.

12. Risk Factors

The Company s future financial condition and results of operations are subject to a number of risks and uncertainties, including those set forth below and in other sections of this Annual Report on Form 10-K.

Substantial Leverage

The Company has consolidated indebtedness which is substantial in relation to its stockholders equity. As of December 31, 2003, the Company had total long-term debt of approximately $246.5 million, approximately $115.2 million of trade payables and other accrued liabilities, and stockholders equity of approximately $8.8 million. In addition, the Company has additional borrowings available under its revolving credit facility which is discussed in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources. 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, and may make the Company more vulnerable to economic downturns and limit its ability to withstand competitive pressures.

The Company s debt instruments contain a number of affirmative, negative, and financial covenants, which limit the ability of the Company to, among other things, incur debt, incur liens, make investments, make dividend or other distributions or enter into a merger or consolidation transaction. As of December 31, 2003, the Company was in compliance with the terms of its various long-term debt covenants. There can be no assurance, however, that the Company will be able to comply with its debt covenants in the future or that, if it fails to do so, it will be able to obtain amendments to or waivers of such covenants on commercially reasonable terms, if at all. On March 30, 2004, the Company obtained the consent of its lenders under the Credit Facility to deliver its financial statements for the year ended December 31, 2003 on or before April 15, 2004.

The Company will need to use a large portion of its future earnings 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 effected 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 substantially all of 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.

Increases in Fuel Prices

Fuel is a major expense incident to the transportation of automotive vehicles, and the cost and availability of fuel are subject to economic and political factors and events, which the Company can neither control nor accurately predict. The Company attempts to minimize the effect of fuel price fluctuations by periodically purchasing fuel in advance, but there can be no assurance that such activity will effectively manage the Company s exposure. In addition, the Company has negotiated fuel surcharges with customers who comprise approximately 59% of the Company s 2003 revenues, which enables it to pass on fuel costs to such customers. Nevertheless, the Company s remaining revenues are generated from customers which are not contractually required to provide Allied a fuel surcharge, and there can be no assurance that the Company will be able to continue to impose fuel surcharges on these or any of its customers. In addition, the customer fuel surcharges typically reset at the beginning of each quarter based on the fuel prices from the previous quarter. Therefore, there is typically a one-quarter lag between the time fuel prices change and the adjustment to the fuel surcharge. Higher fuel prices resulting from fuel shortages or other factors could materially and adversely affect the Company if the Company is unable to pass on the full amount of fuel price increases to its customers through fuel surcharges or higher rates. In addition, higher fuel prices, even if passed on to customers, or a shortage of supply, could have a detrimental effect on the automotive transportation industry and the business of the Company in general.

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 result in increased labor costs to the Company or work stoppages, which could have a material adverse effect on the Company.

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.

Self Insurance Claims

An increase in the number or severity of accidents, stolen equipment, worker injuries or other loss events over those anticipated could have a materially adverse effect on the Company s profitability and liquidity as the Company is self-insured for a significant portion of its risks. In addition, the insurance market is contracting and it is becoming increasingly more difficult to obtain insurance coverage. While the Company currently has insurance coverage, there can be no more assurance that the Company will be able to obtain insurance coverage in the future or obtain coverage at competitive premium rates.

Prior to January 1, 2004, Allied had a $1.0 million inneraggregate limit for losses from $1.0 to $2.0 million, and an additional $4.0 million aggregate limit for losses from $2.0 to $5.0 million. Effective January 1, 2004, Allied retains up to $1.0 million liability for automobile claims 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.

Restrictions on Cash and Investments

The Company uses restricted cash and 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, DaimlerChrysler, Toyota and Honda, its largest customers. The Company operates under written contracts with General Motors, UPS Autogistics, Inc. on behalf of Ford, DaimlerChrysler, Toyota and Honda. The contract with General Motors expires in March 2006, Ford expires in September 2005 for ramp locations and December 2005 for plant locations, DaimlerChrysler expires January 2005, Toyota expires November 2004, and Honda expires March 2005. The contracts with UPS Autogistics, 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.

Although Allied Automotive Group believes that its relationships with these customers is 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

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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, UPS Autogistics, 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 that was effective March 2004, includes reductions in the Company s rates for transportation services.

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 that may be able to provide services at lower cost. The development of new methods for hauling vehicles could also lead to increased competition.

Performance Logistics Group, Inc., which owns two competitors of Allied Automotive Group, Inc., E & L Transport Company and Hadley Auto Transport, recently announced it has agreed to acquire Leaseway Auto Carrier Group, another competitor of Allied Automotive Group. Performance Logistics Group, Inc. has indicated that upon consummation of the acquisition, the combined entities will be the second largest provider of vehicle transport services in North America with annual revenues of approximately $350 million. The parties also announced that the acquisition is subject to regulatory approvals and satisfactory or customary closing conditions.

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. The cost advantage is primarily a result of lower benefit and pension costs. Non-union competitors also operate without work rules that apply to Allied Automotive Group and other union companies. Non-union companies may be able to provide delivery services at a cost to customers that are less than the cost of Allied Automotive Group s services. 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.

Foreign Operations

Although the majority of the Company s operations are in the United States, the Company derives a portion of its revenues and earnings from operations in foreign countries, primarily Canada. The risks of doing business in foreign countries include potential adverse changes in the political policies of foreign governments and diplomatic relations of foreign countries with the United States, hostility from local populations, adverse effects of currency exchange controls, deterioration of foreign economic conditions, currency rate fluctuations, foreign exchange restrictions and changes in taxation structure. Due to the foregoing risks, any of which, if realized, could have a material adverse effect on the Company, the Company believes that its business activities outside of the United States involve a higher degree of risk than its domestic activities.

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 90 days of his cessation of involvement with the Company. The Company recently announced that David A. Rawden was appointed Executive Vice President and Chief Financial Officer, replacing Daniel H. Popky. Mr. Popky served as Chief Financial Officer since November 1998. There is no assurance that the Company will be able to retain its existing senior management or to attract additional qualified personnel.

13. Industry Overview

The following table summarizes historic new vehicle production and sales in the United States and Canada, the primary sources of the Company s revenues:

	2003	2002	2003 vs. 2002 Change	2001	2002 vs. 2001 Change
New Vehicle Production (in millions of units)					
United States:					
Big Three*	8.9	9.3	(4.3)%	8.7	6.9%
Other	2.9	2.7	7.4%	2.5	8.0%
Total	11.8	12.0	(1.7)%	11.2	7.1%
Canada:					
Big Three*	1.8	2.0	(10.0)%	1.9	5.3%
Other	0.7	0.6	16.7%	0.6	0.0%
Total	2.5	2.6	(3.8)%	2.5	4.0%
New Vehicle Sales (in millions of units)					
United States:					
Big Three*	10.8	11.1	(2.7)%	11.6	(4.3)%
Import	2.7	2.7	0.0%	2.5	8.0%
Transplant	3.2	3.0	6.7%	3.0	0.0%
Total	16.7	16.8	(0.6)%	17.1	(1.8)%
Canada:					
Big Three*	1.0	1.3	(23.1)%	1.1	18.2%
Other	0.6	0.4	50.0%	0.5	(20.0)%
Total	1.6	1.7	(5.9)%	1.6	6.25%

* Represents General Motors Corporation, Ford Motor Company and DaimlerChrysler Corporation.
Source: DRI-WEFA

Domestic automotive manufacturing plants are typically dedicated to manufacturing a particular model or models. Vehicles destined for dealers within a radius of approximately 250 miles from the plant are usually shipped by Rigs. The remaining vehicles are shipped by rail to rail ramps throughout the United States and Canada where trucking companies handle final delivery to dealers. The rail or truck carrier is responsible for loading the vehicles on railcars or trailers and for any damages incurred while the vehicles are in the carrier s custody. Automobiles manufactured in Europe and Asia are shipped into the United States and Canada and usually are delivered directly to dealers from seaports by truck or shipped by rail to rail ramps and delivered by trucks to dealers. Vehicles transported by ship are normally prepared for delivery in port processing centers, which involves cleaning and may involve installing accessories. The port processor releases the vehicles to the carrier which loads the vehicles and delivers them to a rail ramp or directly to dealers.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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, (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) resolution of litigation without material adverse effect on the Company. 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 express intended to identify such forward-looking statements. These 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 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 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 adversely impact vehicle deliveries per load; risks associated with doing business in foreign countries; 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 Annual Report on Form 10-K. 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 Annual Report or in any statement referencing the risk factors and other cautionary statements set forth in this Annual Report.

Item 2. ***Properties***

The Company s executive offices are located in Decatur, Georgia, a suburb of Atlanta. The Company leases approximately 92,000 square feet of space for its executive offices, which the Company believes is sufficient to permit the Company to conduct its operations. The Company has subleased approximately 7,700 square feet of this space for varying terms. Allied Automotive Group operates from 83 terminals throughout the United States and Canada, which are located at or near manufacturing plants, ports, and railway terminals. Allied Automotive Group currently owns 21 of its terminals and leases the remainder of its facilities. Most of the leased facilities are leased on a year to year basis from railroads at rents that are not individually material to the Company. In addition, Axis Group, Inc. operates from 40 terminals.

During the 1990 s, changes in governmental regulations have gradually permitted the lengthening of Rigs from 55 to 75 feet. Allied Automotive Group has worked closely with manufacturers to develop specialized equipment to meet the specific needs of its customers. Allied Automotive Group s Rigs are substantially maintained at 43 Allied garages located throughout the United States and Canada by approximately 520 Allied maintenance personnel, including supervisors. These shops are located in 21 facilities owned by Allied Automotive Group and 22 facilities leased by Allied Automotive Group. Rigs are scheduled for regular preventive maintenance inspections. Each shop is equipped to handle repairs resulting from inspection or driver write up, including repairs to electrical systems, air conditioners, suspension, hydraulic systems, cooling systems, and minor engine repairs. Major engine overhaul and engine replacement are performed by outside vendors. The trend has been to use engine suppliers outlets for engine repairs due to the long-term warranties obtained by Allied Automotive Group.

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Item 3. ***Legal Proceedings***

The Company is involved in various litigation and environmental matters relating to employment practices, damages, and other matters arising from operations in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company s financial position or results of operations.

Since its last annual filing, Allied has settled all outstanding litigation with Ryder System, Inc., which litigation and settlement was previously disclosed in the Company s Form 10-Q for the quarter ended September 30, 2003. See Note (17)(b) of the Company s consolidated financial statements included in this Annual Report on Form 10-K.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None

Executive Officers of the Registrant

The following table sets forth certain information regarding the executive officers of the Company and certain of its subsidiaries:

Name	Age	Title
Robert J. Rutland	62	Chairman and Director
Hugh E. Sawyer	50	President, Chief Executive Officer, and Director
Guy W. Rutland, IV	40	Senior Vice President and Director
Thomas M. Duffy	43	Executive Vice President, General Counsel and Secretary
David A. Rawden	46	Executive Vice President and Chief Financial Officer
Robert Chambers	56	President of Axis Group, Inc.

Mr. Rutland has been Chairman of the Company since 1995, and served as Chairman and Chief Executive Officer of the Company from February 2001 to June 2001. Mr. Rutland served as Chairman from December 1995 to December 1999. Mr. Rutland was the President and Chief Executive Officer of the Company from 1986 to December 1995. Prior to October 1993, Mr. Rutland was Chief Executive Officer of each of the Company s subsidiaries.

Mr. Sawyer has been President and Chief Executive Officer of the Company since June 2001. Mr. Sawyer served as President and Chief Executive Officer of Aegis Communications Corp. from April 2000 to June 2001. Mr. Sawyer served briefly as President of Allied Automotive Group, Inc., a subsidiary of the Company, from January 2000 to April 2000. Mr. Sawyer was President and Chief Executive Officer of National Linen Service, a subsidiary of National Service Industries, Inc. from 1996 to 2000, and President of Wells Fargo Armored Service Corp., a subsidiary of Borg-Warner Corp., from 1988 to 1995.

Guy W. Rutland IV has been Senior Vice President since July 2001. Mr. Rutland was Executive Vice President and Chief Operating Officer of Allied Automotive Group from February 2001 to July 2001. Mr. Rutland was Senior Vice President Operations of Allied Automotive Group from November 1997 to February 2001. Mr. Rutland was Vice President Reengineering Core Team of Allied Automotive Group from November 1996 to November 1997. From January 1996 to November 1996, Mr. Rutland was Assistant Vice President of the Central and Southeast Region of Operations for Allied Systems, Ltd. From March 1995 to January 1996, Mr. Rutland was Assistant Vice President of the Central Division of Operations for Allied Systems, Ltd. From June 1994 to March 1995, Mr. Rutland was Assistant Vice President of the Eastern Division of Operations for Allied Systems, Ltd. From 1993 to June 1994 Mr. Rutland was assigned to special projects with an assignment in Industrial Relations/ Labor Department and from 1988 to 1993, Mr. Rutland was Director of Performance Management.

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Mr. Duffy has been Executive Vice President, General Counsel and Secretary of the Company since February 2004, was Senior Vice President, General Counsel and Secretary of the Company from November 2000 until February 2004, and was Vice President, General Counsel and Secretary from June 1998 until November 2000. From May 1997 to June 1998, Mr. Duffy was a partner with the law firm of Troutman Sanders LLP. Prior to May 1997, Mr. Duffy was a partner with the law firm of Peterson Dillard Young Asselin & Powell LLP.

Mr. Rawden has been Executive Vice President and Chief Financial Officer since February 2004 and was Senior Vice President, Business Process Engineering of the Company from March 2002 until February 2004. Mr. Rawden previously served as a Principal with Jay Alix & Associates in their Turnaround and Crisis Management business unit from November 1990 to March 2002. Mr. Rawden has over eleven years experience in successful turnarounds in a wide variety of industries.

Mr. Chambers has been President of Axis Group, Inc. since October 2003 and was President of certain subsidiaries of Axis Group from February 2000 until October 2003. Mr. Chambers was the owner of CT Group, Inc., CT Services, Inc. and Cordin Transportation, Inc. prior to the acquisition of such companies by Axis Group in February 2000.

PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters***

The Company began trading its common stock on the American Stock Exchange (AMEX) under the symbol AHI, effective April 8, 2002. The Company s common stock was listed on the New York Stock Exchange (NYSE) from March 3, 1998 until the change to the AMEX. The common stock began trading on September 29, 1993 on the Nasdaq Stock Market until March 3, 1998. Prior to September 29, 1993, there had been no established public trading market for the common stock.

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