

QUALITY DISTRIBUTION INC  
Form 10-Q/A  
July 13, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q/A**

**Amendment No. 1**

(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, 2012

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.**

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

(Exact name of registrant as specified in its charter)

<b>Florida</b> (State or other jurisdiction of incorporation or organization)	<b>59-3239073</b> (I.R.S. Employer Identification No.)
<b>4041 Park Oaks Boulevard, Suite 200, Tampa, FL</b> (Address of Principal Executive Offices)	<b>33610</b> (Zip Code)
<b>813-630-5826</b>	

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

As of May 3, 2012, the registrant had 26,974,990 shares of Common Stock, no par value, outstanding.

**Table of Contents**

**EXPLANATORY NOTE**

Quality Distribution, Inc. is filing this amendment to its Quarterly Report on Form 10-Q (the "Amended Report") for the quarter ended March 31, 2012, which was originally filed with the Securities and Exchange Commission on May 9, 2012 (the "Original Report"), solely to correct a typographical error in the certification filed as Exhibit 32.1. New certifications are also filed as Exhibit 31.1 and Exhibit 31.2 as required by SEC rule. This Amended Report does not affect any other items in our Original Report. Except as noted above, this Amended Report continues to speak as of the date of the Original Report and the disclosure contained herein has not been updated to reflect events that have occurred since the filing of the Original Report.

**Table of Contents**

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**CONTENTS**

<b><u>PART I FINANCIAL INFORMATION</u></b>	<b>1</b>
<b><u>ITEM 1 FINANCIAL STATEMENTS</u></b>	<b>1</b>
<b><u>Consolidated Statements of Operations for the Three Months Ended March 31, 2012 and 2011</u></b>	<b>1</b>
<b><u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2012 and 2011</u></b>	<b>2</b>
<b><u>Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011</u></b>	<b>3</b>
<b><u>Consolidated Statements of Shareholders Deficit for the Three Months Ended March 31, 2012 and 2011</u></b>	<b>4</b>
<b><u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011</u></b>	<b>5</b>
<b><u>Notes to Consolidated Financial Statements</u></b>	<b>6</b>
<b><u>ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>28</b>
<b><u>ITEM 3 Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>50</b>
<b><u>ITEM 4 Controls and Procedures</u></b>	<b>52</b>
<b><u>PART II OTHER INFORMATION</u></b>	<b>52</b>
<b><u>ITEM 1 Legal Proceedings</u></b>	<b>52</b>
<b><u>ITEM 1A Risk Factors</u></b>	<b>52</b>
<b><u>ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>52</b>
<b><u>ITEM 3 Defaults Upon Senior Securities</u></b>	<b>52</b>
<b><u>ITEM 4 Mine Safety Disclosures</u></b>	<b>53</b>
<b><u>ITEM 5 Other Information</u></b>	<b>53</b>
<b><u>ITEM 6 Exhibits</u></b>	<b>54</b>
<b><u>Signatures</u></b>	<b>55</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Consolidated Statements of Operations****Unaudited (In 000 s, Except Per Share Amounts)**

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES:</b>		
Transportation	\$ 133,206	\$ 124,681
Service revenue	27,985	26,738
Fuel surcharge	30,724	26,491
<b>Total operating revenues</b>	<b>191,915</b>	<b>177,910</b>
<b>OPERATING EXPENSES:</b>		
Purchased transportation	131,877	124,722
Compensation	16,631	14,883
Fuel, supplies and maintenance	14,466	11,777
Depreciation and amortization	3,791	3,492
Selling and administrative	6,510	5,149
Insurance costs	3,219	4,685
Taxes and licenses	748	447
Communication and utilities	837	802
Gain on disposal of property and equipment	(2)	(240)
<b>Total operating expenses</b>	<b>178,077</b>	<b>165,717</b>
Operating income	13,838	12,193
Interest expense	7,189	7,811
Interest income	(179)	(139)
Write-off of debt issuance costs		1,786
Other income	(236)	(36)
Income before income taxes	7,064	2,771
Provision for income taxes	364	49
<b>Net income</b>	<b>\$ 6,700</b>	<b>\$ 2,722</b>
<b>PER SHARE DATA:</b>		
<b>Net income per common share</b>		
Basic	\$ 0.27	\$ 0.12
Diluted	\$ 0.26	\$ 0.12

**Weighted-average number of shares**

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Basic	24,546	22,192
Diluted	25,413	23,505

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

**Table of Contents**

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Unaudited (In 000 s)

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net income	\$ 6,700	\$ 2,722
Other comprehensive income, net of tax:		
Amortization of prior service costs and losses	388	318
Translation adjustment	(39)	(50)
Total other comprehensive income, net of tax	349	268
Comprehensive income	\$ 7,049	\$ 2,990

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****Unaudited (In 000 s)**

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,867	\$ 4,053
Accounts receivable, net	103,427	90,567
Prepaid expenses	12,606	7,849
Deferred tax asset	4,074	4,048
Other	6,467	3,858
Total current assets	130,441	110,375
Property and equipment, net	134,623	125,892
Goodwill	31,410	31,344
Intangibles, net	18,018	18,471
Other assets	16,305	16,313
Total assets	\$ 330,797	\$ 302,395
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Current maturities of indebtedness	\$ 3,248	\$ 4,139
Current maturities of capital lease obligations	6,425	5,261
Accounts payable	10,548	7,571
Independent affiliates and independent owner-operators payable	12,423	9,795
Accrued expenses	30,454	25,327
Environmental liabilities	3,911	3,878
Accrued loss and damage claims	8,949	8,614
Total current liabilities	75,958	64,585
Long-term indebtedness, less current maturities	273,531	293,823
Capital lease obligations, less current maturities	2,861	3,840
Environmental liabilities	5,765	6,222
Accrued loss and damage claims	9,745	9,768
Other non-current liabilities	30,521	30,342
Total liabilities	398,381	408,580
Commitments and contingencies Note 13		
<b>SHAREHOLDERS DEFICIT</b>		
Common stock, no par value; 49,000 shares authorized; 27,247 issued and 26,975 outstanding at March 31, 2012 and 24,207 issued and 23,940 outstanding at December 31, 2011	426,799	393,859
Treasury stock, 272 shares at March 31, 2012 and 267 shares at December 31, 2011	(1,944)	(1,878)
Accumulated deficit	(271,843)	(278,543)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(31,032)	(31,381)
Stock purchase warrants	25	1,347
Total shareholders deficit	(67,584)	(106,185)



Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Total liabilities and shareholders' deficit	\$ 330,797	\$ 302,395
---	------------	------------

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Statements of Shareholders Deficit****For the Three Months Ended March 31, 2012 and 2011****Unaudited (In 000 s)**

	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Total Shareholders Deficit
Balance, December 31, 2010	21,678	(220)	\$ 371,288	\$ (1,593)	\$ (301,974)	\$ (189,589)	\$ (26,194)	\$ 1,683	\$ (146,379)
Net income					2,722				2,722
Issuance of restricted stock	83								
Amortization of restricted stock			286						286
Amortization of stock options			438						438
Stock option exercises	95		637						637
Proceeds from equity offering, net of transaction costs	2,000		17,623						17,623
Satisfaction of stock subscription receivable		(4)							
Amortization of prior service costs and losses (pension plans), net of tax							318		318
Foreign currency translation adjustment, net of tax							(50)		(50)
Balance, March 31, 2011	23,856	(224)	\$ 390,272	\$ (1,593)	\$ (299,252)	\$ (189,589)	\$ (25,926)	\$ 1,683	\$ (124,405)
Balance, December 31, 2011	24,207	(267)	\$ 393,859	\$ (1,878)	\$ (278,543)	\$ (189,589)	\$ (31,381)	\$ 1,347	\$ (106,185)
Net income					6,700				6,700
Issuance of restricted stock	153								
Forfeiture of restricted stock		(5)		(66)					(66)
Amortization of restricted stock			282						282
Amortization of stock options			391						391
Stock warrant exercises	346		1,322				(1,322)		
Stock option exercises	41		235						235
Proceeds from equity offering, net of transaction costs	2,500		30,710						30,710
Amortization of prior service costs and losses (pension plans), net of tax							388		388
Foreign currency translation adjustment, net of tax							(39)		(39)
Balance, March 31, 2012	27,247	(272)	\$ 426,799	\$ (1,944)	\$ (271,843)	\$ (189,589)	\$ (31,032)	\$ 25	\$ (67,584)

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

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****Unaudited (In 000 s)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,700	\$ 2,722
Adjustments to reconcile to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	3,791	3,492
Bad debt expense	70	328
Gain on disposal of property and equipment	(2)	(240)
PIK interest on Senior Subordinated Notes		147
Write-off of deferred financing costs		328
Write-off of original bond issuance costs		1,458
Stock-based compensation	673	724
Amortization of deferred financing costs	536	542
Amortization of bond discount	54	138
Noncontrolling interest dividends		38
Changes in assets and liabilities:		
Accounts and other receivables	(12,971)	(11,975)
Prepaid expenses	(2,988)	(2,082)
Other assets	(2,957)	1,452
Accounts payable	1,682	899
Accrued expenses	4,000	3,456
Environmental liabilities	(424)	224
Accrued loss and damage claims	312	1,281
Independent affiliates and independent owner-operators payable	2,628	2,887
Other liabilities	937	(60)
Current income taxes	(309)	(95)
<b>Net cash provided by operating activities</b>	<b>1,732</b>	<b>5,664</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(13,498)	(3,195)
Greensville purchase price adjustment	(66)	
Proceeds from sales of property and equipment	2,650	2,860
<b>Net cash used in investing activities</b>	<b>(10,914)</b>	<b>(335)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt	(1,270)	(28,841)
Principal payments on capital lease obligations	(1,033)	(1,106)
Proceeds from revolver	25,800	43,300
Payments on revolver	(46,100)	(33,300)
Payments on acquisition notes	(395)	(291)
Deferred financing costs	(246)	(341)
Change in book overdraft	1,295	(153)
Noncontrolling interest dividends		(38)
Redemption of noncontrolling interest		(1,833)
Proceeds from equity offering, net of transaction costs	30,710	17,623
Proceeds from exercise of stock options	235	637

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Net cash provided by (used in) financing activities	8,996	(4,343)
Effect of exchange rate changes on cash and cash equivalents		(1)
Net (decrease) increase in cash and cash equivalents	(186)	985
Cash and cash equivalents, beginning of period	4,053	1,753
Cash and cash equivalents, end of period	\$ 3,867	\$ 2,738
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the period for:		
Interest	\$ 1,020	\$ 1,709
Income Taxes	587	252

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

---

**Table of Contents**

**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES**

**Quality Distribution, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

***Basis of Presentation***

In this quarterly report, unless the context otherwise requires or indicates, (i) the terms the Company, our Company, Quality Distribution, QDI, we, us and our refer to Quality Distribution, Inc. and its consolidated subsidiaries and their predecessors, (ii) the terms Quality Distribution, LLC and QD LLC refer to our wholly-owned subsidiary, Quality Distribution, LLC, a Delaware limited liability company, and its consolidated subsidiaries and their predecessors, (iii) the term QD Capital refers to our wholly-owned subsidiary, QD Capital Corporation, a Delaware corporation, (iv) the term QCI refers to our wholly-owned subsidiary, Quality Carriers, Inc., an Illinois Corporation, (v) the term Boasso refers collectively to our wholly-owned subsidiary, Boasso America Corporation, a Louisiana corporation and Boasso's wholly-owned subsidiary, Greenville Transport Company ( Greenville ), a Virginia corporation, (vi) the term QCER refers collectively to our wholly-owned subsidiaries, QC Energy Resources, Inc., a Delaware corporation and QC Energy Resources, LLC, a Delaware limited liability company and (vii) the term CLC refers to our wholly-owned subsidiary, Chemical Leaman Corporation, a Pennsylvania corporation.

We are engaged primarily in transportation of bulk chemicals in North America. We are the largest provider of intermodal ISO tank container and depot services in North America through Boasso. In 2011, we entered the gas and oil frac shale energy markets, providing logistics services to these markets through QCER. We conduct a significant portion of our business through a network of independent affiliates and independent owner-operators. Independent affiliates are companies which enter into various term contracts with the Company. Independent affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Most of the independent affiliates lease trailers from us. Independent owner-operators are independent contractors who, through a contract with us, supply one or more tractors and drivers for our and our affiliates' use. Contracts with independent owner-operators may be terminated by either party on short notice. We charge independent affiliates and third parties for the use of tractors and trailers as necessary in the form of rent. In exchange for the services rendered, independent affiliates and independent owner-operators are normally paid a percentage of the revenues collected on each load hauled.

Our accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and notes required by accounting principles generally accepted in the United States ( GAAP ) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair statement of consolidated financial position, results of operations and cash flows have been included. The year ended December 31, 2011 consolidated balance sheet data was derived from our audited financial statements, but does not include all the disclosures required by GAAP. For further information, refer to our Annual Report on Form 10-K for the year ended December 31, 2011, including the consolidated financial statements and accompanying notes.

Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for any future period.

***Reclassification***

Certain prior period amounts have been reclassified amongst business segments to conform to the current year presentation.

## **Table of Contents**

### ***New Accounting Pronouncements***

In June 2011, the Financial Accounting Standards Board ( FASB ) updated its guidance on comprehensive income. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This amendment will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. Adoption of this amended guidance did not have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued additional amendments to the guidance on goodwill testing for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This amendment is effective for fiscal years beginning after December 15, 2011, with early adoption permitted in limited circumstances. Adoption of this amendment will not have an impact on the Company's financial position, results of operations or cash flows.

In September 2011, the FASB issued amended guidance that requires employers to provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. The additional quantitative and qualitative disclosures will provide users with more detailed information about an employer's involvement in multiemployer pension plans. The new disclosure requirements are required for fiscal years ending after December 15, 2011. The adoption of this standard to expand our footnote disclosures in the consolidated financial statements did not have a material impact on our consolidated financial statements.

In December 2011, the FASB issued additional guidance on comprehensive income. This accounting update defers changes that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. Adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

### ***Acquisition and Dispositions***

During the first three months of 2012, we did not complete any acquisitions or dispositions of businesses or independent affiliates.

On November 1, 2011, Boasso acquired all of the outstanding stock of Greenville. The purchase price was \$8.6 million, paid in cash, with an additional \$0.5 million to be paid in cash, subject to Greenville meeting certain future operating performance criteria. An additional \$0.5 million was paid in cash for a 338(h)(10) tax election and a working capital adjustment. Greenville is headquartered in Chesapeake, Virginia and is a leading provider of ISO tank container and depot services with access to ports in Virginia, Maryland and South Carolina. For its fiscal year ended December 31, 2010, Greenville had revenues of approximately \$8.0 million.

## **2. Variable Interest Entities**

At March 31, 2012, we hold a variable interest in two variable interest entities ( VIEs ), for which we are not the primary beneficiary. We have concluded, based on our qualitative consideration of our contract with the VIEs, the operating structure of the VIEs and our role with the VIEs, that we do not have the power to direct the activities that most significantly impact their economic performance. Therefore, we are not required to consolidate the operations of these VIEs.

One VIE is an independent affiliate that is directly engaged in the dry bulk business through the management of three trucking terminals in the North East region of the U.S. As such, this business is highly seasonal. We are involved with the VIE as a non-controlling interest. Our maximum exposure to loss as a result of our involvement with this unconsolidated VIE is limited to our recorded loans receivable which aggregated approximately \$2.6 million at March 31, 2012. These loans are secured by a second- priority lien on assets of the VIE.

Due to severe winter weather in the fourth quarter of 2010, we recorded a \$0.5 million reserve against our \$2.6 million of loans receivable from this VIE during the first quarter of 2011. This reserve was reversed during the fourth quarter of 2011 based on an assessment of the VIE's improved business performance and the Company's improved collateral position.

The other VIE is an independent affiliate that is directly engaged in both the chemical and energy logistics businesses through the management of nine trucking terminals located throughout the U.S. and one energy terminal in the Midwest and Northeast regions of the U.S. As such, this business is also highly seasonal. We are involved with the VIE as a non-controlling interest. Our maximum exposure to loss as a result of our involvement with this unconsolidated VIE is limited to our recorded loans receivable which aggregated approximately \$2.9 million at March 31, 2012. These loans are secured by a pledge of equity interests owned by the principal of this VIE.



**Table of Contents****3. Fair Value of Financial Instruments**

The three-level valuation hierarchy for fair value measurements is based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose significant inputs are observable; and

Level 3 Instruments whose significant inputs are unobservable.

Following is a description of the valuation methodologies we used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Fair Value Measurements on a Nonrecurring Basis***

The fair value of our long-term indebtedness is based on level 2 quoted market prices. As of March 31, 2012, the carrying value and fair value are as follows (in thousands):

	Carrying Value	Fair Value
9.875% Second-Priority Senior Secured Notes due 2018 ( 2018 Notes )	\$ 225,000	\$ 245,250

Our asset-based loan facility (the ABL Facility ) is variable rate debt and approximates fair value.

The carrying amounts reported in the accompanying consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

**4. Goodwill and Intangible Assets*****Goodwill***

Under the FASB guidance, goodwill and indefinite-lived intangible assets are subject to an annual impairment test as well as impairment assessments when certain triggering events occur. We evaluate goodwill for impairment by determining the fair value based on criteria in the FASB guidance for each reporting unit to which our goodwill relates. These reporting units may contain goodwill and other identifiable intangible assets as a result of previous business acquisitions. Our annual impairment test is performed during the second quarter with a measurement date of June 30<sup>th</sup>. The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010.

Beginning 2012 and under recent FASB guidance, we assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is greater than its carrying amount. If, however, we had determined that it was more likely than not that the fair value of the reporting unit was less than its carrying amount, then the Company would perform the first step of the two-step goodwill impairment test.





**Table of Contents**

Goodwill within our intermodal segment and the related changes were as follows (in thousands):

	December 31, 2011	Addition Greenville Purchase Price Adjustment	March 31, 2012
Intermodal	\$ 31.3	\$ 0.1	\$ 31.4

**Table of Contents****Intangible Assets**

Intangible assets at March 31, 2012 are as follows (in thousands):

	Gross value	Accumulated amortization	Net book value	Average lives (in years)
Tradename	\$ 7,400	\$	\$ 7,400	Indefinite
Customer relationships	14,260	(4,297)	9,963	12
Non-compete agreements	3,221	(2,566)	655	3 5
	\$ 24,881	\$ (6,863)	\$ 18,018	

Of the total intangibles of approximately \$18.0 million at March 31, 2012, approximately \$17.5 million was allocated to our intermodal segment and approximately \$0.5 million was allocated to our chemical logistics segment.

Amortization expense for the three months ended March 31, 2012 and 2011 was \$0.5 million and \$0.3 million, respectively. Estimated amortization expense for intangible assets is as follows (in thousands):

2012 remaining	\$ 1,241
2013	1,416
2014	1,214
2015	1,214
2016 and after	5,533
Total	\$ 10,618

**5. Income Per Share**

A reconciliation of the numerators and denominators of the basic and diluted income per share computations is as follows (in thousands, except per share amounts):

	Three months ended			March 31, 2011		
	March 31, 2012		Per-share amount	March 31, 2011		Per-share amount
Net income (numerator)	Shares (denominator)	Net income (numerator)		Shares (denominator)		
<b>Basic income available to common shareholders:</b>	\$ 6,700	24,546	\$ 0.27	\$ 2,722	22,192	\$ 0.12
<b>Effect of dilutive securities:</b>						
Stock options		675	(0.01)		636	
Unvested restricted stock		166			235	
Stock warrants		26			442	
<b>Diluted income available to common shareholders:</b>	\$ 6,700	25,413	\$ 0.26	\$ 2,722	23,505	\$ 0.12

**Table of Contents**

The following securities were not included in the calculation of diluted earnings per share because such inclusion would be anti-dilutive (in thousands):

	Three months ended March 31,	
	2012	2011
Stock options	1,654	1,935
Unvested restricted stock	232	327

**6. Stock-Based Compensation**

We maintain stock-based incentive plans under which stock options, restricted shares, and stock units may be granted to employees, non-employee directors, consultants and advisors. As of March 31, 2012, we had two active stock-based compensation plans. In April 2012, the Board of Directors approved the Quality Distribution, Inc. 2012 Equity Incentive Plan, subject to shareholder approval.

We recognize expense for stock-based compensation based upon estimated grant date fair value. We apply the Black-Scholes valuation model in determining the fair value of share-based payments to employees. The resulting compensation expense is recognized over the requisite service period, which is generally the awards vesting term. Compensation expense is recognized only for those awards expected to vest, with forfeitures estimated based on our historical experience and future expectations. All stock-based compensation expense is classified within Compensation in the Consolidated Statements of Operations. None of the stock-based compensation was capitalized during the first three months of 2012.

The fair value of options granted during the first three months of 2012 was based upon the Black-Scholes option-pricing model. The expected term of the options represents the estimated period of time until exercise, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. For 2012, expected stock price volatility is based on the historical volatility of our common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with an equivalent remaining term. The Company has not paid dividends in the past and does not currently plan to pay any dividends in the foreseeable future. The Black-Scholes model was used with the following weighted average assumptions:

	Three Months Ended March 31,	
	2012	2011
Risk free rate	1.0%	2.0%
Expected life	5 years	5 years
Volatility	77.3%	78.0%
Expected dividend	nil	nil

The following table summarizes stock options and restricted shares issued (in thousands):

Stock	Three Months Ended March 31,			
	2012			2011
Options Issued	Restricted Shares Issued	Stock Options Issued	Restricted Shares Issued	
163	153	223	83	

The following table summarizes stock-based compensation expense (in thousands):

Three months ended  
March 31,

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

	2012	2011
Stock options	\$ 391	\$ 438
Restricted stock	282	286
	\$ 673	\$ 724

**Table of Contents**

The following table summarizes unrecognized stock-based compensation and the weighted average period over which such stock-based compensation is expected to be recognized as of March 31, 2012 (in thousands):

		Remaining years
Stock options	\$ 3,365	2.8
Restricted stock	2,573	2.4
	\$ 5,938	

These amounts do not include the cost of any additional awards that may be granted in future periods nor any changes in our forfeiture rate. Stock options for 41,604 shares were exercised during the three months ended March 31, 2012.

**7. Employee Benefit Plans**

We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover vested salaried participants and retirees ( CLC Plan ) and certain other vested participants and retirees under a collective bargaining agreement ( TTWU Plan ). Retirement benefits for employees covered by the CLC Plan are based on years of service and compensation levels. The monthly benefit for employees under the TTWU Plan is based on years of service multiplied by a monthly benefit factor. Pension costs are funded in accordance with the provisions of the applicable law. Both pension plans have been frozen since prior to January 1, 1998. There have been no new participants and no future accruals of benefits from the time the plans were frozen.

We use a December 31<sup>st</sup> measurement date for both of our plans.

The components of estimated net periodic pension cost are as follows (in thousands):

	Three months ended March 31,	
	2012	2011
Service cost	\$ 44	\$ 44
Interest cost	542	605
Amortization of prior service cost	24	24
Amortization of loss	364	294
Expected return on plan assets	(566)	(575)
Net periodic pension cost	\$ 408	\$ 392

We contributed \$0.6 million to our pension plans during the three months ended March 31, 2012. We expect to contribute an additional \$3.5 million during the remainder of 2012.

**Multi-employer pension plans**

At March 31, 2012, we contributed to three separate multi-employer pension plans for employees under collective bargaining agreements. These agreements cover approximately 2.6% of our total workforce, including our independent affiliates' employees and independent owner-operators providing service to us. These multi-employer pension plans provide defined benefits to retired participants. We do not directly or indirectly manage any of these multi-employer pension plans. Trustees, half of whom are appointed by the International Brotherhood of Teamsters (the Teamsters ) and half of whom various contributing employers appoint, manage the trusts covering these plans. Our collective bargaining agreements with the Teamsters determine the amounts of our ongoing contributions to these plans.



**Table of Contents**

In conjunction with our prior restructuring efforts, during the quarter ended September 30, 2010, we notified the trustees of three other pension plans of our intention to withdraw from those plans. Our withdrawal notifications were originally estimated to result in an aggregate withdrawal liability of approximately \$2.0 million and we recorded a restructuring charge for this full amount in the third quarter of 2010. During the first nine months of 2011, we made aggregate payments of approximately \$1.5 million to fully discharge the liabilities under those three pension plans and recorded a restructuring credit of \$0.5 million in the second quarter of 2011.

We do not currently intend to withdraw from the remaining three multi-employer pension plans or take any actions that would subject us to payment of contingent obligations upon withdrawal from such plans. Based on information provided to us from the trustees of these plans, we estimate our portion of the contingent liability in the case of a full withdrawal or termination from these plans to be approximately \$62.2 million, of which \$57.9 million relates to the Central States Southeast and Southwest Areas Pension Plan.

These defined benefit plans cover substantially all of our union employees not covered under the TTWU Plan. The actuarial present value of accumulated plan benefits and net assets available for benefits to employees under these multi-employer plans is not readily available.

**8. Restructuring**

We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with FASB's guidance. We previously made estimates of the costs to be incurred as part of a restructuring plan developed during 2008 and concluded at the end of 2010, which resulted in charges during 2008, 2009 and 2010 primarily related to our chemical logistics segment. At March 31, 2012, \$2.6 million was accrued related to the restructuring charges which are expected to be paid through 2017.

In the three months ended March 31, 2012, we had the following activity in our restructuring accruals (in thousands):

	Balance at December 31, 2011	Additions	Payments	Reductions	Balance at March 31, 2012
Restructuring costs	\$ 2,782	\$	\$ (192)	\$	\$ 2,590

**9. Segment Reporting****Reportable Segments**

In connection with our entry into the gas and oil frac shale energy market in 2011, a new segment for financial reporting purposes was identified during the fourth quarter of 2011, to better distinguish logistics services to the energy markets from logistics services to the chemical markets based upon how these businesses are managed. Our previous logistics segment was renamed Chemical Logistics.

We have three reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered:

Chemical Logistics, which consists of the transportation of bulk chemicals primarily through our network of 29 independent affiliates, and equipment rental income;

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water, proppant sand and crude oil for the unconventional oil and gas markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso's intermodal ISO tank container transportation and depot services business supporting the international movement of bulk liquids.

Segment revenues and operating income include fuel surcharge for the chemical logistics and intermodal segments. The operating income reported in our segments excludes amounts such as gains and losses on disposal of property and equipment and restructuring costs. Although these amounts are excluded from the business segment results, they are included in our reported consolidated statements of operations.



## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Corporate and unallocated amounts include depreciation and amortization and other gains and losses, and are included in our chemical logistics segment. We have not provided specific asset information by segment, as it is not regularly provided to our chief operating decision maker for review.

**Table of Contents**

Summarized segment data and a reconciliation to income before income taxes follow (in thousands):

	Three Months Ended March 31, 2012			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 105,647	\$ 10,049	\$ 17,510	\$ 133,206
Service revenue	15,916	884	11,185	27,985
Fuel surcharge	26,314	1	4,409	30,724
<b>Total operating revenues</b>	<b>147,877</b>	<b>10,934</b>	<b>33,104</b>	<b>191,915</b>
Segment operating income	11,432	1,082	5,113	17,627
Depreciation and amortization	2,688	247	856	3,791
Other expense (income)	18	22	(42)	(2)
<b>Operating income</b>	<b>8,726</b>	<b>813</b>	<b>4,299</b>	<b>13,838</b>
Interest expense	5,682		1,507	7,189
Interest income	(179)			(179)
Other expense	(496)		260	(236)
<b>Income before income taxes</b>	<b>\$ 3,719</b>	<b>\$ 813</b>	<b>\$ 2,532</b>	<b>\$ 7,064</b>

	Three Months Ended March 31, 2011			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 110,612	\$	\$ 14,069	\$ 124,681
Service revenue	16,508		10,230	26,738
Fuel surcharge	23,638		2,853	26,491
<b>Total operating revenues</b>	<b>150,758</b>		<b>27,152</b>	<b>177,910</b>
Segment operating income	10,782		4,663	15,445
Depreciation and amortization	2,695		797	3,492
Other (income) expense	(247)		7	(240)
<b>Operating income</b>	<b>8,334</b>		<b>3,859</b>	<b>12,193</b>
Interest expense	6,295		1,516	7,811
Interest income	(139)			(139)
Other expense	1,503		247	1,750
<b>Income before income taxes</b>	<b>\$ 675</b>	<b>\$</b>	<b>\$ 2,096</b>	<b>\$ 2,771</b>

**Table of Contents****Geographic Segments**

Our operations are located primarily in the United States, Canada and Mexico. Inter-area sales are not significant to the total revenue of any geographic area. Information about our operations in different geographic areas for the three months ended March 31, 2012 and 2011 is as follows (in thousands):

	Three months ended March 31, 2012		
	U. S.	International	Consolidated
Total operating revenues	\$ 181,574	\$ 10,341	\$ 191,915
Operating income	12,070	1,768	13,838

	Three months ended March 31, 2011		
	U. S.	International	Consolidated
Total operating revenues	\$ 166,632	\$ 11,278	\$ 177,910
Operating income	10,343	1,850	12,193

	As of March 31, 2012		
	U. S.	International	Consolidated
Long-term identifiable assets (1)	\$ 128,372	\$ 6,251	\$ 134,623

	As of December 31, 2011		
	U. S.	International	Consolidated
Long-term identifiable assets (1)	\$ 119,879	\$ 6,013	\$ 125,892

	As of March 31, 2011		
	U. S.	International	Consolidated
Long-term identifiable assets (1)	\$ 103,963	\$ 7,152	\$ 111,115

(1) Includes property and equipment.

**10. Income Taxes**

At December 31, 2011, we had approximately \$1.6 million of total gross unrecognized tax benefits. Of this total, \$1.2 million (net of federal benefit on state tax issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

Included in the balance of total gross unrecognized tax benefits at December 31, 2011 was \$0.6 million related to tax positions for which it is reasonably possible that the total amounts could significantly change during the next twelve months due to expiration of the applicable statute of limitations.

For the three months ended March 31, 2012, the net change to our total gross unrecognized tax benefit was less than \$0.1 million. The net change consisted of a partial release of two previous reserves due to the expiration of the statute of limitations and an audit settlement. Our total gross unrecognized tax benefit at March 31, 2012 was \$1.6 million. This represents the total of our unrecognized tax benefits (not including interest and penalties).

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had \$0.5 million (net of federal tax benefit) accrued for interest and \$0.2 million accrued for penalties at December 31, 2011. The total amount accrued for interest and penalties at March 31, 2012 was \$0.7 million.

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

We are subject to the income tax jurisdictions of the U.S., Canada and Mexico, as well as income tax of multiple state jurisdictions. We believe we are no longer subject to U.S. federal income tax examinations for years before 2007, to international examinations for years before 2007 and, with few exceptions, to state examinations before 2007.

The effective tax rates for the three months ended March 31, 2012 and 2011 were a tax provision of 5.2% and 1.8%, respectively. The Company continues to maintain a 100% valuation allowance against the balance of the net deferred tax asset in the current period. An adjustment to reduce the valuation allowance could occur during the current year ending December 31, 2012.

## **Table of Contents**

### **11. Redeemable Noncontrolling Interest**

On March 3, 2011, we redeemed 100% of the 302 outstanding shares of Series C preferred stock of CLC which were held by two shareholders who were not affiliated with us. These shareholders received the maximum aggregate redemption value (which was equivalent to par value) of \$1.8 million, plus accrued and unpaid preferred dividends through the redemption date.

### **12. Common Stock Offering**

On March 13, 2012, we sold 2.5 million shares of our common stock in an underwritten public offering, at a gross price of \$13.00 per share, and received net proceeds, after underwriting fees and expenses, of approximately \$30.7 million. Certain affiliates of Apollo Management, L.P. also sold 3.2 million shares in the offering.

On February 9, 2011, we sold 2.0 million shares of our common stock in an underwritten public offering, at a gross price of \$9.50 per share, and received net proceeds, after underwriting fees and expenses, of approximately \$17.6 million. Certain affiliates of Apollo Management, L.P. also sold 2.6 million shares in the offering.

### **13. Commitments and Contingencies**

#### ***Environmental Matters***

It is our policy to comply with all applicable environmental, safety, and health laws. We also are committed to the principles of Responsible Care<sup>®</sup>, an international chemical industry initiative to enhance the industry's responsible management of chemicals. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care<sup>®</sup> Management System performance. Our current activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. In addition, our former tank wash business involved the generation, storage, discharge and disposal of wastes that may have contained hazardous substances. As such, we and others who operate in our industry are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations. Under certain of these laws, we could also be subject to allegations of liability for the activities of our independent affiliates or independent owner-operators.

## Table of Contents

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other releases of such substances. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or assure that such liabilities will not result in a material adverse effect on our business, financial condition, operating results or cash flow. We have established reserves for remediation expenses at known contamination sites when it is probable that such efforts will be required of us and the related expenses can be reasonably estimated. We have also incurred in the past, and expect to incur in the future, expenditures related to environmental compliance; however, we do not anticipate that compliance with existing environmental laws will have a material adverse effect on our earnings or competitive position.

### *Reserves*

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation may be impacted by such factors as changes in environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under the applicable statutes. Our reserves for environmental compliance and remediation are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. As of March 31, 2012 and December 31, 2011, we had reserves in the amount of \$9.7 million and \$10.1 million, respectively, for all environmental matters, of which the most significant are discussed below.

The balances presented include both current and long term environmental reserves. We expect the estimated environmental reserves to be paid over the next five years. Additions to the environmental reserves are classified in our Consolidated Statements of Operations within the Selling and administrative category.

### *Property Contamination Liabilities*

We have been named as (or are alleged to be) a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ( CERCLA ) and similar state laws at approximately 26 sites. At 18 of the 26 sites, we are one of many parties with alleged liability and are negotiating with Federal, State or private parties on the scope of our obligations, if any. At 1 of the 18 sites, we will be participating in the initial study to determine site remediation objectives. Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase. At 3 of the 18 sites, we have explicitly denied any liability and since there has been no subsequent demand for payment we have not established a reserve for these matters. We have estimated all future expenditures for these 18 multi-party environmental matters to be paid over the next five years to be in the range of \$2.2 million to \$3.8 million.

At 8 of the 26 sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Five of these projects relate to operations conducted by CLC and its subsidiaries prior to our acquisition of CLC in 1998. These five sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; (4) Scary Creek, West Virginia; and (5) Charleston, West Virginia. The remaining three sites relate to investigations and potential remediation that were triggered by the New Jersey Industrial Site Recovery Act ( ISRA ), which requires such investigations and remediation following the sale of industrial facilities. Each of these sites is discussed in more detail below. We have estimated future expenditures over the next five years for these eight properties to be in the range of \$7.5 million to \$16.7 million.

## **Table of Contents**

### *Bridgeport, New Jersey*

QDI is required under the terms of three federal consent decrees to perform remediation work at this operating truck terminal and tank wash site. CLC entered into consent orders with the U.S. Environmental Protection Agency ( USEPA ) in 1991 to treat groundwater, in 1998 to remove contamination in the wetlands, and in 2010 to assess and remediate contaminated soils at the site.

The groundwater treatment remedy negotiated with USEPA required us to construct a treatment facility for in-place treatment of groundwater contamination and a local discharge which was completed in early 2007. After various start-up issues, the treatment facility began initial operations in June 2010. The plant experienced issues with the treatment of vapor phase emissions and operation was suspended in July 2010. After an engineering re-design process, the plant resumed operations in July 2011 and is now in the operations and maintenance phase. The plant appears to be performing in accordance with its design criteria and meeting permit requirements. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is required by USEPA to continue in 2012. In regard to contaminated soils, USEPA finalized the feasibility study and issued a record of decision in 2009 for the limited areas that show contamination and warrant additional investigation or work. We entered into a consent order with USEPA in 2010 to perform the remediation work, which will consist of in-place thermal treatment. Additional site investigation work had been required by USEPA prior to the start of the engineering design effort. We have estimated aggregate expenditures for the Bridgeport location over the next five years to be in the range of \$4.9 million to \$8.5 million.

### *William Dick, Pennsylvania*

CLC entered into a consent order with the Pennsylvania Department of Environmental Protection and USEPA in 1995 to provide a replacement water supply to area residents, treat contaminated groundwater, and perform remediation of contaminated soils at this former wastewater disposal site. The replacement water supply is complete. We completed construction of a groundwater treatment facility with local discharge in 2007 and the treatment facility began operations in 2010. Although initial soil treatment was completed in 2007, test results indicated that soil clean-up objectives were not fully achieved. Accordingly, negotiations are on-going with USEPA over further soil remediation that may be needed at the site. We have estimated aggregate expenditures for the William Dick location over the next five years to be in the range of \$0.9 million to \$3.4 million.

### *Other Properties*

*Tonawanda, New York:* CLC entered into a consent order with the New York Department of Environmental Conservation ( NYSDEC ) in 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study. The state issued a record of decision in 2006. The remedial design work plan was completed and submitted to the agency in the fourth quarter of 2011. The remedial action phase is expected to begin later in 2012, pending approval from the NYSDEC.

*Scary Creek, West Virginia:* CLC received a cleanup notice from the state environmental authority in 1994. The state and we have agreed that remediation can be conducted under the state's voluntary clean-up program (instead of the state superfund enforcement program). We are currently completing the originally planned remedial investigation and the additional site investigation work.

---

## **Table of Contents**

*ISRA New Jersey Facilities:* We are obliged to conduct investigations and remediation at three current or former New Jersey tank wash and terminal sites pursuant to the state's ISRA, which requires such remediation following the sale of facilities after 1983. Two of the sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

One site has completed the investigation phase and a final report was submitted to New Jersey Department of Environmental Protection. In accordance with the report findings and with the concurrence of the NJDEP, remedial efforts included some excavation of soil at the site. Additional planned efforts include deed recordation, placement of clean fill and the designation of a Classification Exception Area (CEA) for the groundwater. No further field remediation work is expected for this site.

*Charleston, West Virginia:* CLC completed its remediation plan for a former drum disposal area in 1995 at this truck terminal and tank wash site under the terms of a state hazardous waste permit. Supplemental groundwater monitoring was also required and completed. In 2012, we entered into the state's voluntary clean-up program which will require us to perform additional sampling to close the site. We have estimated aggregate future expenditures over the next five years for Tonawanda, Scary Creek, ISRA New Jersey and Charleston to be in the range of \$1.7 million to \$4.8 million.

### ***Other Legal Matters***

We are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no such routine litigation currently pending against us, if adversely determined, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

## **14. Guarantor Subsidiaries**

At and during the three months ended March 31, 2012, there were outstanding our 9.875% Second-Priority Senior Secured Notes due 2018 (2018 Notes), which were issued by our subsidiaries, QD LLC and QD Capital. The payment obligations of QD LLC and QD Capital under the 2018 Notes are fully and unconditionally guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries as further described below.

The 2018 Notes are senior obligations of our subsidiaries, QD LLC and QD Capital, and are secured by a subordinated, second-priority lien on assets that secure our ABL Facility through a collateral agreement that is separate from the indenture under which these notes were issued. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first-lien obligations. Decisions regarding the maintenance and release of the collateral secured by the collateral agreement are made by the lenders under our ABL Facility and neither the indenture trustee nor the holders of the 2018 Notes have control of decisions regarding the release of the collateral. The 2018 Notes are also fully and unconditionally guaranteed, subject to certain customary release provisions on a second-priority senior secured basis, jointly and severally, by QDI, our other subsidiary guarantors, and certain of our future U.S. restricted subsidiaries.

The subsidiary guarantors of all of the 2018 Notes are all of our direct and indirect domestic subsidiaries other than immaterial subsidiaries. No non-domestic subsidiaries are guarantor subsidiaries. QD Capital has no material assets or operations. QD LLC, all of its subsidiary guarantors and QD Capital are 100% owned by QDI.

QD LLC conducts substantially all of its business through and derives virtually all of its income from its subsidiaries. Therefore, its ability to make required principal and interest payments with respect to its indebtedness depends on the earnings of subsidiaries and its ability to receive funds from its subsidiaries through dividend and other payments. The subsidiary guarantors are 100% owned subsidiaries of QD LLC.



**Table of Contents**

QDI has no significant restrictions on its ability to receive funds from its subsidiaries. The ABL Facility and the indenture governing our 2018 Notes contain certain limitations on QD LLC's ability to make distributions to QDI. We do not consider these restrictions to be significant, because QDI is a holding company with no significant operations or assets, other than ownership of 100% of QD LLC's membership units. QD LLC's direct and indirect wholly owned subsidiaries are generally permitted to make distributions to QD LLC, which is the principal obligor under the ABL Facility and the 2018 Notes.

We have not presented separate financial statements and other disclosures concerning QD LLC, QD Capital or the subsidiary guarantors because management has determined such information is not material to the holders of the above-mentioned notes.

The following condensed consolidating financial information for QDI, QD LLC, and QD Capital, which has no assets or operations, non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Condensed consolidating balance sheets at March 31, 2012 and December 31, 2011 and condensed consolidating statements of operations for the three-month periods ended March 31, 2012 and 2011, and the condensed consolidating statements of cash flows for each of the three-month periods ended March 31, 2012 and 2011.

Elimination entries necessary to consolidate the parent company and all its subsidiaries.

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Statements of Operations****Three Months Ended March 31, 2012****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC &amp; QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating revenues:</b>						
Transportation	\$	\$	\$ 133,206	\$	\$	\$ 133,206
Service revenue			27,881	104		27,985
Fuel surcharge			30,724			30,724
<b>Total operating revenues</b>			<b>191,811</b>	<b>104</b>		<b>191,915</b>
<b>Operating expenses:</b>						
Purchased transportation			131,877			131,877
Compensation			16,631			16,631
Fuel, supplies and maintenance			14,466			14,466
Depreciation and amortization			3,791			3,791
Selling and administrative		6	6,488	16		6,510
Insurance costs			3,219			3,219
Taxes and licenses			748			748
Communication and utilities			837			837
Gain on disposal of property and equipment			(2)			(2)
<b>Operating (loss) income</b>		(6)	<b>13,756</b>	<b>88</b>		<b>13,838</b>
Interest expense (income), non-related party, net		6,851	162	(3)		7,010
Interest (income) expense, related party, net		(6,851)	6,955	(104)		
Other income			(229)	(7)		(236)
<b>(Loss) income before income taxes</b>		(6)	<b>6,868</b>	<b>202</b>		<b>7,064</b>
Provision for income taxes			330	34		364
Equity in earnings of subsidiaries	6,700	6,706			(13,406)	
<b>Net income</b>	<b>\$ 6,700</b>	<b>\$ 6,700</b>	<b>\$ 6,538</b>	<b>\$ 168</b>	<b>\$ (13,406)</b>	<b>\$ 6,700</b>
<b>Total other comprehensive income (loss), net of tax</b>	<b>349</b>	<b>349</b>	<b>388</b>	<b>(39)</b>	<b>(698)</b>	<b>349</b>
<b>Comprehensive income</b>	<b>\$ 7,049</b>	<b>\$ 7,049</b>	<b>\$ 6,926</b>	<b>\$ 129</b>	<b>\$ (14,104)</b>	<b>\$ 7,049</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Statements of Operations****Three Months Ended March 31, 2011****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC &amp; QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:						
Transportation	\$	\$	\$ 124,681	\$	\$	\$ 124,681
Service revenue			26,604	134		26,738
Fuel surcharge			26,491			26,491
<b>Total operating revenues</b>			<b>177,776</b>	<b>134</b>		<b>177,910</b>
Operating expenses:						
Purchased transportation			124,722			124,722
Compensation			14,883			14,883
Fuel, supplies and maintenance			11,777			11,777
Depreciation and amortization			3,492			3,492
Selling and administrative		12	5,117	20		5,149
Insurance costs			4,680	5		4,685
Taxes and licenses			447			447
Communication and utilities			802			802
Gain on disposal of property and equipment			(240)			(240)
<b>Operating (loss) income</b>		(12)	<b>12,096</b>	<b>109</b>		<b>12,193</b>
Interest (income) expense, non-related party, net	(14)	7,362	325	(1)		7,672
Interest (income) expense, related party, net		(7,362)	7,464	(102)		
Write-off of debt issuance costs		1,786				1,786
Other expense (income)		2	12	(50)		(36)
<b>Income (loss) before income taxes</b>	<b>14</b>	<b>(1,800)</b>	<b>4,295</b>	<b>262</b>		<b>2,771</b>
Provision for income taxes			229	(180)		49
Equity in earnings of subsidiaries	2,708	4,508			(7,216)	
<b>Net income</b>	<b>\$ 2,722</b>	<b>\$ 2,708</b>	<b>\$ 4,066</b>	<b>\$ 442</b>	<b>\$ (7,216)</b>	<b>\$ 2,722</b>
<b>Total other comprehensive income (loss), net of tax</b>	<b>268</b>	<b>268</b>	<b>318</b>	<b>(50)</b>	<b>(536)</b>	<b>268</b>
<b>Comprehensive income</b>	<b>\$ 2,990</b>	<b>\$ 2,976</b>	<b>\$ 4,384</b>	<b>\$ 392</b>	<b>\$ (7,752)</b>	<b>\$ 2,990</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Balance Sheet****March 31, 2012****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC and QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 3,385	\$ 482	\$	\$ 3,867
Accounts receivable, net			103,390	37		103,427
Prepaid expenses		19	12,587			12,606
Deferred tax asset			4,074			4,074
Other			6,467			6,467
Total current assets		19	129,903	519		130,441
Property and equipment, net			134,623			134,623
Goodwill			31,410			31,410
Intangibles, net			18,018			18,018
Investment in subsidiaries	(132,301)	389,312	28,030		(285,041)	
Other assets		10,365	5,940			16,305
Total assets	\$ (132,301)	\$ 399,696	\$ 347,924	\$ 519	\$ (285,041)	\$ 330,797
<b>LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY</b>						
Current liabilities:						
Current maturities of indebtedness	\$	\$	\$ 3,248	\$	\$	\$ 3,248
Current maturities of capital lease obligations			6,425			6,425
Accounts payable			10,556	(8)		10,548
Intercompany	(64,026)	253,563	(154,475)	(7,032)	(28,030)	
Affiliates and independent owner-operators payable			12,423			12,423
Accrued expenses	316	9,661	20,459	18		30,454
Environmental liabilities			3,911			3,911
Accrued loss and damage claims			8,949			8,949
Total current liabilities	(63,710)	263,224	(88,504)	(7,022)	(28,030)	75,958
Long-term indebtedness, less current maturities		268,773	4,758			273,531
Capital lease obligations, less current maturities			2,861			2,861
Environmental liabilities			5,765			5,765
Accrued loss and damage claims			9,745			9,745
Other non-current liabilities	(1,007)		31,487	41		30,521
Total liabilities	(64,717)	531,997	(33,888)	(6,981)	(28,030)	398,381
Shareholders' (deficit) equity:						
Common stock	426,799	354,963	399,823	4,833	(759,619)	426,799
Treasury stock	(1,944)					(1,944)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Accumulated (deficit) retained earnings	(271,843)	(267,140)	11,476	3,795	251,869	(271,843)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(31,032)	(30,560)	(29,487)	(1,073)	61,120	(31,032)
Stock purchase warrants	25	25			(25)	25
<b>Total shareholders (deficit) equity</b>	<b>(67,584)</b>	<b>(132,301)</b>	<b>381,812</b>	<b>7,500</b>	<b>(257,011)</b>	<b>(67,584)</b>
<b>Total liabilities and shareholders (deficit) equity</b>	<b>\$ (132,301)</b>	<b>\$ 399,696</b>	<b>\$ 347,924</b>	<b>\$ 519</b>	<b>\$ (285,041)</b>	<b>\$ 330,797</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Balance Sheet****December 31, 2011****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC and QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 3,540	\$ 513	\$	\$ 4,053
Accounts receivable, net			90,509	58		90,567
Prepaid expenses		31	7,818			7,849
Deferred tax asset			4,048			4,048
Other	307		3,551			3,858
Total current assets	307	31	109,466	571		110,375
Property and equipment, net			125,892			125,892
Goodwill			31,344			31,344
Intangibles, net			18,471			18,471
Investment in subsidiaries	(138,028)	382,191	27,964		(272,127)	
Other assets		10,655	5,658			16,313
Total assets	\$ (137,721)	\$ 392,877	\$ 318,795	\$ 571	\$ (272,127)	\$ 302,395
<b>LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY</b>						
Current liabilities:						
Current maturities of indebtedness	\$	\$	\$ 4,139	\$	\$	\$ 4,139
Current maturities of capital lease obligations			5,261			5,261
Accounts payable			7,579	(8)		7,571
Intercompany	(30,870)	237,702	(171,982)	(6,886)	(27,964)	
Affiliates and independent owner-operators payable			9,795			9,795
Accrued expenses	341	4,184	20,751	51		25,327
Environmental liabilities			3,878			3,878
Accrued loss and damage claims			8,614			8,614
Total current liabilities	(30,529)	241,886	(111,965)	(6,843)	(27,964)	64,585
Long-term indebtedness, less current maturities		289,019	4,804			293,823
Capital lease obligations, less current maturities			3,840			3,840
Environmental liabilities			6,222			6,222
Accrued loss and damage claims			9,768			9,768
Other non-current liabilities	(1,007)		31,306	43		30,342
Total liabilities	(31,536)	530,905	(56,025)	(6,800)	(27,964)	408,580
Shareholders' (deficit) equity:						
Common stock	393,859	354,963	399,757	4,833	(759,553)	393,859
Treasury stock	(1,878)					(1,878)

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Accumulated (deficit) retained earnings	(278,543)	(273,840)	4,938	3,627	265,275	(278,543)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(31,381)	(30,909)	(29,875)	(1,034)	61,818	(31,381)
Stock purchase warrants	1,347	1,347			(1,347)	1,347
<b>Total shareholders (deficit) equity</b>	<b>(106,185)</b>	<b>(138,028)</b>	<b>374,820</b>	<b>7,371</b>	<b>(244,163)</b>	<b>(106,185)</b>
<b>Total liabilities and shareholders (deficit) equity</b>	<b>\$ (137,721)</b>	<b>\$ 392,877</b>	<b>\$ 318,795</b>	<b>\$ 571</b>	<b>\$ (272,127)</b>	<b>\$ 302,395</b>

**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2012****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC and QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 6,700	\$ 6,700	\$ 6,538	\$ 168	\$ (13,406)	\$ 6,700
Adjustments for non-cash charges	(6,027)	(12,967)	10,814	(104)	13,406	5,122
Net changes in assets and liabilities	282	5,779	(16,354)	203		(10,090)
Intercompany activity	(955)	488	765	(298)		
Net cash provided by (used in) operating activities			1,763	(31)		1,732
<b>Cash flows from investing activities:</b>						
Capital expenditures			(13,498)			(13,498)
Greenville purchase price adjustment			(66)			(66)
Proceeds from sales of property and equipment			2,650			2,650
Net cash used in investing activities			(10,914)			(10,914)
<b>Cash flows from financing activities:</b>						
Principal payments on long-term debt and capital lease obligations			(2,303)			(2,303)
Proceeds from revolver		25,800				25,800
Payments on revolver		(46,100)				(46,100)
Deferred financing costs		(246)				(246)
Proceeds from equity offering, net of transaction costs	30,710					30,710
Proceeds from exercise of stock options	235					235
Other			900			900
Intercompany activity	(30,945)	20,546	10,399			
Net cash provided by financing activities			8,996			8,996
<b>Effect of exchange rate changes on cash and cash equivalents</b>						
Net decrease in cash and cash equivalents			(155)	(31)		(186)
Cash and cash equivalents, beginning of period			3,540	513		4,053
Cash and cash equivalents, end of period	\$	\$	\$ 3,385	\$ 482	\$	\$ 3,867



**Table of Contents****QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2011****Unaudited (In 000 s)**

	<b>QDI</b>	<b>QD LLC and QD Capital</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 2,722	\$ 2,708	\$ 4,066	\$ 442	\$ (7,216)	\$ 2,722
Adjustments for non-cash charges	(1,984)	(9,257)	11,082	(102)	7,216	6,955
Net changes in assets and liabilities	(42)	5,732	(10,418)	715		(4,013)
Intercompany activity	(696)	817	1,221	(1,342)		
Net cash provided by (used in) operating activities			5,951	(287)		5,664
<b>Cash flows from investing activities:</b>						
Capital expenditures			(3,195)			(3,195)
Proceeds from sales of property and equipment			2,860			2,860
Net cash used in investing activities			(335)			(335)
<b>Cash flows from financing activities:</b>						
Principal payments on long-term debt and capital lease obligations		(27,578)	(2,369)			(29,947)
Proceeds from revolver		43,300				43,300
Payments on revolver		(33,300)				(33,300)
Deferred financing costs		(341)				(341)
Redemption of noncontrolling interest			(1,833)			(1,833)
Proceeds from equity offering, net of transaction costs	17,623					17,623
Proceeds from exercise of stock options	637					637
Other			(482)			(482)
Intercompany activity	(18,260)	17,919	341			
Net cash used in financing activities			(4,343)			(4,343)
Effect of exchange rate changes on cash and cash equivalents			(1)			(1)
Net increase (decrease) in cash and cash equivalents			1,272	(287)		985
Cash and cash equivalents, beginning of period			1,174	579		1,753
Cash and cash equivalents, end of period	\$	\$	\$ 2,446	\$ 292	\$	\$ 2,738



**Table of Contents**

**15. SUBSEQUENT EVENTS**

On May 7, 2012, we entered into definitive agreements to acquire the operating assets of Wylie Bice Trucking, LLC ( Bice ) and the operating assets and rights of RM Resources, LLC ( RM ) for an aggregate purchase price of \$79.3 million plus potential additional consideration of \$19.0 million, to be paid in cash, subject to Bice and RM achieving certain future operating and financial performance criteria. Headquartered in Killdeer, ND, Bice is a leading provider of transportation services to the unconventional oil and gas industry within the Bakken shale region, primarily hauling fresh water, flowback and production water, and oil for numerous energy customers. The flowback and production water Bice hauls is primarily disposed of utilizing four existing salt water injection wells owned and operated by RM. On a combined basis for its most recent fiscal year ended December 31, 2011, Bice and RM had revenues of approximately \$106.0 million.

On April 1, 2012, we acquired certain operating assets of Trojan Vacuum Services ( Trojan ). The purchase price was \$8.7 million, paid in cash, with potential additional consideration of \$1.0 million, to be paid in cash, subject to Trojan achieving certain future operating and financial performance criteria. Trojan is headquartered in Pleasanton, TX and provides transportation service to the unconventional oil and gas industry within the Eagle Ford shale region, primarily hauling flowback and production water for various energy customers. For its fiscal year ended December 31, 2011, Trojan had revenues of approximately \$13.5 million.

## **Table of Contents**

### **ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ from results discussed in the forward-looking statements, see Forward-Looking Statements and Certain Considerations contained in the Introduction to this report.

#### **OVERVIEW**

We operate the largest chemical bulk tank truck network in North America through our wholly-owned subsidiary, QCI, and are also the largest provider of intermodal ISO tank container and depot services in North America through our wholly-owned subsidiary, Boasso which also includes Greenville. In 2011, we entered the gas and oil frac shale energy markets, providing logistics services to these markets through our wholly-owned subsidiaries, QCER. We operate an asset-light business model and service customers across North America through our network of 29 independent affiliates, 94 terminals servicing the chemical markets (89 of which are operated by independent affiliates and 5 which are company-operated), 9 company-operated tank depot services terminals and 2 terminals servicing the energy markets which are operated by independent affiliates.

#### **Financial Reporting Segments**

In connection with our entry into the gas and oil frac shale energy market in 2011, a new segment for financial reporting purposes was identified during the fourth quarter of 2011, to better distinguish logistics services to the energy markets from logistics services to the chemical markets based upon how these businesses are managed. Our previous logistics segment was renamed Chemical Logistics.

We have three reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered:

Chemical Logistics, which consists of the transportation of bulk chemicals primarily through our network of 29 independent affiliates, and equipment rental income;

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water, proppant sand and crude oil for the unconventional oil and gas markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso's intermodal ISO tank container transportation and depot services business supporting the international movement of bulk liquids.

#### *Chemical Logistics*

The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists mainly of liquid and dry bulk chemicals (including plastics) and bulk dry and liquid food-grade products. We coordinate the transport of a broad range of chemical products, primarily through our independent affiliate network, and provide our customers with logistics and other value-added services. We are a core carrier for many of the major companies engaged in chemical processing including Arclin, Arkema, Ashland, BASF, Dow, DuPont, ExxonMobil, Georgia-Pacific, Honeywell, PPG Industries, Procter & Gamble, Sunoco and Unilever, and we provide services to most of the top 100 chemical producers with North American operations. We believe the diversity of our customer base, geography and end-markets provides a competitive advantage.

We believe the specialized nature of the bulk tank truck industry, including specifically-licensed drivers, specialized equipment and more stringent safety requirements, create barriers to entry which limit the more drastic swings in supply experienced by the broader trucking industry. Additionally, it is common practice in the bulk tank truck industry for customers to pay fuel surcharges, which helps enable recovery of fuel price increases from customers.

## **Table of Contents**

Our transportation revenue is principally a function of the volume of shipments by the bulk chemical industry, prices, the average number of miles driven per load, our market share and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. The volume of shipments of chemical products is, in turn, affected by many diverse industries and end-use markets, including consumer and industrial products, paints and coatings, paper and packaging, agriculture and food products, and tends to vary with changing economic conditions. Due to the nature of our customers' business, our revenues are seasonal. Revenues generally decline during winter months, namely our first and fourth fiscal quarters and over holidays and rise during our second and third fiscal quarters. Highway transportation can be adversely affected depending upon the severity of the weather in various sections of the country during the winter months. During periods of heavy snow, ice or rain, we may not be able to move our trucks and equipment between locations, thereby reducing our ability to provide services and generate revenues.

### *Energy Logistics*

Beginning in the second quarter of fiscal 2011, transportation revenue includes revenue earned from hauling fresh and disposal water for the energy market and in the fourth quarter of 2011 we began hauling oil. This revenue is principally a function of the volume of shipments, price per hour of service, and the allocation of shipments between us and other carriers under logistics contracts we manage. Volume of shipments can be influenced significantly by fluctuations in the price of natural gas and oil, which in turn influences frac shale drilling activity levels. Similar to the shipment of bulk chemicals, we expect revenues to generally be lower during the winter months, as drilling within certain shales that we service may be adversely affected by the severity of weather in various sections of the country.

### *Intermodal*

Our wholly-owned subsidiary, Boasso, which also includes Greenville since November 1, 2011, is the largest North American provider of intermodal ISO tank container transportation and depot services, with nine terminals located in the eastern half of the United States. In addition to intermodal tank transportation services, Boasso provides tank cleaning, heating, testing, maintenance and storage services to customers. Boasso provides local and over-the-road trucking primarily within the proximity of the port cities where its depots are located. Boasso also sells equipment that its customers use for portable alternative storage or office space.

Demand for intermodal ISO tank containers is impacted by the aggregate volume of imports and exports of chemicals through United States ports, and Boasso's revenues are accordingly impacted by this import/export volume, in particular the number and volume of shipments through ports at which Boasso has terminals, as well as their market share. Economic conditions and differences among the laws and currencies of foreign nations may also impact the volume of shipments.

## **Our Industry**

### *Chemical Logistics*

The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists mainly of liquid and dry bulk chemicals (including plastics) and bulk dry and liquid food-grade products. We estimate, based on industry sources, that the highly fragmented North American for-hire segment of the bulk transport market generated revenues of approximately \$5.9 billion in 2010. We specifically operate in the for-hire chemical and food grade bulk transport market (which we estimated at \$4.0 billion in 2010). We believe we have the leading market share (estimated at 15% in 2010) in this sector based on revenues. Through our independent affiliate network, we operate the largest for-hire chemical bulk tank truck network in North

## **Table of Contents**

America comprising terminals, tractors and trailers. We believe managing a larger carrier network facilitates customer service and lane density, and provides a more favorable cost structure for us and our independent affiliates. As such, we believe we are well-positioned to expand our business by increasing our market share.

The chemical bulk tank truck industry growth is generally dependent on volume growth in the industrial chemical industry, the rate at which chemical companies outsource their transportation needs, the overall capacity of the rail system, and, in particular the extent to which chemical companies make use of the rail system for their bulk chemical transportation needs. We believe the most significant factors relevant to our future business growth in our core business are the ability to obtain additional business from existing customers, add new customers, increase the utilization of our trailer fleet and add and retain qualified drivers.

Our industry is characterized by high barriers to entry such as the time and cost required to develop the operational infrastructure necessary to handle sensitive chemical cargo, the financial and managerial resources required to recruit and train drivers, substantial and increasingly more stringent industry regulatory requirements, strong customer relationships and the significant capital investments required to build a fleet of equipment and establish a network of terminals and independent affiliates.

### ***Energy Logistics***

In 2010, we initiated a growth strategy targeting the gas and oil frac shale energy market through our wholly-owned subsidiaries, QCER. We currently serve several customers and operate approximately 400 units of energy equipment in this market. In the third quarter of 2011, QCER won a multi-year contract with a major energy company to provide full logistics of their fresh and disposal water hauling needs in the Marcellus shale region of Pennsylvania. The logistics revenues associated with this contract began in the third quarter of 2011 and are expected to provide significant revenue and growth prospects for the future. In the fourth quarter of 2011, we began hauling oil in the Eagle Ford shale region of Texas and in April 2012, we acquired certain operating assets of Trojan, a provider of transportation services within the Eagle Ford Shale region. We expect the Eagle Ford shale region to provide revenue and growth prospects for the future as well. We believe the energy logistics market has significant revenue potential and we may realize higher margins and better equipment utilization than we experience in our chemical logistics business. In connection with our entry into this business, we will operate a portion of the energy logistics business through company-operated terminals, rather than through independent affiliates, which will affect the overall mix of our asset-light business.

### ***Intermodal***

We estimate that the North American intermodal ISO tank container transportation and depot services market generated revenues of approximately \$225.0 million in 2010, and we believe Boasso and Greenville collectively have the leading market share. The intermodal ISO tank container business generally provides services that facilitate the global movement of liquid and dry bulk chemicals, pharmaceuticals and food grade products.

The proliferation of global import/export of bulk liquid chemicals has driven the movement of basic manufacturing out of the United States and has resulted in an increase in chemical plant infrastructure to service these off-shore industries. Driven by this globalization, the intermodal ISO tank container market is a growing sector of the overall liquid bulk chemical transportation sector. Furthermore, chemical manufacturers have sought to efficiently transport their products by utilizing ISO tank containers. The resulting demand for distributors that can offer a broad range of services within the supply chain will drive future growth in this sector. We believe that our intermodal business will benefit from these trends because of its market leadership, experience and track record.

## **Table of Contents**

### **Our Network**

Our bulk service network consists primarily of independently owned third-party affiliate terminals, independent owner-operator drivers and, to a lesser extent, company-operated terminals. Independent affiliates are independent companies we contract with to operate trucking terminals exclusively on our behalf in defined markets. The independent affiliates provide the capital necessary to service their contracted business and are also responsible for most of the operating costs associated with servicing the contracted business. Independent owner-operators are generally individual drivers who own or lease their tractors and agree to provide transportation services to us under contract. We believe the use of independent affiliates and independent owner-operators provides the following key competitive advantages to us in the marketplace:

Locally owned and operated independent affiliate terminals can provide superior, tailored customer service.

Independent affiliates and independent owner-operators generally are paid a fixed, contractual percentage of revenue collected on each load they transport creating a variable cost structure that mitigates against cyclical downturns.

Reliance on independent affiliates and independent owner-operators creates an asset-light business model that generally reduces our capital investment.

Due to several factors, including our ownership of the customer contracts and relationships, the presence of non-compete agreements with the independent affiliates, and our ownership of the trailers, our relationships with the independent affiliates tend to be long-term in nature, with minimal voluntary turnover.

Given the specialty nature of the services we provide and the size of our existing network, we believe there are significant barriers to entry to our industry. During the two years ended December 31, 2010, we consolidated terminals and transitioned terminals to affiliates and aggressively reduced aged and specialty equipment in our fleet. These actions reduced the number of terminals and trailers that we manage and resulted in a greater portion of our revenue being generated by affiliates. We believe these actions have reduced certain fixed costs, provide a more variable cost structure and position us with a financially flexible, asset-light business platform.

We believe the most significant factors relevant to our future business growth are the ability to (i) expand into new markets, specifically the energy markets, (ii) add new customers, (iii) obtain additional business from existing customers, (iv) add and retain qualified drivers and (v) improve the utilization of our trailer fleet. While many of our customers source some of their logistics needs with rail, we expect our customers to continue to outsource a greater proportion of their logistics needs to full service tank truck carriers. As a result of our leading market position, strong customer relationships and flexible business model, we believe we are well-positioned to benefit from customers seeking consolidation of their shipping relationships and those opting to outsource a greater portion of their logistics needs to third-party tank truck carriers.

### **Recent Significant Transactions**

#### *May 2012 Definitive Asset Purchase Agreement Signed*

On May 7, 2012, we entered into definitive agreements to acquire the operating assets of Wylie Bice Trucking, LLC ( Bice ) and the operating assets and rights of RM Resources, LLC ( RM ) for an aggregate purchase price of \$79.3 million plus potential additional consideration of \$19.0 million, to be paid in cash, subject to Bice and RM achieving certain future operating and financial performance criteria. Headquartered in Killdeer, ND, Bice is a leading provider of transportation services to the unconventional oil and gas industry within the Bakken shale region, primarily hauling fresh water, flowback and production water, and oil for numerous energy customers. The flowback and production water Bice hauls is primarily disposed of utilizing four existing salt water injection wells owned and operated by RM. On a combined basis for its most recent fiscal year ended December 31, 2011, Bice and RM had revenues of approximately \$106.0 million.

#### *April 2012 Asset Acquisition*

On April 1, 2012, we acquired certain operating assets of Trojan. The purchase price was \$8.7 million, paid in cash, with potential additional consideration of \$1.0 million, to be paid in cash, subject to Trojan achieving certain future operating and financial performance criteria. Trojan is headquartered in Pleasanton, TX and provides transportation service to the unconventional oil and gas industry within the Eagle Ford shale

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

region, primarily hauling flowback and production water for various energy customers. For the fiscal year ended December 31, 2011, Trojan had revenues of approximately \$13.5 million.

### *March 2012 Common Stock Offering*

On March 13, 2012, we sold 2.5 million shares of our common stock in an underwritten public offering, at a gross price of \$13.00 per share, and received net proceeds, after underwriting fees and expenses, of approximately \$30.7 million. Certain affiliates of Apollo Management, L.P. also sold 3.2 million shares in the offering. Net cash proceeds were used to repay outstanding borrowings under our ABL Facility.

### *November 2011 Intermodal Acquisition*

On November 1, 2011, Boasso acquired all of the outstanding stock of Greenville Transport Company ( Greenville ). The purchase price was \$8.6 million, paid in cash, with an additional \$0.5 million to be paid in cash, subject to Greenville meeting certain future operating performance criteria. An additional \$0.5 million was paid in cash for a 338(h)(10) tax election and a working capital adjustment. Greenville is headquartered in Chesapeake, Virginia and is a leading provider of ISO tank container and depot services with access to ports in Virginia, Maryland and South Carolina. For its fiscal year ended December 31, 2010, Greenville had revenues of approximately \$8.0 million. Proforma information for the acquisition has not been presented as the acquisition was not significant.



**Table of Contents***August 2011 ABL Facility Refinancing*

On August 19, 2011, we entered into a credit agreement for a new senior secured asset-based revolving credit facility (the "ABL Facility"). The ABL Facility provides for a revolving credit facility with a maturity of five years and a maximum borrowing capacity of \$250.0 million. The ABL Facility includes a sublimit of up to \$150.0 million for letters of credit and up to \$30.0 million for swingline borrowings on same-day notice. The ABL Facility replaced our previous asset-based revolving credit facility entered into on December 18, 2007 and its related collateral arrangements and guarantees.

*February 2011 Common Stock Offering*

On February 9, 2011, we sold 2.0 million shares of our common stock in an underwritten public offering, at a gross price of \$9.50 per share, and received net proceeds, after underwriting fees and expenses, of approximately \$17.6 million. Certain affiliates of Apollo Management, L.P. also sold 2.6 million shares in the offering. Pursuant to the offering, we redeemed \$17.5 million of our 2013 PIK Notes at par, plus accrued and unpaid interest on March 11, 2011.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). We believe the following are the more critical accounting policies that impact the financial statements, some of which are based on management's best estimates available at the time of preparation. Actual future experience may differ from these estimates.

*Property and equipment* Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value.

The asset lives used are presented in the following table:

	Average Lives (in years)
Buildings and improvements	10 - 25
Tractors and terminal equipment	5 - 7
Trailers	15 - 20
Energy market equipment	4 - 15
Furniture and fixtures	3 - 5
Other equipment	3 - 10

Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 3 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service. Any changes in the actual lives could result in material changes in the net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales or disposals, and any changes in the actual salvage values could also affect the net book value of these assets.

Furthermore, we evaluate the recoverability of our long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. This analysis requires us to make significant estimates and assumptions in projecting future cash flows, and changes in facts and circumstances could result in material changes in the amount of any write-offs for impairment.

*Goodwill and Intangible Assets* We evaluate goodwill and indefinite-lived intangible assets for impairment at least annually during the second quarter with a measurement date of June 30, and more frequently if indicators of impairment arise, in accordance with Financial Accounting Standards Board ("FASB") guidance on goodwill and other intangible assets. We evaluate goodwill for impairment by determining the fair value for each reporting unit to which our goodwill relates. At June 30, 2011, our intermodal



## Table of Contents

segment was our only reporting unit that contained goodwill. At December 31, 2011, our intermodal segment contains goodwill and other identifiable intangible assets associated with our Boasso acquisition in December 2007 and our Greenville acquisition in November 2011.

The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010. We continued to evaluate indicators of impairment quarterly following our annual goodwill impairment test at June 30, 2011 through year end 2011, and again in the quarter ended March 31, 2012. There were no indications that a triggering event had occurred as of March 31, 2012. As of March 31, 2012, we had total goodwill of \$31.4 million, all of which was allocated to our intermodal segment. As of March 31, 2012, we had total intangibles of \$18.0 million, of which \$17.5 million was allocated to our intermodal segment and \$0.5 million was allocated to our chemical logistics segment.

## Goodwill

Under the FASB guidance, goodwill and indefinite-lived intangible assets are subject to an annual impairment test as well as impairment assessments when certain triggering events occur. We evaluate goodwill for impairment by determining the fair value based on criteria in the FASB guidance for each reporting unit to which our goodwill relates. These reporting units may contain goodwill and other identifiable intangible assets as a result of previous business acquisitions. Our annual impairment test is performed during the second quarter with a measurement date of June 30<sup>th</sup>. The methodology applied in the analysis performed at June 30, 2011 was consistent with the methodology applied in prior years, but was based on updated assumptions, as appropriate. As a result of our analysis, we concluded no impairment had occurred as of June 30, 2011 and 2010.

Under the FASB guidance, we perform the annual goodwill impairment test as of June 30 of each year. The Company assesses qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is greater than its carrying amount. If, however, we determine that it was more likely than not that the fair value of the reporting unit was less than its carrying amount, then the Company would perform the first step of the two-step goodwill impairment test.

---

**Table of Contents**

**Intangible assets**

To determine the implied fair value of our indefinite-lived intangible assets, we utilize the relief from royalty method, pursuant to which those assets are valued by reference to the amount of royalty income they would generate if licensed in an arm's length transaction. Under the relief from royalty method, similar to the discounted cash flow method, estimated net revenues expected to be generated by the asset during its life are multiplied by a benchmark royalty rate and then discounted by the estimated weighted average cost of capital associated with the asset. The resulting capitalized royalty stream is an indication of the value of owning the asset. Based upon management's review of the value of the indefinite-lived intangible assets in our intermodal segment, we determined that the implied fair value exceeded its carrying value.

If there are changes to the methods used to allocate carrying values, if management's estimates of future operating results change, if there are changes in the identified reporting units or if there are changes to other significant assumptions, the estimated carrying values for each reporting unit and the estimated fair value of our goodwill could change significantly, and could result in future impairment charges, which could materially impact our results of operations and financial condition.

*Deferred Tax Asset* In accordance with FASB guidance, we use the liability method of accounting for income taxes. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

We continue to evaluate quarterly the positive and negative evidence regarding the realization of net deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income to realize these deferred tax assets. The Company reviews a rolling thirty-six month calculation of U.S. earnings, and considers other criteria at each reporting date, to determine if the Company has incurred cumulative income or losses in recent years. While we recognize our recent cumulative income position is an example of positive evidence to be considered in our assessment at this time, management continues to believe it is more likely than not we will not realize 100% of our deferred tax assets due to our consideration of all positive and negative evidence available. If we determine in a future reporting period that we will be able to use some or all of our deferred tax assets, the adjustment to reduce or eliminate the valuation allowance would reduce our tax expense and increase net income. An adjustment to reduce the valuation allowance could occur during the year ended December 31, 2012 upon resolution of the aforementioned uncertainties. Changes in deferred tax assets and valuation allowance are reflected in the provision for income taxes line in our consolidated statements of operations.

At December 31, 2011, we had an estimated \$77.0 million in federal net operating loss carryforwards, \$3.0 million of unrecognized federal operating loss carryforwards related to excess stock compensation deductions and uncertain tax position deductions, \$2.4 million in alternative minimum tax credit carryforwards and \$4.8 million in foreign tax credit carryforwards. The net operating loss carryforwards will expire in the years 2018 through 2030, while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for 10 years.

*Uncertain Income Tax Positions* In accordance with FASB guidance, we account for uncertainty in income taxes, using a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we have to determine the probability of various possible outcomes. We re-evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition and measurement would result in recognition of a tax benefit and/or an additional charge to the tax provision.

*Environmental liabilities* We have reserved for potential environmental liabilities based on the best estimates of potential clean-up and remediation for known environmental sites. We employ a staff of environmental professionals to administer all phases of our environmental programs and use outside experts where needed. These professionals develop estimates of potential liabilities at

**Table of Contents**

these sites based on projected and known remediation costs. These cost projections are determined through previous experiences with other sites and through bids from third-party contractors. Management believes current reserves are reasonable based on current information, but estimates of environmental reserves and exposures may be affected by information subsequently received.

*Accrued loss and damage claims* We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, independent owner-operators and independent affiliates, and workers' compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of \$2.0 million per incident for bodily injury and property damage and \$1.0 million for workers' compensation. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease and for cargo losses. As of March 31, 2012, we had \$22.9 million in an outstanding letter of credit to our insurance administrator to guarantee the self-insurance portion of our liability. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the letter of credit. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior-year claims, and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

*Revenue recognition* Transportation revenue, including fuel surcharges and related costs, is recognized on the date freight is delivered. Service revenue consists primarily of rental revenues (primarily tractor and trailer rental), intermodal and depot revenues, tank wash revenues and insurance related administrative services. Rental revenues from independent affiliates, independent owner-operators and third parties are recognized ratably over the lease period. Intermodal and depot revenues, consisting primarily of repair and storage services, are recognized when the services are rendered. Insurance related administrative service revenues are recorded ratably over the service period. We recognize all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted with our customers.

**Table of Contents**

*Allowance for uncollectible receivables* The allowance for all potentially uncollectible receivables is based on a combination of historical data, cash payment trends, specific customer issues, write-off trends, general economic conditions and other factors. These factors are continuously monitored by our management to arrive at the estimate for the amount of accounts receivable that may be ultimately uncollectible. The receivables analyzed include trade receivables, as well as loans and advances made to independent owner-operators and independent affiliates. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required.

*Stock compensation plans* Stock compensation is determined by the assumptions required under the FASB guidance. The fair values of stock option grants are based upon the Black-Scholes option-pricing model and amortized as compensation expense on a straight-line basis over the vesting period of the grants. Restricted stock awards are issued and measured at market value on the date of grant and related compensation expense is recognized over time on a straight-line basis over the vesting period of the grants. Stock-based compensation expense related to stock options and restricted stock was \$0.7 million and \$0.7 million for the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, there was approximately \$5.9 million of total unrecognized compensation cost related to the unvested portion of our stock-based awards. The recognition period for the remaining unrecognized stock-based compensation cost generally varies from two to four years. For further discussion on stock-based compensation, see Note 6 of Notes to Consolidated Financial Statements included in Item 1 of this report.

*Pension plans* We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover certain vested salaried participants and retirees and certain other vested participants and retirees under an expired collective bargaining agreement. Both plans are frozen and, as such, no future benefits accrue. We record annual amounts relating to these plans based on calculations specified by GAAP, which include various actuarial assumptions such as discount rates (4.90% to 5.25%) and assumed rates of return (7.00% to 8.00%) depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

We had an accumulated net pension equity charge (after-tax) of \$5.2 million at December 31, 2011 and an accumulated net pension equity charge (after-tax) of \$0.5 million at December 31, 2010.

The discount rate is based on a model portfolio of AA-rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current inflation assumption is 3.0%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications are amortized over future periods.

Assumed discount rates and expected return on plan assets have a significant effect on the amounts reported for the pension plan. At December 31, 2011, our projected benefit obligation ( PBO ) was \$51.6 million. Our projected 2012 net periodic pension expense is \$1.6 million. A 1.0% decrease in our assumed discount rate would increase our PBO to \$57.3 million and decrease our 2012 net periodic pension expense less than \$0.1 million. A 1.0% increase in our assumed discount rate would decrease our PBO to \$46.7 million and increase our 2012 net periodic pension expense less than \$0.1 million. A 1.0% decrease in our assumed rate of return would not change our PBO but would increase our 2012 net periodic pension expense to \$1.9 million. A 1.0% increase in our assumed rate of return would not change our PBO but would decrease our 2012 net periodic pension expense to \$1.3 million.

*Restructuring* We account for restructuring costs associated with one-time termination benefits, costs associated with lease and contract terminations and other related exit activities in accordance with the FASB s guidance. We previously made estimates of the costs to be incurred as part of a restructuring plan developed during 2008 and concluded at the end of 2010 which resulted in charges during 2008, 2009 and 2010, primarily related to our chemical logistics segment. As of March 31, 2012, approximately \$2.6 million was accrued related to the restructuring charges, which are expected to be paid through 2017.

**Table of Contents**

**NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 1, Summary of Significant Accounting Policies New Accounting Pronouncements for discussion of recent accounting pronouncements and for additional discussion surrounding the adoption of accounting standards.

**Table of Contents***Results of Operations*

The following table presents certain condensed consolidated financial information, as a percentage of revenue, for the three months ended March 31, 2012 and 2011:

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES:</b>		
Transportation	69.4%	70.1%
Service revenue	14.6%	15.0%
Fuel surcharge	16.0%	14.9%
<b>Total operating revenues</b>	<b>100.0%</b>	<b>100.0%</b>
<b>OPERATING EXPENSES:</b>		
Purchased transportation	68.7%	70.1%
Compensation	8.7%	8.4%
Fuel, supplies and maintenance	7.5%	6.6%
Depreciation and amortization	2.0%	2.0%
Selling and administrative	3.4%	2.9%
Insurance costs	1.7%	2.6%
Taxes and licenses	0.4%	0.3%
Communication and utilities	0.4%	0.5%
Gain on disposal of property and equipment	(0.0%)	(0.1%)
<b>Total operating expenses</b>	<b>92.8%</b>	<b>93.3%</b>
<b>Operating income</b>	<b>7.2%</b>	<b>6.7%</b>
Interest expense	3.7%	4.4%
Interest income	(0.1%)	(0.1%)
Write-off of debt issuance costs	0.0%	1.0%
Other income	(0.1%)	0.0%
Income before income taxes	3.7%	1.4%
Provision for income taxes	0.2%	0.0%
<b>Net income</b>	<b>3.5%</b>	<b>1.4%</b>

The following table shows the approximate number of terminals, drivers, tractors, trailers and energy market equipment that we managed (including affiliates and independent owner-operators) as of March 31:

	<b>2012</b>	<b>2011</b>
Terminals	105	104
Drivers	2,745	2,717
Tractors	2,976	2,861
Trailers	5,496	5,613



(1) Includes tractors and trailers

**Table of Contents**

As of March 31, our network terminals and facilities consisted of the following:

	2012 Terminals	2011 Terminals
Chemical logistics independent affiliate trucking terminals	89	93
Chemical logistics company-operated trucking terminals	5	3
Energy logistics independent affiliate energy terminals	2	
Intermodal container services terminals/depots	9	8
<b>Total</b>	<b>105</b>	<b>104</b>

**Three Months Ended March 31, 2012 Compared to Three Months Ended March, 31, 2011**

For the quarter ended March 31, 2012, total revenues were \$191.9 million, an increase of \$14.0 million, or 7.9%, from revenues of \$177.9 million for the same period in 2011. Transportation revenue increased by \$8.5 million, or 6.8%, primarily due to an increase in new energy logistics revenue of \$9.7 million and an increase of \$3.4 million in our intermodal business. These increases were partially offset by a decrease in chemical logistics revenue of \$4.6 million due to lower bulk chemical shipments.

Service revenue increased \$1.2 million, or 4.7%. This increase was primarily due to an increase in our intermodal business of \$0.9 million and an increase in our energy logistics business of \$0.8 million, partially offset by a decrease in our chemical logistics business of \$0.5 million.

Fuel surcharge revenue increased \$4.2 million, or 16.0%, primarily due to an increase in fuel prices. We have fuel surcharge programs in place with the majority of our chemical logistics and intermodal customers. These programs typically involve a specified computation based on the changes in fuel prices. As a result, some of these programs have a short time lag between when fuel prices change and when this change is reflected in revenues. It is not meaningful to compare the amount of fuel surcharge revenue or the change in fuel surcharge revenue between reporting periods to fuel expense, or the change of fuel expense between periods, as a significant portion of fuel costs are included in purchased transportation.

Purchased transportation increased \$7.2 million, or 5.7%, due to an increase of \$8.3 million in costs related to servicing the energy logistics market and an increase of \$2.4 million in costs related to our intermodal business offset by a decrease of \$3.5 million in costs related to servicing the chemical logistics market. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue decreased to 80.4% for the current quarter versus 82.5% for the prior-year quarter. Our independent affiliates generated 91.7% of our chemical logistics revenue and fuel surcharge revenue for the three months ended March 31, 2012 compared to 94.3% for the comparable prior-year period. This decrease resulted from the conversion of 2 independent affiliate trucking terminals to company operated terminals. During the 2012 and 2011 periods, we paid our independent affiliates approximately 85% of chemical logistics transportation revenue and paid independent owner-operators approximately 65% of chemical logistics transportation revenue. During the 2012 quarter, hauling for the energy market was performed by independent affiliates and other independent third-party carriers. In the energy market, we typically pay between 85% to 95% of the transportation revenue depending upon whether our independent affiliate or a third-party carrier does the hauling, which generated nearly 100% of our energy logistics revenue in 2012.

Compensation expense increased by \$1.7 million, or 11.7%, due to an increase in our intermodal business of \$1.4 million, which \$0.6 million related to the acquisition of Greenville, and an increase of \$0.3 million in our energy logistics business. Compensation expense in our chemical logistics business remained consistent with the prior year period.

**Table of Contents**

Fuel, supplies and maintenance increased \$2.7 million, or 22.8%, due to an increase of \$0.9 million related to our chemical logistics business resulting primarily from an increase in repairs and maintenance expense of \$0.5 million and an increase in fuel costs of \$0.4 million, primarily at our company-owned terminals. We had an increase of \$0.5 million related to our energy logistics business. In addition, we had an increase of \$1.3 million related to our intermodal business due to an increase in repairs and maintenance expense of \$0.8 million, an increase in fuel costs of \$0.5 million and \$0.8 million of these higher costs related to the Greenville acquisition.

Depreciation and amortization expense increased \$0.3 million, or 8.6%, primarily due to an increase in depreciation for new energy equipment.

Selling and administrative expenses increased \$1.4 million, or 26.4%, primarily due to an increase in our chemical logistics business of \$1.1 million which includes the incurrence of approximately \$0.4 million of acquisition-related costs, offset by a reduction in our bad debt expense of \$0.3 million. In addition, our intermodal business had increased costs of \$0.3 million and our energy logistics business had increased costs of \$0.3 million.

Insurance costs decreased by \$1.5 million, or 31.3%, due to a reduction in the number and severity of claims.

We recognized a gain on disposal of revenue equipment of less than \$0.1 million for the quarter ended March 31, 2012 and a gain on disposal of revenue equipment of \$0.2 million for the quarter ended March 31, 2011.

For the quarter ended March 31, 2012, operating income was \$13.8 million, an increase of \$1.6 million, or 13.5%, compared to operating income of \$12.2 million for the same period in 2011. The operating margin for the quarter ended March 31, 2012 was 7.2% compared to 6.9% for the same period in 2011 as a result of the above-mentioned items.

Interest expense decreased by \$0.6 million, or 8.0% in the quarter ended March 31, 2012, primarily due to redemptions of our high cost 2013 PIK Notes during 2011. We expect our interest expense to continue to be lower in 2012 unless the principal balance of our indebtedness increases.

We had no write-offs of debt issuance costs during the first quarter of 2012. In the first quarter of 2011, we wrote off debt issuance costs of \$1.8 million resulting from redemptions of our 2013 PIK Notes in January 2011 and March 2011 in the amounts of \$10.0 million and \$17.5 million, respectively.

**Table of Contents**

The provision for income taxes was \$0.4 million for the quarter ended March 31, 2012, compared to less than \$0.1 million for the same period in 2011. The effective tax rates for the three months ended March 31, 2012 and 2011 were 5.2% and 1.8%, respectively. The effective tax rate continues to be lower than our statutory rate due to the expense impact of the valuation allowance against our net deferred tax asset.

For the quarter ended March 31, 2012, net income was \$6.7 million compared to net income of \$2.7 million for the same period in 2011 as a result of the above-mentioned items.

*Segment Operating Results*

In connection with our entry into the gas and oil frac shale energy market in 2011, a new segment for financial reporting purposes was identified during the fourth quarter of 2011, to better distinguish logistics services to the energy markets from logistics services to the chemical markets based upon how these businesses are managed. Our previous logistics segment was renamed Chemical Logistics.

**Table of Contents**

We have three reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered:

Chemical Logistics, which consists of the transportation of bulk chemicals primarily through our network of 29 independent affiliates, and equipment rental income;

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water, proppant sand and crude oil for the unconventional oil and gas markets, primarily through 2 independent affiliates; and

Intermodal, which consists solely of Boasso's intermodal ISO tank container transportation and depot services business supporting the international movement of bulk liquids.

Segment revenues and operating income include fuel surcharge primarily for the chemical logistics and intermodal segments. The operating income reported for our segments excludes amounts such as gains and losses on disposal of property and equipment, restructuring costs, impairment charge, corporate and other unallocated amounts. Although these amounts are excluded from the business segment results, they are included in our reported consolidated statement of operations. Corporate and unallocated amounts include depreciation and amortization and other gains and losses and are included in our chemical logistics segment. We have not provided specific asset information by segment, as it is not regularly provided to our chief operating decision maker for review.

Summarized segment operating results are as follows (in thousands):

	Three Months Ended March 31, 2012			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 105,647	\$ 10,049	\$ 17,510	133,206
Service revenue	15,916	884	11,185	27,985
Fuel surcharge	26,314	1	4,409	30,724
<b>Total operating revenue</b>	<b>147,877</b>	<b>10,934</b>	<b>33,104</b>	<b>191,915</b>
Segment revenue % of total revenue	77.1%	5.7%	17.2%	100%
Segment operating income	11,432	1,082	5,113	17,627
Depreciation and amortization	2,688	247	856	3,791
Other expense (income)	18	22	(42)	(2)
<b>Operating income</b>	<b>\$ 8,726</b>	<b>\$ 813</b>	<b>\$ 4,299</b>	<b>\$ 13,838</b>

	Three Months Ended March 31, 2011			
	Chemical Logistics	Energy Logistics	Intermodal	Total
<b>Operating Revenues:</b>				
Transportation	\$ 110,612	\$	\$ 14,069	\$ 124,681
Service revenue	16,508		10,230	26,738
Fuel surcharge	23,638		2,853	26,491
<b>Total operating revenue</b>	<b>150,758</b>		<b>27,152</b>	<b>177,910</b>
Segment revenue % of total revenue	84.7%		15.3%	100.0%

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Segment operating income	10,782		4,663	15,445
Depreciation and amortization	2,695		797	3,492
Other (income) expense	(247)		7	(240)
Operating income	\$ 8,334	\$	\$ 3,859	\$ 12,193

	2012 vs 2011	Chemical Logistics	Energy Logistics	Intermodal	Total
Segment revenues	\$ change	\$ (2,881)	\$ 10,934	\$ 5,952	\$ 14,005
	% change	(1.9)%	100.0%	21.9%	7.9%

**Table of Contents**

	<b>2012 vs 2011</b>	<b>Chemical Logistics</b>	<b>Energy Logistics</b>	<b>Intermodal</b>	<b>Total</b>
Segment revenues (excluding fuel surcharge)	\$ change	\$ (5,557)	\$ 10,933	\$ 4,396	\$ 9,772
	% change	(4.4)%	100.0%	18.1%	6.5%
Segment operating income	\$ change	\$ 650	\$ 1,082	\$ 450	\$ 2,182
	% change	6.0%	100.0%	9.7%	14.1%

**Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011**

## Operating revenue:

*Chemical Logistics* revenues decreased \$2.9 million, or 1.9%, for the quarter ended March 31, 2012 compared to the same period for 2011 primarily due to a decrease in transportation revenue of \$5.0 million. The decline was driven by reduced linehaul revenue resulting primarily from the lingering adverse impact of the implementation of electronic on-board recorders on driver counts. Although driver counts are rising slightly, we expect industry-wide tightness in driver capacity to impact our chemical logistics business in the second quarter of 2012. This decline was partially offset by an increase of \$2.7 million of fuel surcharge revenue due to increased fuel prices. In addition, service revenue decreased by \$0.6 million due primarily to decreased trailer rental revenue.

*Energy Logistics* revenues increased \$10.9 million, or 100.0%, for the quarter ended March 31, 2012 due to our entry into the gas and oil frac shale energy market during the second quarter of 2011. We continue to generate a high percentage of segment operating revenues from our Marcellus Shale operation, which includes a significant amount of lower margin business brokered to third-party carriers.

*Intermodal* revenues increased \$6.0 million, or 21.9%, for the quarter ended March 31, 2012 compared to the same period in 2011, partially due to the Greenville acquisition and partially due to higher volumes and depot revenue.

## **Table of Contents**

### Operating income:

*Chemical Logistics* operating income increased \$0.7 million, or 6.0%, for the quarter ended March 31, 2012 compared to the same period in 2011 primarily due to lower insurance costs offset in part by increased fuel, supplies and maintenance costs.

*Energy Logistics* operating income increased \$1.1 million, or 100.0%, for the quarter ended March 31, 2012 due to our entry into the gas and oil frac shale energy market in the second quarter of 2011.

*Intermodal* operating income increased \$0.5 million, or 9.7%, for the quarter ended March 31, 2012 compared to the same period in 2011 due to increased customer demand and to the acquisition of Greenville.

### *Liquidity and Capital Resources*

Our primary cash needs consist of working capital, capital expenditures, acquisitions and debt service. Our working capital needs depend upon the timing of our collections from customers and payments to others as well as our capital and operating lease payment obligations. Our capital expenditures primarily relate to acquiring trailers to maintain the chemical logistics fleet and supporting our energy logistics business with growth capital. We reduced our capital expenditure requirements for our chemical logistics business by utilizing independent affiliates and independent owner-operators.

Independent affiliates and independent owner-operators typically supply their own tractors, which reduces our capital investment requirements. For the three months ending March 31, 2012, capital expenditures were \$13.5 million and proceeds from sales of property and equipment were \$2.7 million. Capital expenditures for 2012 included \$8.2 million for equipment purchased to support our energy logistics business and proceeds from sales of property and equipment for 2012 included \$1.4 million of energy equipment sales to independent affiliates. We generally expect our sustaining capital expenditures for our chemical logistics and intermodal businesses, net of proceeds from property and equipment sales, to be approximately 1% of operating segment revenues annually. We currently expect net capital expenditures in the second quarter to decline from first quarter levels for the remainder of 2012. We expect net capital expenditures to be approximately \$20.0 to \$25.0 million for the 2012 year, of which approximately \$11.1 million is for equipment required to grow our energy logistics business. Some of our independent affiliates who are engaged with us in the energy market may at times purchase some portion of this equipment from us. Actual amounts could differ materially because of operating needs, growth needs, regulatory changes, covenants in our debt arrangements, other expenses, or other factors. We periodically make asset and/or stock acquisitions, which tend to require cash as part of the consideration. Some acquisitions will come with assets that we can pledge to our ABL Facility and increase our borrowing capacity. To the extent that such additional capacity is insufficient to complete the acquisitions, we would either need to raise additional capital or use our liquidity at the time to close the transaction.

Debt service currently consists of principal and interest payments on the outstanding balance of our ABL Facility as well as our outstanding 2018 Notes. We have no major debt maturities prior to August 2016, when our ABL Facility matures. During 2011, note indebtedness was comprised primarily of our 2018 Notes and our 2013 PIK Notes, though the aggregate principal balance of notes changed during 2011. We redeemed \$10.0 million of our 2013 PIK Notes in January 2011, redeemed \$17.5 million of our 2013 PIK Notes with the proceeds from our common stock offering in March 2011, and redeemed the remaining \$5.8 million of our 2013 PIK Notes in July 2011.

We may from time to time repurchase or redeem additional amounts of our outstanding debt or other securities. Any repurchases or redemptions would depend upon prevailing market conditions, our liquidity requirements, contractual restrictions and other factors we consider important. Future repurchases or redemptions may materially impact our liquidity, future tax liability and results of operations.

Our primary sources of liquidity for operations during the 2012 and 2011 periods have been cash flow from operations and borrowing availability under the ABL Facility and our previous ABL Facility. At March 31, 2012, we had \$116.2 million of borrowing availability under the ABL Facility. We expect to utilize a significant portion of this availability during the second quarter to meet normal debt service requirements, and to complete acquisitions. We periodically make business acquisitions with cash as part or all of the consideration. Some acquisitions provide us with new assets to pledge under our ABL Facility and increase our borrowing capacity. If availability under the ABL Facility is insufficient to fund acquisitions, we would either need to raise additional capital or use other sources of liquidity to consummate the desired transactions. We believe that, based on current operations and anticipated growth, our cash flow from operations, together with other available sources of liquidity, will be sufficient to fund anticipated capital expenditures, operating expenses and our other anticipated liquidity needs for the next 12 months. Anticipated debt maturities in 2016, the acquisition of other businesses or other events that we do not foresee may require us to seek alternative financing, such as restructuring or refinancing our long-term debt, selling assets or operations or selling additional debt or equity securities. If these alternatives were not available in a timely manner or on satisfactory terms or were not permitted under any of our debt agreements and we default on our obligations, our debt could be accelerated and our assets might not be sufficient to repay in full all of our obligations.





**Table of Contents***Cash Flows*

The following summarizes our cash flows for the three months ended March 31, 2012 and 2011 as reported in our consolidated statements of cash flows in the accompanying consolidated financial statements (in thousands):

	<b>Three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Net cash provided by operating activities	\$ 1,732	\$ 5,664
Net cash used in investing activities	(10,914)	(335)
Net cash provided by (used in) financing activities	8,996	(4,343)
Effect of exchange rate changes on cash		(1)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(186)</b>	<b>985</b>
Cash and cash equivalents at beginning of period	4,053	1,753
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,867</b>	<b>\$ 2,738</b>

Net cash provided by operating activities was \$1.7 million for the three month period ended March 31, 2012, compared to \$5.7 million provided by operating activities in the comparable 2011 period. The \$3.9 million decrease in cash provided by operating activities was primarily due to an increase in other assets of \$4.4 million primarily due to the issuance of a \$2.6 million note to an independent affiliate in the current period versus a write-off of debt issuance costs and a reduction in deposits in prior year and an increase in accounts receivable of \$1.0 million due to increased revenue.

Net cash used in investing activities totaled \$10.9 million for the three month period ended March 31, 2012, compared to \$0.3 million used in the comparable 2011 period. The \$10.6 million increase in cash used in investing activities was due primarily to \$8.2 million of capital expenditures primarily to support our energy logistics business growth initiatives.

Net cash provided by financing activities was \$9.0 million during the three month period ended March 31, 2012, compared to \$4.3 million used in financing activities in the comparable 2011 period. In the 2012 period, net cash received from our equity offering of approximately \$30.7 million was utilized to pay down \$20.3 million of our ABL Facility and to pay down \$2.3 million of other debt and capital lease obligations. In the 2011 period, net cash received from our equity offering of approximately \$17.6 million and increased borrowings of \$10.0 million under our previous ABL Facility were utilized to redeem \$27.5 million in principal amount of our 2013 PIK Notes, to pay down other debt and capital lease obligations and to redeem for \$1.8 million the preferred shares of our subsidiary, CLC, which we previously reflected on our balance sheet as redeemable noncontrolling interest.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements as defined under Item 303(a)(4) of Regulation S-K.

**Contractual Obligations**

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at March 31, 2012 over the periods we expect them to be paid (in thousands):

	<b>Total</b>	<b>Remainder of 2012</b>	<b>Years 2013 &amp; 2014</b>	<b>Years 2015 &amp; 2016</b>	<b>The Five Years after 2016</b>
Operating leases (1)	\$ 57,585	\$ 11,155	\$ 22,422	\$ 18,925	\$ 5,083
Total indebtedness (2)	278,207	2,759	3,870	46,578	225,000
Capital leases	9,286	4,460	4,560	266	

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

Interest on indebtedness (3)	157,597	18,909	49,613	48,341	40,734
<b>Total</b>	<b>\$ 502,675</b>	<b>\$ 37,283</b>	<b>\$ 80,465</b>	<b>\$ 114,110</b>	<b>\$ 270,817</b>

- (1) These obligations represent the minimum rental commitments under all non-cancelable operating leases including the guaranteed residual values at the end of the leases. Commitments also include the operating lease for our corporate headquarters. We expect that some of our operating lease obligations for tractors and trailers will be partially offset by rental revenue from subleasing the tractors to independent affiliates and independent owner-operators and subleasing trailers to independent affiliates.
- (2) Includes aggregate unamortized discount of \$1.4 million.
- (3) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of March 31, 2012 will remain outstanding until maturity and interest rates on variable-rate debt in effect as of March 31, 2012 will remain in effect until maturity.

**Table of Contents****Long-term Debt**

Long-term debt consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Capital lease obligations	\$ 9,286	\$ 9,101
ABL Facility	45,200	65,500
9.875% Second-Priority Senior Secured Notes, due 2018	225,000	225,000
Other Notes	8,007	8,943
Long-term debt, including current maturities	287,493	308,544
Discount on Notes	(1,428)	(1,481)
	286,065	307,063
Less current maturities of long-term debt (including capital lease obligations)	(9,673)	(9,400)
Long-term debt, less current maturities (including capital lease obligations)	\$ 276,392	\$ 297,663

**Debt Retirement**

The following is a schedule of our indebtedness at March 31, 2012 over the periods we are required to pay such indebtedness (in thousands):

	Remainder of 2012	2013	2014	2015	2016 and after	Total
Capital lease obligations	\$ 4,460	3,351	\$ 1,209	250	\$ 16	\$ 9,286
ABL Facility					45,200	45,200
9.875% Second-Priority Senior Secured Notes, due 2018 (1)					225,000	225,000
Other Notes	2,759	2,539	1,331	1,112	266	8,007
Total	\$ 7,219	\$ 5,890	\$ 2,540	\$ 1,362	\$ 270,482	\$ 287,493

(1) Amounts do not include the remaining aggregated unamortized original issue discount of \$1.4 million.

The following is a schedule of our debt issuance costs (in thousands):

	December 31, 2011 Balance	Additional Debt Issuance Costs	2012 amortization expense	2012
ABL Facility	\$ 5,094	\$ 246	\$ (315)	\$ 5,025
9.875% Second-Priority Senior Secured Notes, due 2018	5,560		(221)	5,339
Total	\$ 10,654	\$ 246	\$ (536)	\$ 10,364

Amortization expense of deferred issuance costs was \$0.5 million for each of the three months ending March 31, 2012 and 2011 and is included in interest expense. We are amortizing these costs over the term of the debt instruments.

*The ABL Facility*

On August 19, 2011, we entered into the ABL Facility. The ABL Facility provides for a revolving credit facility with a maturity of five years and a maximum borrowing capacity of \$250.0 million. The ABL Facility includes borrowing capacity of up to \$150.0 million for letters of credit and up to \$30.0 million for swingline borrowings on same-day notice. The ABL Facility replaced the previous ABL Facility. The proceeds of the ABL Facility were used to repay all outstanding indebtedness under our previous ABL Facility, and to pay related fees and expenses. The ABL Facility is available for working capital needs and general corporate purposes, including permitted acquisitions. At March 31, 2012, we had \$116.2 million of borrowing availability under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR. The applicable margin through at March 31, 2012 was 1.00% for base rate borrowings and 2.00% for LIBOR borrowings. The applicable margin for borrowings will be reduced or increased based on aggregate borrowing base availability under

**Table of Contents**

the ABL Facility and may be further reduced in the event that our fixed charge coverage ratio as calculated under the ABL Facility exceeds a target level. The base rate is equal to the highest of the prime rate, the federal funds overnight rate plus 0.50% and 30-day LIBOR plus 1.00%. In addition to paying interest on outstanding principal under the ABL Facility, we are required to pay an unutilized commitment fee to the lenders quarterly at a rate ranging from 0.25% to 0.50%, depending on the average utilization of the ABL Facility. We also pay customary letter of credit fees quarterly. We may voluntarily repay outstanding loans under the ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The interest rate on the ABL Facility at March 31, 2012 was 2.7%.

The borrowing base for the ABL Facility consists of eligible accounts receivable, inventory, tractor and trailer equipment, real property and certain other equipment.

We recorded \$5.7 million in new debt issuance costs relating to the ABL Facility, of which \$4.4 million related to the new issuance and \$1.3 million related to unamortized debt issuance costs of the previous ABL Facility. We are amortizing the debt issuance costs over the remaining term of the ABL Facility.

***The Previous ABL Facility***

Our previous ABL Facility consisted of a current asset tranche in the amount of \$205.0 million and a fixed asset tranche in the amount of \$20.0 million. The previous ABL Facility included a sublimit of up to \$150.0 million to issue letters of credit and was available for working capital needs and general corporate purposes, including permitted acquisitions. The interest rate under the current asset tranche was based, at our option, on either the administrative agent's base rate plus 1.00% or on the Eurodollar LIBOR rate plus an applicable margin. The administrative agent's base rate was equal to the greater of the federal funds overnight rate plus 0.50% or the prime rate. The interest rate under the fixed asset tranche was based, at our option, on either the administrative agent's base rate plus 1.25% or on LIBOR plus an applicable margin. The applicable margin under either tranche was subject to increases or reductions based upon the amounts available for borrowing. The interest rate on the previous ABL Facility at March 31, 2011 was 2.4%. We incurred \$6.9 million in debt issuance costs relating to the previous ABL Facility. Upon the refinancing of the previous ABL Facility with the ABL Facility, we wrote off \$0.9 million of unamortized debt issuance costs and the remaining unamortized debt issuance costs of \$1.3 million were allocated to the ABL Facility.

The refinancing of the previous ABL Facility in August 2011 described above was partially treated as a debt modification and partially as a debt extinguishment in accordance with applicable FASB guidance.

***9.875% Second-Priority Senior Secured Notes Due 2018***

On November 3, 2010 we issued \$225.0 million aggregate principal amount of the 2018 Notes. With the proceeds of the issuance of the 2018 Notes, we repaid and redeemed our certain of our outstanding notes, redeemed \$47.5 million of our 2013 PIK Notes, and paid down a portion of our outstanding borrowings under the previous ABL Facility.

Interest on the 2018 Notes is payable at a rate of 9.875% per annum, semiannually on May 1 and November 1 of each year. The payment obligations of QD LLC and QD Capital under the 2018 Notes are guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries. The 2018 Notes are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first-lien obligations.

The 2018 Notes mature on November 1, 2018. Prior to November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at a price equal to 100% of the principal amount of the 2018 Notes redeemed, plus accrued and unpaid interest to the redemption date, plus an additional make-whole premium intended to capture the value of holding 2018 Notes through November 1, 2014, but not less than 1%. During any twelve-month period prior to November 1, 2014, we may also redeem up to 10% of the original aggregate principal amount of the 2018 Notes at a redemption price of 103%, plus accrued and unpaid interest to the redemption date. Additionally, at any time prior to November 1, 2013, we may redeem up to 35% of the principal amount of the 2018 Notes at a redemption price of 109.875%, plus accrued and unpaid interest to the redemption date, with the net proceeds of one or more equity offerings so long as at least 50% of the aggregate original principal amount of the 2018 Notes remains outstanding afterwards. On or after November 1, 2014, we may redeem the 2018 Notes, in whole or in part, at the following prices (expressed as a percentage of principal amount), plus accrued and unpaid interest to the redemption date, if redeemed during the 12-month period commencing on November 1 of the years set forth below:

**Period**

Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

	<b>Redemption Price</b>
2014	104.938%
2015	102.469%
2016 and thereafter	100.000%

**Table of Contents**

We recorded \$6.6 million in debt issuance costs relating to the 2018 Notes, of which \$6.4 million was related to the new issuance and \$0.2 million of unamortized debt issuance costs related to our 10% Senior Notes due 2013 which are no longer outstanding. We are amortizing these costs over the term of the 2018 Notes.

***11.75% Senior Subordinated PIK Notes Due 2013***

On October 15, 2009, we issued \$80.7 million aggregate principal amount of the 2013 PIK Notes. The payment obligations of QD LLC and QD Capital under the 2013 PIK Notes were guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries. The 2013 PIK Notes were unsecured senior subordinated obligations of QD LLC and QD Capital. Interest was payable on the 2013 PIK Notes at 11.75% per annum, payable 9% in cash and 2.75% in the form of additional 2013 PIK Notes.

On December 3, 2010, we redeemed \$47.5 million of these notes plus accrued and unpaid interest, in conjunction with the issuance of the 2018 Notes. On December 10, 2010 and December 20, 2010, we repurchased \$2.2 million and \$0.3 million, respectively, of these notes plus accrued and unpaid interest. On January 20, 2011, we redeemed \$10.0 million of these notes plus accrued and unpaid interest. On March 11, 2011, we redeemed \$17.5 million of these notes plus accrued and unpaid interest. We redeemed the remaining \$5.8 million of principal amount of our 2013 PIK Notes in July 2011.

We recorded \$1.5 million in debt issuance costs related to the 2013 PIK Notes, of which \$0.5 million of unamortized debt issuance costs related to the 9% Senior Subordinated Notes due 2013, which are no longer outstanding and \$1.0 million were related to the new issuance. In addition, we recorded \$6.7 million in note issuance discount due to warrants issued concurrently with the issuance of the 2013 PIK Notes. The amount represented the fair market value of the warrants at time of issuance. In conjunction with the December 3, 2010 redemption and the December 10, 2010 and December 20, 2010 repurchases, we wrote off \$7.4 million of unamortized debt issuance costs and unamortized original issue discount in the fourth quarter of 2010. In conjunction with the January 20, 2011 and March 11, 2011 redemptions, we wrote off \$1.8 million of unamortized debt issuance costs and unamortized original issue costs in the first quarter of 2011. In conjunction with the July 20, 2011 final redemption, we wrote off the remaining \$0.3 million of unamortized debt issuance costs and unamortized original issue costs in the third quarter of 2011.

***Collateral, Guarantees and Covenants***

The ABL Facility contains a fixed charge coverage ratio which only needs to be met if borrowing availability is less than \$20.0 million or \$25.0 million, depending upon the size of our borrowing base. The ABL Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to sell assets; incur additional indebtedness; prepay other indebtedness, including the 2018 Notes; pay dividends and distributions or repurchase QDI's capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; amend certain charter documents and material agreements governing subordinated indebtedness, including the 2018 Notes; change our business; and enter into agreements that restrict dividends from QD LLC's subsidiaries. The ABL Facility also contains certain customary affirmative covenants and events of default.

The indenture governing the 2018 Notes contains covenants that restrict, subject to certain exceptions, our ability to, among other things: (i) incur additional debt or issue certain preferred shares; (ii) pay dividends on or make other distributions in respect of QDI's common stock or make other restricted payments; (iii) make certain investments; (iv) sell certain assets; (v) create or permit to exist dividend and/or payment restrictions affecting their restricted subsidiaries; (vi) create liens on certain assets to secure debt; (vii) consolidate, merge, sell or otherwise dispose of all or substantially all of their assets; (viii) enter into certain transactions with their affiliates; and (ix) designate their subsidiaries as unrestricted subsidiaries. The indenture also provides certain customary events of default, which, if any of them occurs, may result in the principal, interest and any other monetary obligations on the then outstanding 2018 Notes becoming payable immediately.

The payment obligations under the ABL Facility are senior secured obligations of QD LLC and QD Capital and are secured by a first-priority lien on certain assets and guaranteed by QDI and by all of its domestic restricted subsidiaries other than immaterial subsidiaries. The payment obligations of QD LLC and QD Capital under the 2018 Notes are guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries. The 2018 Notes, and the guarantees thereof, are senior obligations of QD LLC and QD Capital and are secured by a second-priority lien on certain assets. Pursuant to an intercreditor agreement, the liens on the collateral securing the 2018 Notes rank junior in right of payment to the ABL Facility and obligations under certain hedging agreements and cash management obligations and certain other first lien obligations. We believe that we were in compliance with the covenants under the ABL Facility and the 2018 Notes at March 31, 2012.



---

## **Table of Contents**

### ***Other Liabilities and Obligations***

As of March 31, 2012, we had \$9.7 million of environmental liabilities, \$22.1 million of pension plan obligations and \$18.7 million of insurance claim obligations. The timing of the cash payments for environmental liabilities and insurance claims fluctuates from quarter to quarter. We expect to incur additional environmental costs in the future for environmental studies and remediation efforts that we will be required to undertake related to legacy CLC sites.

As of March 31, 2012, we had \$29.4 million in outstanding letters of credit that may be drawn by third parties to satisfy some of the obligations described above and certain other obligations. We are required to provide letters of credit to our insurance administrator to ensure that we pay required claims. The letter of credit issued to our insurance administrator had a maximum draw amount of \$22.9 million as of March 31, 2012. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the entire letter of credit. The remaining \$6.5 million of outstanding letters of credit as of March 31, 2012 relates to various other obligations.

### ***Other Issues***

While uncertainties relating to environmental, labor and other regulatory matters exist within the trucking industry, management is not aware of any trends or events likely to have a material adverse effect on liquidity or the accompanying financial statements. Our credit ratings are affected by many factors, including our financial results, operating cash flows and total indebtedness.

The ABL Facility and the indentures governing the 2018 Notes contain certain limitations on QD LLC's ability to make distributions to QDI. We do not consider these restrictions to be significant, because QDI is a holding company with no significant operations or assets, other than ownership of 100% of QD LLC's membership units. QD LLC's direct and indirect wholly-owned subsidiaries are generally permitted to make distributions to QD LLC, which is the principal obligor under the New ABL Facility and the 2018 Notes.

## ***FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS***

This report, along with other documents that are publicly disseminated by us, contain or might contain forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended. All statements included in this report and in any subsequent filings made by us with the SEC other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially. We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of forward-looking statements include: (i) projections of revenue, earnings, capital structure and other financial items, (ii) statements of our plans and objectives, (iii) statements of expected future economic performance, and (iv) assumptions underlying statements regarding us or our business. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as targets, modes, believes, expects, estimates, may, will, should, could, seeks, plans, intends, anticipates or scheduled to or the other variations of those terms or comparable language, or by discussions of strategy or other intentions.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause our actual results to be materially different from the forward-looking statements include the following risks and other factors discussed under the Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our Quarterly Reports on Form 10-Q. These factors include:

the effect of local, national and international economic, credit and capital market conditions on the economy in general, and on the particular industries in which we operate, including excess capacity in the industry, the availability of qualified drivers, changes in fuel and insurance prices, interest rate fluctuations, and downturns in customers' business cycles and shipping requirements;

our substantial leverage and our ability to make required payments and restrictions contained in our debt arrangements;

competition and rate fluctuations;

our reliance on independent affiliates and independent owner-operators;

**Table of Contents**

the loss of or material reduction in the services to one or more of our major customers;

our liability as a self-insurer to the extent of our deductibles as well as changing conditions and pricing in the insurance marketplace;

increased unionization, which could increase our operating costs or constrain operating flexibility;

changes in the future, or our inability to comply with, governmental regulations and legislative changes affecting the transportation industry generally or in the particular segments in which we operate;

our ability to comply with current and future environmental regulations and the increasing costs relating to environmental compliance;

potential disruption at U.S. ports of entry;

diesel fuel prices and our ability to recover costs through fuel surcharges;

our ability to attract and retain qualified drivers;

terrorist attacks and the cost of complying with existing and future anti-terrorism security measures;

our dependence on senior management;

the potential loss of our ability to use net operating losses to offset future income;

potential future impairment charges;

the interests of our largest shareholder, which may conflict with your interests;

our ability to successfully identify acquisition opportunities, consummate such acquisitions and integrate acquired businesses;

our ability to execute plans to profitably operate in the transportation business within the energy logistics market;

our success in entering new markets;

adverse weather conditions;

changes in health insurance benefit regulations;

our liability for our proportionate share of unfunded vested benefit liabilities in the event of our withdrawal from any of our multi-employer pension plans; and

changes in planned or actual capital expenditures due to operating needs, changes in regulation, covenants in our debt arrangements and other expenses, including interest expenses.

In addition, there may be other factors that could cause our actual results or financial condition to be materially different from the results referenced in the forward-looking statements. All forward-looking statements contained in this Quarterly Report on Form 10-Q are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

***ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEBSITE***

Our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports may be viewed or downloaded electronically or as paper copies from our website: [www.qualitydistribution.com](http://www.qualitydistribution.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our recent press releases are also available to be viewed or downloaded electronically at [www.qualitydistribution.com](http://www.qualitydistribution.com). We will also provide electronic or paper copies of our SEC filings free of charge on request. We regularly post or otherwise make available information on the Investor Relations section of our website that may be important to investors. Any information on or linked from our website is not incorporated by reference into this Quarterly Report on Form 10-Q.

**ITEM 3 Quantitative and Qualitative Disclosures about Market Risk**

We are subject to market risks from (i) interest rates due to our variable interest rate indebtedness, (ii) foreign currency fluctuations due to our international operations and (iii) increased commodity prices due to the diesel consumption necessary for our operations. During the three months ended March 31, 2012, we have not held derivative instruments or engaged in other hedging transactions to reduce our exposure to such risks.

**Table of Contents****Interest Rate Risk**

We are exposed to the impact of interest rate changes through our variable-rate borrowings under the ABL Facility. With regard to the ABL Facility, at QD LLC's option, the applicable margin for borrowings at March 31, 2012 was 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings. The applicable margin for such borrowings will be reduced or increased based on aggregate borrowing base availability under the ABL Facility and may be further reduced in the event that our fixed charge coverage ratio as calculated under the ABL Facility exceeds a target level. The base rate under the ABL Facility is equal to the highest of the prime rate, the federal funds overnight rate plus 0.50% and 30 day LIBOR plus 1.00%.

	<b>Balance at March 31, 2012 (\$ in 000s)</b>	<b>Interest Rate at March 31, 2012</b>	<b>Effect of 1% Increase (\$ in 000s)</b>
ABL Facility	\$ 45,200	2.70%	\$ 452

At March 31, 2012, a 1% point increase in the current per annum interest rate would result in \$0.5 million of additional interest expense during the next 12 months. The foregoing calculation assumes an instantaneous 1% point increase in the rates under the ABL Facility and that the principal amount is the amount outstanding as of March 31, 2012. The calculation therefore does not account for the differences in the market rates upon which the interest rates of our indebtedness are based, our option to elect the lowest of three different interest rates under our borrowings or other possible actions, such as prepayment, that we might take in response to any rate increase.

**Foreign Currency Exchange Rate Risk**

Operating in international markets involves exposure to the possibility of volatile movements in foreign exchange rates. The currencies in each of the countries in which we operate affect:

the results of our international operations reported in United States dollars; and

the value of the net assets of our international operations reported in United States dollars.

These exposures may impact future earnings or cash flows. Revenue from foreign locations (Canada and Mexico) represented approximately 5.4% of our consolidated revenue for the three months ended March 31, 2012 and 6.3% of our consolidated revenue for the three months ended March 31, 2011. The economic impact of foreign exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies. Therefore, to isolate the effect of changes in currency does not accurately portray the effect of these other important economic factors. As foreign exchange rates change, translation of the income statements of our international subsidiaries into U.S. dollars affects year-over-year comparability of operating results. While we may hedge specific transaction risks, we generally do not hedge translation risks because we believe there is no long-term economic benefit in doing so.

Assets and liabilities for our Canadian operations are matched in the local currency, which reduces the need for dollar conversion. Our Mexican operations use the United States dollar as their functional currency. Any foreign currency impact on translating assets and liabilities into dollars is included as a component of shareholders' deficit. Our revenue results for the three months ended March 31, 2012 were negatively impacted by a \$0.2 million foreign currency movement, primarily due to the weakening of the Canadian dollar against the United States dollar.

Changes in foreign exchange rates that had the largest impact on translating our international operating profits for the first three months of 2012 related to the Canadian dollar versus the United States dollar. We estimate that a 1% adverse change in the Canadian dollar foreign exchange rate would have decreased our revenues by approximately \$0.1 million for the three months ended March 31, 2012, assuming no changes other than the exchange rate itself. Our intercompany loans are subject to fluctuations in exchange rates primarily between the United States dollar and the Canadian dollar. Based on the outstanding balance of our intercompany loans at March 31, 2012, a change of 1% in the exchange rate for the Canadian dollar would cause a change in our foreign exchange result of less than \$0.1 million.

**Commodity Price Risk**

## Edgar Filing: QUALITY DISTRIBUTION INC - Form 10-Q/A

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other market factors. Historically, we have been able to recover a majority of fuel price increases from our customers in the form of fuel surcharges. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges can be collected to offset such increases. In the three months ended March 31, 2012 and 2011, a majority of fuel costs were covered through fuel surcharges.

**Table of Contents****ITEM 4 Controls and Procedures***Evaluation of disclosure controls and procedures*

As required by Exchange Act Rules 13a-15(b) and 15d-15(b), management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on their evaluation, management concluded our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of March 31, 2012 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and were effective as of March 31, 2012 to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****ITEM 1 Legal Proceedings**

Other than reported in Item 3 Legal Proceedings of our Annual Report on Form 10-K for the year ended December 31, 2011, Note 20. Commitments and Contingencies to our audited consolidated financial statements contained in such Form 10-K and Note 13. Commitments and Contingencies to our unaudited consolidated financial statements included in this report, we are not currently a party to any material pending legal proceedings other than routine matters incidental to our business and no material developments have occurred in any proceedings described in such Form 10-K.

**ITEM 1A Risk Factors**

You should carefully consider the factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 included under Item 1A Risk Factors in addition to the other information set forth in this report. The risks described in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q are not the only risks facing our Company.

**ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds**

The following table lists QDI's deemed share repurchases during the three months ended March 31, 2012. All shares deemed repurchased were surrendered by employees in order to satisfy statutory tax withholding obligations in connection with the vesting of stock-based compensation awards. We have no program for public stock repurchases, and any such repurchases would be restricted by the ABL Facility and the indenture governing our 2018 Notes.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program
January 2012	5,572	\$ 11.86		

**ITEM 3 Defaults Upon Senior Securities**

None.



**Table of Contents**

**ITEM 4 Mine Safety Disclosures**

Not applicable.

**ITEM 5 Other Information**

None.

**Table of Contents**

**ITEM 6 Exhibits**

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant To 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\*101 Interactive Data File

\* Previously filed.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements 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.

QUALITY DISTRIBUTION, INC.

July 13, 2012

/s/ GARY R. ENZOR  
**GARY R. ENZOR,**  
**CHIEF EXECUTIVE OFFICER**  
**(PRINCIPAL EXECUTIVE OFFICER)**

July 13, 2012

/s/ JOSEPH J. TROY  
**JOSEPH J. TROY,**  
**EXECUTIVE VICE PRESIDENT AND CHIEF**  
**FINANCIAL OFFICER (PRINCIPAL FINANCIAL AND**  
**ACCOUNTING OFFICER)**