
Eighth Report to Court of Duff & Phelps Canada Restructuring Inc. as Information Officer of Allied Systems Holdings, Inc., Allied Systems (Canada) Company, Axis Canada Company and those other companies listed on Schedule “A” hereto

October 8, 2013

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Court File No.:12-CV-9757-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C.
1985, C.C-36, AS AMENDED**

**AND IN THE MATTER OF ALLIED SYSTEMS HOLDINGS, INC., ALLIED SYSTEMS
(CANADA) COMPANY, AXIS CANADA COMPANY AND THOSE OTHER COMPANIES
LISTED ON SCHEDULE "A" HERETO**

**APPLICATION OF ALLIED SYSTEMS HOLDINGS, INC. UNDER SECTION 46 OF THE
COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C.C-36,
AS AMENDED**

**EIGHTH REPORT OF DUFF & PHELPS CANADA RESTRUCTURING INC.
AS INFORMATION OFFICER OF
ALLIED SYSTEMS HOLDINGS, INC., ALLIED SYSTEMS (CANADA) COMPANY, AXIS
CANADA COMPANY AND THOSE OTHER COMPANIES
LISTED ON SCHEDULE "A" HERETO**

OCTOBER 8, 2013

1.0 Introduction

1. On May 17, 2012, involuntary petitions were filed by BDCM Opportunity Fund II, LP, Black Diamond CLO 2005-1 Ltd. and Spectrum Investment Partners, L.P. ("Black Diamond/Spectrum") against Allied Systems Holdings, Inc. ("Allied Systems US") and its subsidiary, Allied Systems, Ltd. (L.P.) ("ASL") pursuant to Chapter 11 of Title 11 of the *United States Code* ("Chapter 11") ("Involuntary Petitions") in the United States Bankruptcy Court for the District of Delaware ("U.S. Court").

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2. On June 10, 2012, voluntary petitions were filed with the U.S. Court for relief under Chapter 11 by the US and Canadian subsidiaries of Allied Systems US (“Subsidiaries”)¹ (Allied Systems US, ASL and the Subsidiaries are collectively referred to as the “Chapter 11 Debtors” or “Allied Group”), including Allied Systems (Canada) Company (“Allied Canada”) and Axis Canada Company (“Axis Canada”) (jointly, the “Canadian Debtors”). In connection therewith, Allied Systems US and ASL consented to the Involuntary Petitions. The cases commenced or consented to by the Chapter 11 Debtors in the U.S. Court are herein defined as the “Chapter 11 Proceedings”.
 3. The Chapter 11 Debtors were granted ancillary relief under Part IV of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) pursuant to an Order of the Ontario Superior Court of Justice (“Court”, and together with the U.S. Court, the “Courts”) dated June 12, 2012 (the “Initial Order”) and a Court Order dated June 13, 2012 (the “Supplemental Order”, and together with the Initial Order, the “Orders”).
 4. Pursuant to the Orders, *inter alia*: a) the Chapter 11 Proceedings were recognized as a “foreign main proceeding” pursuant to Part IV of the CCAA; b) Allied Systems US was appointed as Allied Group’s foreign representative (“Foreign Representative”); c) certain orders made by the U.S. Court dated June 12, 2012 were recognized; and d) Duff & Phelps Canada Restructuring Inc. (“D&P”) was appointed as the Information Officer (the “Information Officer”).
 5. On July 16, 2012, this Court made an Order (“July 16th Order”): a) recognizing certain final orders of the U.S. Court that had previously been granted on an interim basis; b) approving certain ancillary relief in respect of Allied Group’s cash management system; and c) amending the Supplemental Order to provide for increased priority for the Administration Charge and the DIP Lender’s Charge (as both terms are defined in the Supplemental Order).
 6. This report (“Report”) is filed in D&P’s capacity as Information Officer.

¹ The U.S. subsidiaries are: Allied Automotive Group, Inc.; Allied Freight Broker LLC; Axis Areta, LLC; Axis Group, Inc.; Commercial Carriers, Inc.; CT Services, Inc.; Cordin Transport LLC; F.J. Boutell Driveaway LLC; GACS Incorporated; Logistic Systems, LLC; Logistic Technology, LLC; QAT, Inc.; RMX LLC; Transport Support LLC; and Terminal Services LLC. The Canadian subsidiaries are Allied Systems (Canada) Company and Axis Canada Company.

1.1 Purposes of this Report²

1. The purposes of this Report are to:
 - a) Provide an update on the status of the Chapter 11 Proceedings;
 - b) Assist the Court in considering the Foreign Representative's request for this Court to grant an order recognizing the:
 - JCT Sale Order and vesting substantially all of Allied Group's assets located in Canada in JCT; and
 - BD/Spectrum Sale Order and vesting the Excluded Assets located in Canada in the First Lien Agents; and
 - c) Recommend that this Honorable Court make an order recognizing the JCT Sale Order and the BD/Spectrum Sale Order.

1.2 Currency

1. All currency references in this Report are to United States dollars, unless otherwise noted.

1.3 Restrictions

1. In preparing this Report, the Information Officer has relied upon unaudited financial information prepared by Allied Group's representatives, Allied Group's books and records and discussions with its representatives. The Information Officer has not performed an audit or other verification of such information. The Information Officer expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Information Officer.

2.0 Background

1. Allied Group is primarily engaged in the "car-haul" business, being the transport by specially designed tractor trailers of vehicles, such as automobiles, sport-utility vehicles and light trucks, from manufacturing plants, ports, auctions, and railway distribution points to automobile dealerships in the United States and Canada. In Canada, this business is conducted by Allied Canada.

² Capitalized terms are defined below.

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2. Allied Group's operations are centralized from its head office located in Atlanta, Georgia. Allied Group employs approximately 1,835 individuals, including approximately 440 active employees and independent contractors in Canada³. Approximately 90% of Allied Group's active Canadian employees are members of either the International Brotherhood of Teamsters ("Teamsters") or the National Automobile, Aerospace, Transportation and General Works Union of Canada ("CAW") unions.
 3. Pursuant to a first lien credit facility ("First Lien Facility") and second lien credit facility ("Second Lien Facility"), as amended, Black Diamond/Spectrum, Yucaipa American Alliance Fund I, LP and Yucaipa American Alliance (Parallel) Fund I, LP (together, "Yucaipa", including companies affiliated with Yucaipa) and other parties are lenders to Allied Group.
 4. At the commencement of the Chapter 11 proceedings, Allied Group owed approximately \$244 million and \$30 million in principal under the First Lien Facility and the Second Lien Facility, respectively.
 5. As a result of the Memorandum of Decision dated March 8, 2013 of Mr. Justice Charles E. Ramos of the Supreme Court of New York, which was confirmed by the U.S. Court on July 30, 2013, BD/Spectrum is the "Requisite Lender" under the First Lien Facility ("Requisite Lender")⁴. The Requisite Lender has certain voting and other rights with respect to the First Lien Facility, which include the right to credit bid on Allied Group's assets, on behalf of the First Lien Facility lenders.
 6. Further background concerning Allied Group was provided in the affidavit of Scott Macaulay, Senior Vice President and Chief Financial Officer of Allied Systems US, sworn June 11, 2012 ("Macaulay Affidavit") and the Information Officer's previous reports ("IO Reports"). The Macaulay Affidavit, the IO Reports and other materials filed with the Court in the Canadian proceedings are available on D&P's website at www.duffandphelps.com/restructuringcases. Information regarding the Chapter 11 Proceedings is posted on the "Restructuring News" portion of Allied Group's website at www.alliedautomotive.com.

³ The number of active Canadian employees varies by season.

⁴ This is disputed by Yucaipa.

3.0 Sale Process⁵

1. Allied Group commenced a going-concern sale process in June, 2012 for its business and assets (“Assets”). The process was run by Rothschild Inc. (“Rothschild”), Allied Group’s financial advisor. The Information Officer has been advised by Rothschild that a comprehensive sale process was conducted for Allied Group’s business. Rothschild contacted approximately 57 parties, of which 40 parties signed a confidentiality agreement and were granted access to Allied Group’s data room.
2. On June 21, 2013, the U.S. Court made an order approving procedures for the solicitation and submission of bids for the Assets (“Bidding Procedures Order”). The Bidding Procedures Order was recognized by this Court on June 26, 2013.
3. Pursuant to the Bidding Procedures Order, the Bid Deadline was August 8, 2013. Five bids were received at the Bid Deadline. Allied Group, with the assistance of Rothschild and Allied Group’s other advisors, determined that there were two Qualified Bidders: Jack Cooper Holdings Corp. (“JCT”), an entity operating a business similar to Allied Group; and New Allied Acquisition Co. LLC (“New Allied”), an entity formed by Black Diamond/Spectrum (the “First Lien Agents”).

3.1 Auction

1. In accordance with the Bidding Procedures Order, as more than one Qualified Bid was received, Allied Group scheduled an Auction for August 14, 2013. Allied Group advised the Qualified Bidders that JCT’s bid, in the amount of \$95 million, was the “highest or best” bid and would be the opening bid at the Auction.
2. The Auction commenced at 10:00 a.m. on August 14, 2013 and concluded at 11 p.m. on August 15, 2013. A representative of the Information Officer attended the Auction.
3. Allied Group selected New Allied’s bid of \$105 million as the Successful Bid at the Auction.

⁵ All capitalized terms herein have the meanings provided to them in the Bidding Procedures Order.

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4. Subsequent to the Auction, JCT and several other parties, including the Official Committee of Unsecured Creditors (“Committee”), CAW and Teamsters (collectively the “Objecting Parties”), filed objections to the sale of Allied Group’s assets to New Allied.
 5. On September 6, 2013, JCT submitted to the independent Special Committee of Allied Group’s Board of Directors a revised bid in the amount of \$135 million, representing a 22.5% increase over New Allied’s Successful Bid at the Auction.
 6. On September 6, 2013, the Committee filed a motion with the U.S. Court to re-open the Auction. On September 8, 2013, Allied Group filed a joinder in the Committee’s motion to re-open. After a hearing on September 9, 2013 attended by the Objecting Parties, Black Diamond/Spectrum and the Allied Group, the U.S. Court ordered Allied Group to re-open the Auction.
 7. The Auction was re-opened on September 11, 2013. At the conclusion of the Auction, Allied Group determined that the combination of two bids represented the Successful Bids:
 - i. JCT’s bid in the amount of \$135 million for substantially all of Allied Group’s assets; and
 - ii. The First Lien Agents’ bid of a least \$5 million for certain owned real and personal property (the “Excluded Assets”).

3.2 Sale Agreement

1. A copy of the sale agreement (“Sale Agreement”) between the Allied Group and JCT is provided in Tab 3C of the Allied Group’s record filed in respect of the sale approval recognition motion.
2. The key provisions of the Sale Agreement include, among other things, the following:⁶
 - a) Purchase Price: \$135 million, comprised of the following:
 - i. cash in the amount of \$125 million; and
 - ii. \$10 million to be paid either: (i) by issuing senior secured (“Notes”) to Allied Group; or (ii) in cash.

⁶ All capitalized terms in this Section of the Report, but not defined in this Section, have the meanings provided to them in the Sale Agreement. Reference should be made to the Sale Agreement for complete terms of sale.

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- b) Purchased Assets: All or substantially all of the Allied Group's assets, including the assets of the Canadian Debtors, other than the Excluded Assets (as detailed in Section 3.6 below). Section 1.5 of the Sale Agreement allows JCT to, among other things, amend the definitions of the Purchased Assets, Excluded Assets, Assumed Liabilities and Excluded Liabilities at any time prior to Closing. The Sale Agreement requires Allied Group to obtain orders from the U.S. Court vesting the Allied Group's right, title and interest in and to, and possession of, the Purchased Assets free and clear of all liens, claims, encumbrances and interests except for the Assumed Liabilities and Permitted Encumbrances;
 - c) Assumed Liabilities: This includes all obligations under the Assigned Contracts and related Cure Costs, as set out in Section 1.3 of the Sale Agreement;
 - d) Good Faith Deposit/Liquidated Damages: The Sale Agreement provides for a deposit of \$9.5 million ("Good Faith Deposit"). If the Sale Agreement is terminated by the Allied Group pursuant to Section 3.4 (i) or 3.4 (l), the Allied Group will retain the Good Faith Deposit and JCT will provide the Allied Group with either the Notes or \$10 million in cash as deemed liquidated damages;
 - e) Conditions to Closing: The Sale Agreement is subject to the conditions set out in Article Nine, including that there can be no material labor strike or work stoppage in the United States prior to Closing and recognition of the JCT Sale Order (as defined below) by the Canadian Court; and
 - f) Closing Date: Closing shall occur two days after the Conditions to Closing have been satisfied. If the Closing has not occurred by December 31, 2013, JCT and/or Allied Group may terminate the Sale Agreement.
3. On September 17, 2013, the U.S. Court granted an order approving, *inter alia*, the Sale Agreement ("JCT Sale Order"). A copy of the JCT Sale Order is provided in Tab 3B of the Allied Group's record filed in respect of the sale approval recognition motion.

3.3 Wind-Down Budget

1. The JCT Sale Order stipulates that the Allied Group must hold back cash received from the sale of its assets sufficient to fund a wind-down budget ("Wind-Down Budget"). The Wind-Down Budget must be agreed to by the First Lien Agents and Allied Group, in consultation with the Committee and Yucaipa, or it must be set by the U.S. Court.

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2. The purpose of the Wind-Down Budget is for Allied Group to have sufficient funds to complete the Chapter 11 proceedings and the CCAA proceedings.
 3. The Allied Group is consulting with its stakeholders with respect to wind down alternatives. The Information Officer has been consulted by the Allied Group and has provided feedback and comments in connection with the portion of the Wind-Down Budget related to the wind down of the Canadian Debtors.
 4. The Wind-Down Budget has not yet been finalized.

3.4 Canadian Employees

1. Of the 440 employees of the Canadian Debtors, approximately 220 employees are members of CAW and 190 employees are members of Teamsters. The Teamsters and CAW employees are subject to collective bargaining agreements ("Canadian Collective Bargaining Agreements").
2. Pursuant to Article Six of the Sale Agreement, the Employment Offering Purchase Entity (the "EOPE") has the option of offering employment to the employees of the Allied Group at substantially similar compensation to the JCT employees in similar positions, except as otherwise required by law or the Canadian Collective Bargaining Agreements. The EOPE will be either JCT or JCT's designated purchaser that offers employment to Allied Group's employees after Closing.
3. As set out in paragraph 56 of the US Sale Order: "Pursuant to Section 6.1 of the Agreement, the EOPE has agreed to assume any and all obligations and responsibilities of Allied Canada as a result of the application of Section 44 of the *Canada Labour Code*." Accordingly, all unionized employees of Allied Canada are to be employed by the EOPE in accordance with the terms of the Canadian Collective Bargaining Agreements.
4. Pursuant to the Canadian Collective Bargaining Agreements, the Allied Canada participates in and contributes to multi-employer pension plans ("MEPPs"). Section 6.1 of the Sale Agreement provides that the Employment Offering Purchaser Entity will continue to contribute and participate in the MEPPs.
5. Pursuant to Section 6.1 of the Sale Agreement, JCT will make a payment to the Allied Group equal to the sum of the severance and termination amounts owed to all employees of Allied Canada who are not covered under a Canadian Collective Bargaining Agreement, who are not hired by JCT, or whose employment terms result in a deemed termination as a result of the Closing, up to a maximum of \$570,000 in the aggregate.

3.5 Assignment of Contracts

1. The Sale Agreement requires that the Allied Group assign certain of its contracts, agreements and leases (“Assigned Contracts”) to JCT so that it can continue to operate the Allied Group’s business.
2. The U.S. Court has approved the assignment of the Assigned Contracts.
3. Pursuant to the Section 11.3 of the CCAA, Canadian counterparties to the Assigned Contracts are to be provided with notice before the Court can order the assignment of the Canadian Assigned Contracts. The affidavit of Scott Macaulay sworn on October 3, 2013 states that the Canadian counterparties will be served with Allied Group’s motion record. This Report will be provided to the same service list.
4. The JCT Sale Order states that JCT has demonstrated adequate assurance of future performance with respect to the Assigned Contracts.⁷ Pursuant to the Sale Agreement, JCT is required to pay all cure costs associated with the Assigned Contracts promptly after Closing.

3.6 Excluded Assets

1. The First Lien Agents submitted the highest bid for the Excluded Assets (as detailed below in paragraph 4 of this section).
2. The Excluded Assets include six parcels of real estate, two of which are located in Canada, a lease and fifty “low-boy” trailers (“BD/Spectrum Sale Agreement”). A copy of the BD/Spectrum Sale Agreement is provided in Tab 3E of the Allied Group’s record filed in respect of the sale approval recognition motion.
3. The BD/Spectrum Sale Agreement provides for the following consideration:
 - i. A credit bid of \$5 million; plus
 - ii. An additional credit bid equal to either (a) the net value (over \$5 million) realized upon from the sale of the Excluded Assets in the first six months after closing; or (b) the appraised value (over \$5 million) of any of the Excluded Assets that are not sold in the first six months.

⁷ Pursuant to the Bid Procedures Order, the purchaser (JCT) had to provide adequate assurance of its ability to perform its obligations under the Assigned Contracts.

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4. On September 30, 2013, the U.S. Court granted an order approving, *inter alia*, the sale of the Excluded Assets ("BD/Spectrum Sale Order"). A copy of the BD/Spectrum Sale Order is provided in Tab 3D of the Allied Group's record filed in respect of the sale approval recognition motion.

3.7 Information Officer's View

1. On June 12th and June 13th the Court issued the Orders recognizing the Chapter 11 Proceeding as a "foreign main proceeding" pursuant to Part IV of the CCAA, thereby giving ultimate oversight to the U.S. Court.
2. The U.S. Court approved the JCT Sale Order and the BD/Spectrum Sale Order after hearing extensive submissions by Allied Group and its stakeholders, including submissions from stakeholders of the Canadian Debtors. The U.S. Court was satisfied with the Sale Process and the value received for the Assets.
3. The Information Officer understands that stakeholders with an interest in these proceedings have received notice of the US Sale Order and the BD/Spectrum Sale Order and will be served with materials in respect of this Motion.
4. The transaction maximizes value for the Allied Group's businesses and assets, including those of the Canadian Debtors. It also provides for continuity of Allied Group's business, including the preservation of jobs for the Canadian Debtors' employees.
5. Based on the foregoing, it is the Information Officer's view that recognizing the US Sale Order and the BD/Spectrum Sale Order and issuing an approval and vesting orders in the forms provided in tab 4 and tab 5, respectively, of Allied Group's motion record is appropriate.

4.0 Conclusion

1. Based on the foregoing, it is the Information Officer's view that the relief being sought by the Foreign Representative is reasonable.
2. The Information Officer respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1 of this Report.

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All of which is respectfully submitted,

Duff & Phelps Canada Restructuring Inc.

**DUFF & PHELPS CANADA RESTRUCTURING INC.
IN ITS CAPACITY AS INFORMATION OFFICER OF
ALLIED SYSTEMS HOLDINGS, INC., ALLIED SYSTEMS (CANADA) COMPANY, AXIS
CANADA COMPANY AND THOSE OTHER COMPANIES LISTED ON SCHEDULE "A"
HERETO AND NOT IN ITS PERSONAL CAPACITY**

Schedule “A”

SCHEDULE A – APPLICANTS

Allied Systems Holdings, Inc.
Allied Automotive Group, Inc.
Allied Freight Broker LLC
Allied Systems (Canada) Company
Allied Systems, Ltd. (L.P.)
Axis Areta, LLC
Axis Canada Company
Axis Group, Inc.
Commercial Carriers, Inc.
CT Services, Inc.
Cordin Transport LLC
F.J. Boutell Driveway LLC
GACS Incorporated
Logistic Systems, LLC
Logistic Technology, LLC
QAT, Inc.
RMX LLC
Transport Support LLC
Terminal Services LLC