

QUALITY DISTRIBUTION INC
Form 10-Q
May 17, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

or

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

For the transition period from _____ to _____

Commission File Number: 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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Florida
(State or other jurisdiction of

59-3239073
I.R.S. Employer

incorporation or organization)

Identification No.)

3802 Corporex Park Drive, Tampa, FL
(Address of Principal Executive Offices)

33619
(Zip Code)

813-630-5826

(Registrant's telephone number, including area code)

N/A

(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). Yes No

APPLICABLE ONLY TO CORPORATE USERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at May 12, 2004</u>
Common Stock (no par value per share)	19,115,646

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(In 000 s)

	March 31, 2004 <u>(Unaudited)</u>	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 763	\$ 955
Accounts receivable, net of allowance of \$8,091 and \$6,893	81,252	74,944
Current maturities of notes receivable from affiliates	1,241	676
Inventories	843	819
Prepaid expenses	6,413	3,566
Prepaid tires	8,085	7,978
Other	1,169	1,236
	<u>99,766</u>	<u>90,174</u>
Total current assets	99,766	90,174
Property and equipment, net of accumulated depreciation of \$198,106 and \$203,816	134,016	137,961
Goodwill	131,232	131,232
Intangibles, net	1,368	1,402
Notes receivable from affiliates	781	1,051
Other assets	9,368	9,871
	<u>376,531</u>	<u>371,691</u>
Total assets	\$ 376,531	\$ 371,691
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	\$ 1,694	\$ 1,759
Accounts payable	21,007	18,988
Affiliates and independent owner-operators payable	10,577	7,319
Accrued expenses	56,214	54,242
Income taxes payable	272	518
	<u>89,764</u>	<u>82,826</u>
Total current liabilities	89,764	82,826
Long-term indebtedness, less current maturities	271,400	272,750
Environmental liabilities	18,643	19,689
Other non-current liabilities	13,057	13,712
Deferred tax liability	1,495	1,552
	<u>394,359</u>	<u>390,529</u>
Total liabilities	394,359	390,529

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Commitments and contingencies (Note 6)		
Minority interest in subsidiary	1,833	1,833
Stockholders' deficit:		
Common stock, no par value; 29,000 authorized, 19,114 issued at March 31, 2004 and 19,080 issued at December 31, 2003	356,091	356,078
Treasury stock, 112 and 111 shares at March 31, 2004 and December 31, 2003, respectively	(1,285)	(1,258)
Accumulated deficit	(168,607)	(169,569)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(14,655)	(14,689)
Stock purchase warrants	73	86
Stock subscriptions receivable	(1,689)	(1,730)
	<u> </u>	<u> </u>
Total stockholders' deficit	(19,661)	(20,671)
	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders' deficit	\$ 376,531	\$ 371,691
	<u> </u>	<u> </u>

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

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited In 000 s, Except Per Share Amounts)

	Three months ended	
	March 31,	
	2004	2003
Operating revenues:		
Transportation	\$ 127,857	\$ 114,809
Other service revenues	18,413	17,591
Fuel surcharge	4,915	4,615
Total operating revenues	151,185	137,015
Operating expenses:		
Purchased transportation	100,774	83,932
Compensation	14,549	16,452
Depreciation and amortization	6,020	7,494
Insurance claims	4,328	4,122
PPI professional fees	3,242	
Other operating expenses	16,026	16,422
Operating income	6,246	8,593
Interest expense	5,217	6,644
Other expense (income)	28	(24)
Income before taxes	1,001	1,973
Provision for income taxes	39	138
Net income	962	1,835
Distributions to minority interest/preferred stock dividends and accretions		(2,191)
Net income (loss) attributable to common stockholders	\$ 962	\$ (356)
Per share data:		
Net income (loss) per common stockholder basic	\$ 0.05	\$ (0.11)
Net income (loss) per common stockholder diluted	\$ 0.05	\$ (0.11)
Weighted average number of shares basic	18,892	3,337
Weighted average number of shares diluted	19,114	3,337

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

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	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 962	\$ 1,835
Adjustments for non-cash charges	6,660	9,013
Changes in assets and liabilities	(5,441)	(7,701)
Net cash provided by operating activities	<u>2,181</u>	<u>3,147</u>
Cash flows from investing activities:		
Proceeds from life insurance	137	
Capital expenditures	(2,308)	(2,170)
Proceeds from asset dispositions	213	328
Net cash used in investing activities	<u>(1,958)</u>	<u>(1,842)</u>
Cash flows from financing activities:		
Net payments on the revolver	(1,000)	(400)
Payments of debt obligations	(414)	(746)
Increase in bank overdraft	932	733
Other	17	(36)
Net cash used in financing activities	<u>(465)</u>	<u>(449)</u>
Net increase (decrease) in cash	(242)	856
Effect of exchange rate changes on cash	50	(171)
Cash, beginning of period	955	661
Cash, end of period	<u>\$ 763</u>	<u>\$ 1,346</u>
Supplemental disclosures of non-cash activities:		
Preferred stock accretions	<u>\$</u>	<u>\$ 2,155</u>

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

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

Quality Distribution, Inc. (the Company or QDI) and its subsidiaries are engaged primarily in truckload transportation of bulk chemicals in North America. The Company conducts a significant portion of its business through a network of company terminals, affiliates and independent owner-operators. Affiliates are independent companies, which enter into one to five year renewable contracts with the Company. Affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Certain affiliates lease trailers from the Company. Owner-operators are independent contractors, who, through a contract with the Company, supply one or more tractors and drivers for the Company's use. Contracts with owner-operators may be terminated by either party on short notice. The Company also charges affiliates and third parties for the use of tractors and trailers as necessary. In exchange for the services rendered, affiliates and owner-operators are generally paid a percentage of the revenues generated for each load hauled.

The accompanying unaudited condensed, consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation have been included.

As previously disclosed in Note 1. Business Organization PPI Irregularities to the consolidated financial statements contained in the Company's Annual Report on Form 10-K, amounts for the three months ended March 31, 2003 reflect adjustments relating to matters at Power Purchasing, Inc., a non-core insurance subsidiary.

For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2003 included in the Company's annual report on Form 10-K.

Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the entire fiscal year.

New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 provides guidance in determining (1) whether consolidation is required under the controlling financial interest model of Accounting Research Bulletin No. 51, Consolidated Financial Statements, (or other existing authoritative guidance) or, (2) whether the variable interest model under FIN 46 should be used to account for existing and new entities. In December 2003, the FASB released a revised version of FIN 46 (FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from its requirements. Adoption of this standard did not have a material impact on the Company's financial reporting.

2. COMPREHENSIVE INCOME:

Comprehensive income is as follows (in thousands):

	Three months ended	
	March 31,	
	2004	2003
	<hr/>	<hr/>
Net income	\$ 962	\$ 1,835
Other comprehensive income:		
Foreign currency translation adjustments	34	622
	<hr/>	<hr/>
Comprehensive income	\$ 996	\$ 2,457
	<hr/>	<hr/>

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The March 31, 2004 common shares outstanding include 7,875,000 shares issued in November 2003 in connection with the Company's initial public offering and 7,654,235 shares issued in November 2003 in connection with the conversion of all of the Company's 13.75% Mandatorily Redeemable Preferred Stock to common stock.

The reconciliation of basic to diluted shares of common stock is as follows (in thousands):

	Three months ended	
	March 31,	
	2004	2003
	<u> </u>	<u> </u>
Weighted average common shares outstanding - basic	18,892	3,337
Additional shares assuming:		
Exercise of stock options and warrants (1)	217	
Vesting of restricted stock	5	
	<u> </u>	<u> </u>
Weighted average common shares outstanding - diluted	19,114	3,337
	<u> </u>	<u> </u>

(1) Represents the number of shares of common stock issuable on the exercise of dilutive employee stock options and warrants less the number of shares, which could have been purchased with the proceeds from the exercise of such options and warrants. These purchases were assumed to have been made at the average market price of the common stock during the period or that part of the period for which the option was outstanding. At March 31, 2004 and 2003, 2,050,000 and 108,000 options, respectively, were not included in the calculation as the exercise of these options would have had an anti-dilutive effect on the earnings per share calculation.

4. STOCK-BASED COMPENSATION:

The Company uses Accounting Principles Board Opinion No. 25, Accounting for Stock-Based Compensation, and the related interpretations to account for its stock option plans. No compensation cost has been recorded at the grant dates, as the option price has been greater than or equal to the market price of the common stock on the applicable measurement date for all options issued. The Company adopted the disclosure provisions of FAS 148, Accounting for Stock-Based Compensation Transition and Disclosure and amendment of FAS 123, Accounting for Stock-Based Compensation, for disclosure purposes in 2002.

The following table illustrates the effect on net earnings if the Company had recognized compensation expense upon issuance of the options (in thousands):

Three months ended
March 31,

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	<u>2004</u>	<u>2003</u>
Net income (loss) attributable to common stockholders as reported	\$ 962	\$ (356)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects of \$0 for all periods	(455)	