

QUALITY DISTRIBUTION INC
Form 10-Q
May 06, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from to

Commission File Number: 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

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Florida (State or other jurisdiction of incorporation or organization)	59-3239073 (I.R.S. Employer Identification No.)
4041 Park Oaks Boulevard, Suite 200, Tampa, FL (Address of Principal Executive Offices)	33610 (Zip Code)
813-630-5826 (Registrant's telephone number, including area code)	

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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

As of May 2, 2011, the registrant had 23,855,990 shares of Common Stock, no par value, outstanding.

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QUALITY DISTRIBUTION, INC.

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	Three months ended March 31,	
	2011	2010
OPERATING REVENUES:		
Transportation	\$ 124,681	\$ 118,917
Service revenue	26,738	24,906
Fuel surcharge	26,491	17,510
Total operating revenues	177,910	161,333
OPERATING EXPENSES:		
Purchased transportation	124,722	109,824
Compensation	14,883	13,892
Fuel, supplies and maintenance	11,777	13,368
Depreciation and amortization	3,492	4,243
Selling and administrative	5,149	4,778
Insurance costs	4,685	3,337
Taxes and licenses	447	596
Communication and utilities	802	1,046
(Gain) loss on disposal of property and equipment	(240)	418
Restructuring costs		1,147
Total operating expenses	165,717	152,649
Operating income	12,193	8,684
Interest expense	7,811	8,667
Interest income	(139)	(161)
Write-off of debt issuance costs	1,786	
Other (income) expense	(36)	6
Income before income taxes	2,771	172
Provision for (benefit from) income taxes	49	(626)
Net income	\$ 2,722	\$ 798
PER SHARE DATA:		
Net income per common share		
Basic	\$ 0.12	\$ 0.04
Diluted	\$ 0.12	\$ 0.04

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Weighted-average number of shares

Basic	22,192	19,501
Diluted	23,505	21,470

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

Table of Contents**QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

(In 000 s)

	Unaudited March 31, 2011	Audited December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,738	\$ 1,753
Accounts receivable, net	92,185	80,895
Prepaid expenses	8,993	6,911
Deferred tax asset	4,127	3,848
Other	4,667	4,891
Total current assets	112,710	98,298
Property and equipment, net	111,115	113,419
Goodwill	27,023	27,023
Intangibles, net	16,576	16,924
Other assets	14,009	15,671
Total assets	\$ 281,433	\$ 271,335
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	\$ 3,398	\$ 3,991
Current maturities of capital lease obligations	5,219	4,572
Accounts payable	7,945	7,200
Independent affiliates and independent owner-operators payable	13,946	11,059
Accrued expenses	27,819	24,363
Environmental liabilities	4,082	3,687
Accrued loss and damage claims	9,416	8,471
Total current liabilities	71,825	63,343
Long-term indebtedness, less current maturities	283,986	300,491
Capital lease obligations, less current maturities	6,525	8,278
Environmental liabilities	7,085	7,255
Accrued loss and damage claims	10,790	10,454
Other non-current liabilities	25,627	26,060
Total liabilities	405,838	415,881
Commitments and contingencies - Note 14		
Redeemable noncontrolling interest		1,833
SHAREHOLDERS DEFICIT		
Common stock, no par value; 49,000 shares authorized; 23,856 issued and 23,632 outstanding at March 31, 2011 and 21,678 issued and 21,458 outstanding at December 31, 2010, respectively	390,272	371,288
Treasury stock, 224 shares at March 31, 2011 and 220 shares at December 31, 2010	(1,593)	(1,593)
Accumulated deficit	(299,252)	(301,974)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(25,926)	(26,194)

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Stock purchase warrants	1,683	1,683
Total shareholders' deficit	(124,405)	(146,379)
Total liabilities, redeemable noncontrolling interest and shareholders' deficit	\$ 281,433	\$ 271,335

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, 2011 and 2010****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	Stock Subscription Receivables	Total Shareholders Deficit
Balance, December 31, 2009	20,297	(220)	\$ 364,046	\$ (1,580)	\$ (294,568)	\$ (189,589)	\$ (25,587)	\$ 6,696	\$ (154)	\$ (140,736)
Net income					798					798
Issuance of restricted stock	69									
Amortization of restricted stock			214							214
Amortization of stock options			275							275
Amortization of prior service costs and losses (pension plans), net of tax							323			323
Foreign currency translation adjustment, net of tax							(52)			(52)
Balance, March 31, 2010	20,366	(220)	\$ 364,535	\$ (1,580)	\$ (293,770)	\$ (189,589)	\$ (25,316)	\$ 6,696	\$ (154)	\$ (139,178)
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,							(50)			(50)

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net of tax

Balance, March 31, 2011	23,856	(224)	\$ 390,272	\$ (1,593)	\$ (299,252)	\$ (189,589)	\$ (25,926)	\$ 1,683	\$	\$ (124,405)
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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)**

	Three Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,722	\$ 798
Adjustments to reconcile to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	3,492	4,243
Bad debt expense	328	132
(Gain) loss on disposal of property and equipment	(240)	418
PIK interest on Senior Subordinated Notes	147	558
Write-off of deferred financing costs	328	
Write-off of original bond issuance costs	1,458	
Stock-based compensation	724	489
Amortization of deferred financing costs	542	676
Amortization of bond discount	138	585
Noncontrolling interest dividends	38	36
Changes in assets and liabilities:		
Accounts and other receivables	(11,975)	(11,106)
Prepaid expenses	(2,082)	(1,806)
Other assets	1,452	(822)
Accounts payable	899	1,897
Accrued expenses	3,456	503
Environmental liabilities	224	(175)
Accrued loss and damage claims	1,281	(3,193)
Independent affiliates and independent owner-operators payable	2,887	2,857
Other liabilities	(60)	(295)
Current income taxes	(95)	51
Net cash provided by (used in) operating activities	5,664	(4,154)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(3,195)	(4,622)
Proceeds from sales of property and equipment	2,860	1,393
Net cash used in investing activities	(335)	(3,229)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(28,841)	(1,282)
Principal payments on capital lease obligations	(1,106)	(1,456)
Proceeds from revolver	43,300	14,600
Payments on revolver	(33,300)	(8,600)
Payments on acquisition notes	(291)	(318)
Deferred financing costs	(341)	
Change in book overdraft	(153)	1,513
Noncontrolling interest dividends	(38)	(36)
Redemption of noncontrolling interest	(1,833)	
Proceeds from equity offering, net of transaction costs	17,623	
Proceeds from exercise of stock options	637	

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Net cash (used in) provided by financing activities	(4,343)	4,421
Effect of exchange rate changes on cash	(1)	4
Net increase (decrease) in cash and cash equivalents	985	(2,958)
Cash and cash equivalents, beginning of period	1,753	5,633
Cash and cash equivalents, end of period	\$ 2,738	\$ 2,675
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid (received) during the period for:		
Interest	\$ 1,709	\$ 3,329
Income Taxes	252	(56)

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

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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 to our wholly owned subsidiary, Boasso America Corporation, a Louisiana corporation and (vi) 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 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 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 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, 2010 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, 2010, including the consolidated financial statements and accompanying notes.

Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for any future period.

Reclassification

Certain prior period amounts have been reclassified amongst operating expense line items to conform to the current year presentation.

New Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the acquisition date that should be used for reporting pro forma financial information for business combinations. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date had been completed as of the beginning of the comparable prior annual reporting period. The amendments in this guidance are effective prospectively for business combinations for which the acquisition date is on or after January 1, 2011. Adoption of this amended guidance will not have an impact on the Company's consolidated financial results.

In December 2010, the FASB also issued amendments to the guidance on goodwill impairment testing. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform

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Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In making that determination, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. These amendments are effective for fiscal years and interim periods beginning January 1, 2011 and the adoption of these amendments are not expected to have an impact on the Company's financial position, results of operations or cash flows.

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Acquisition and Dispositions

During 2010 and the first three months of 2011, we did not complete any acquisitions or dispositions of businesses or affiliates.

2. Variable Interest Entities

At March 31, 2011, we hold a variable interest in one variable interest entity (VIE), for which we are not the primary beneficiary. We have concluded, based on our qualitative consideration of our contract with this VIE, the operating structure of the VIE and our role with the VIE, 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 this VIE.

The 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 \$2.8 million at March 31, 2011. These loans are secured by a second priority lien on the VIE s assets and a limited personal guarantee from the owner of the VIE.

Severe winter weather created cash flow constraints for this VIE in the first quarter of 2011. We expect their business and cash flow to improve in the near term. However, given our enhanced reliance on collateral for payment of our loans and the potential uncertainties involved with ultimate collection, we have recorded a \$0.5 million reserve against our \$2.8 million of loans receivable in the first quarter of 2011.

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 values of our long-term indebtedness were based on level 2 quoted market prices. As of March 31, 2011, the carrying values and fair values are as follows (in thousands):

	Carrying Value	Fair Value
11.75% Senior Subordinated PIK Notes due 2013	\$ 5,752	\$ 5,752
9.875% Second-Priority Senior Secured Notes due 2018	225,000	232,472
	\$ 230,752	\$ 238,224

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

The carrying amounts reported in the accompanying 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 intangible assets are subject to an annual impairment test as well as impairment assessments of certain triggering events. We evaluate goodwill for impairment by determining the fair value based on criteria in the FASB guidance for each reporting unit, our logistics segment and our intermodal segment. These reporting units 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 30th. The methodology applied in the analysis performed at June 30, 2010 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, 2010. We continued to evaluate indicators of impairment quarterly following our annual goodwill impairment test at June 30, 2010 through year end December 31, 2010, and again in the quarter ended March 31, 2011. There were no indications that a triggering event had occurred following June 30, 2010. As of March 31, 2011, we had total goodwill of \$27.0 million, all of which related to our intermodal segment.

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Under the FASB guidance, the process of evaluating the potential impairment of goodwill involves a two-step process and requires significant judgment at many points during the analysis. In the first step, we determine whether there is an indication of impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If, based on the first step, we determine that there is an indication of goodwill impairment, we assess the impairment in step two in accordance with the FASB guidance.

In the first step, we determine the fair value for each reporting unit using a combination of two valuation approaches: the market approach and the income approach. The market approach uses a guideline company methodology which is based upon a comparison of us to similar publicly-traded companies within our industry. We derive a market value of invested capital or business enterprise value for each comparable company by multiplying the price per share of common stock of the publicly traded companies by their total common shares outstanding and adding each company's current level of debt. We calculate a business enterprise multiple based on revenue and earnings from each company, then apply those multiples to each reporting unit's revenue and earnings to conclude a reporting unit business enterprise value. Assumptions regarding the selection of comparable companies are made based on, among other factors, capital structure, operating environment and industry. As the comparable companies were typically larger and more diversified than our reporting units, multiples were adjusted prior to application to our reporting units' revenues and earnings to reflect differences in margins, long-term growth prospects and market capitalization.

The income approach uses a discounted debt-free cash flow analysis to measure fair value by estimating the present value of future economic benefits. To perform the discounted debt-free cash flow analysis, we develop a pro forma analysis of each reporting unit to estimate future available debt-free cash flow and discount estimated debt-free cash flow by an estimated industry weighted average cost of capital based on the same comparable companies used in the market approach. Per the FASB guidance, the weighted average cost of capital is based on inputs (e.g., capital structure, risk, etc.) from a market participant's perspective and not necessarily from the reporting unit's or QDI's perspective. Future cash flow is projected based on assumptions for our economic growth, industry expansion, future operations and the discount rate, all of which require significant judgments by management.

Intangible Assets

Intangible assets at March 31, 2011 are as follows (in thousands):

	Gross value	Accumulated amortization	Net book value	Average lives (in years)
Tradename	\$ 7,400	\$	\$ 7,400	Indefinite
Customer relationships	11,900	(3,223)	8,677	12
Non-compete agreements	2,593	(2,094)	499	3 - 5
	\$ 21,893	\$ (5,317)	\$ 16,576	

Of our total intangibles of \$16.6 million at March 31, 2011, \$16.2 million was allocated to our intermodal segment and \$0.4 million was allocated to our logistics segment.

Amortization expense for the three months ended March 31, 2011 and 2010 was \$0.3 million and \$0.4 million, respectively. Estimated future amortization expense for intangible assets is as follows (in thousands):

2011 remaining	\$ 1,021
2012	1,205
2013	996
2014	991
2015 and after	4,963

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Comprehensive income is as follows (in thousands):

	Three months ended	
	March 31,	
	2011	2010
Net income	\$ 2,722	\$ 798
Other comprehensive income:		
Amortization of prior service costs, net of tax	318	323
Foreign currency translation adjustments, net of tax	(50)	(52)
Comprehensive income	\$ 2,990	\$ 1,069

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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, 2010		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net income (numerator)	Shares (denominator)	Per-share amount
Basic income available to common shareholders:						
Net income	\$ 2,722	22,192	\$ 0.12	\$ 798	19,501	\$ 0.04
Effect of dilutive securities:						
Stock options		636			114	
Unvested restricted stock		235			106	
Stock warrants		442			1,749	
Diluted income available to common shareholders:						
Net income	\$ 2,722	23,505	\$ 0.12	\$ 798	21,470	\$ 0.04

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, 2011	2010
Stock options	1,935	2,029
Unvested restricted stock	327	538

7. Stock-Based Compensation

We maintain performance 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, 2011, we had two active stock-based compensation plans.

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 2011.

The fair value of options granted during the first three months of 2011 was based upon the Black-Scholes option-pricing model. There were no options granted during the first three months of 2010. 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 2011, 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,

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	2011	2010
Risk free rate	2.0%	
Expected life	5 years	
Volatility	78.0%	
Expected dividend	nil	nil

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The following options and restricted shares were issued during the three months ended:

	Options Issued	Restricted Shares Issued
March 31, 2011	222,500	83,189

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

	Three months ended March 31,	
	2011	2010
Stock options	\$ 438	\$ 275
Restricted stock	286	214
	\$ 724	\$ 489

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, 2011 (in thousands):

		Remaining years
Stock options	\$ 3,114	3
Restricted stock	1,820	2
	\$ 4,934	

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. Options for 94,999 shares were exercised during the three months ended March 31, 2011.

8. 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 salaried plan are based on years of service and compensation levels. The monthly benefit for employees under the collective bargaining agreement 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 are no new participants and no future accruals of benefits from the time the plans were frozen.

We use a December 31st 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,	
	2011	2010
Service cost	\$ 44	\$ 51
Interest cost	605	644

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Amortization of prior service cost	24	23
Amortization of loss	294	300
Expected return on plan assets	(575)	(540)
Net periodic pension cost	\$ 392	\$ 478

We contributed \$0.4 million to our pension plans during the three months ended March 31, 2011. We expect to contribute an additional \$2.4 million during the remainder of 2011.

Multi-employer pension plans

At March 31, 2011, we contributed to three separate multi-employer pension plans for employees under collective bargaining agreements. These agreements cover approximately 2.8% 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.

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In conjunction with our prior restructuring efforts, during the quarter ended September 30, 2010, we notified the trustees of three other plans of our intention to withdraw from these plans. Our withdrawal notifications are expected 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. Approximately \$0.3 million of the total estimated liability was paid in the first quarter of 2011, with the remaining \$1.7 million expected to be paid through 2023.

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. 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 remaining plans to be approximately \$58.0 million, of which the largest component relates to the Central States Southeast and Southwest Areas Pension Plan, which is estimated to be \$54.0 million.

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.

Table of Contents**9. 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 have made estimates of the costs to be incurred as part of a restructuring plan developed during the quarter ended June 30, 2008 and concluded at the end of 2010. The restructuring plan consisted of various actions including termination of approximately 380 non-driver positions, the consolidation, closure or affiliation of underperforming company terminals, our withdrawal from three multi-employer pension plans and costs associated with the consolidation of our corporate headquarters, and resulted in charges during 2008, 2009 and 2010 primarily related to our logistics segment. At March 31, 2011, \$4.9 million was accrued related to the restructuring charges, which are expected to be paid through 2023.

In the three months ended March 31, 2011, we had the following activity in our restructuring accruals (in thousands):

	Balance at December 31, 2010	Additions	Payments	Reductions	Balance at March 31, 2011
Restructuring costs	\$ 5,449	\$	\$ (556)	\$	\$ 4,893

10. Segment Reporting**Reportable Segments**

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

Logistics, which consists primarily of truckload transportation of bulk chemicals primarily through our network of independent affiliates and equipment rentals; and

Intermodal, specifically Boasso's International Organization for Standardization, or intermodal ISO tank container transportation and depot services.

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

During the fourth quarter of 2010, we realigned and renamed our business segments to better reflect our current business and asset-light model due to the shift of our company-operated operations to independent affiliate operations. Our trucking segment was renamed Logistics and our Container Services segment was renamed Intermodal to better describe the services we perform.

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

	Three Months Ended March 31, 2011		
	Logistics	Intermodal	Total
Operating Revenues:			
Transportation	\$ 110,612	\$ 14,069	\$ 124,681
Service revenue	16,508	10,230	26,738
Fuel surcharge	23,638	2,853	26,491
Total	150,758	27,152	177,910

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Segment operating income	10,782	4,663	15,445
Depreciation & amortization	2,695	797	3,492
Other (income) expense	(247)	7	(240)
Total	8,334	3,859	12,193
Interest expense	6,295	1,516	7,811
Interest income	(139)		(139)
Other expense	1,256	494	1,750
Income before income taxes	\$ 922	\$ 1,849	\$ 2,771

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	Three Months Ended March 31, 2010		
	Logistics	Intermodal	Total
Operating Revenues:			
Transportation	\$ 105,832	\$ 13,085	\$ 118,917
Service revenue	16,640	8,266	24,906
Fuel surcharge	15,666	1,844	17,510
Total	138,138	23,195	161,333
Segment operating income	10,818	3,674	14,492
Depreciation & amortization	3,544	699	4,243
Other expense	1,549	16	1,565
Total	5,725	2,959	8,684
Interest expense	7,149	1,518	8,667
Interest income	(161)		(161)
Other (income) expense	(288)	294	6
(Loss) Income before income taxes	\$ (975)	\$ 1,147	\$ 172

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, 2011 and 2010 is as follows (in thousands):

	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, 2011			
Long-term identifiable assets (1)	\$ 103,963	\$ 7,152	\$ 111,115
	Three months ended March 31, 2010		
	U. S.	International	Consolidated
Total operating revenues	\$ 152,177	\$ 9,156	\$ 161,333
Operating income	7,758	926	8,684
As of March 31, 2010			
Long-term identifiable assets (1)	\$ 119,269	\$ 7,783	\$ 127,052
As of December 31, 2010			
Long-term identifiable assets (1)	\$ 106,148	\$ 7,271	\$ 113,419

(1) Includes property and equipment.

11. Income Taxes

At December 31, 2010, 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.

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Included in the balance of gross unrecognized tax benefits at December 31, 2010, was \$0.8 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 statute of limitations.

For the three months ended March 31, 2011, the change in unrecognized tax benefits was a decrease of \$0.1 million. The change was due to an expiration of the statute of limitations. Our total gross unrecognized tax benefit at March 31, 2011 was \$1.5 million.

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Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had \$0.6 million (net of federal tax benefit) accrued for interest and \$0.2 million accrued for penalties at December 31, 2010. The total amount accrued for interest and penalties at March 31, 2011 was \$0.7 million.

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 2006, to international examinations for years before 2006 and, with few exceptions, to state examinations before 2005.

The effective tax rates for the three months ended March 31, 2011 and 2010 were a tax provision of 1.8% and a tax benefit of more than 100%, respectively. The effective tax rate for the current period includes a tax benefit of approximately \$0.2 million from a change in the Company's uncertain tax positions. The company continues to maintain a 100% valuation allowance against the balance of the net deferred tax asset in the current period.

12. Redeemable Noncontrolling Interest

On March 3, 2011, we redeemed 302 outstanding shares of Series C preferred stock of our subsidiary, CLC, which were held by two shareholders that 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.

13. 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 \$17.5 million. Certain affiliates of Apollo also sold 2.6 million shares in the offering. Pursuant to the offering, we sent irrevocable redemption notices to holders of our 2013 PIK Notes to redeem \$17.5 million of these notes at par, plus accrued and unpaid interest. This note redemption was completed on March 11, 2011.

14. 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[®], 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[®] Management System performance.

Our 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. Historically, our operations involved the generation, storage, discharge and disposal of wastes that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. 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 affiliates or independent owner-operators.

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, capital and other expenditures related to environmental compliance for current and planned operations. Such expenditures are generally included in our overall capital and operating budgets and are not accounted for separately. However, we do not anticipate that compliance with existing environmental

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laws in conducting current and planned operations will have a material adverse effect on our capital expenditures, earnings or competitive position.

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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, 2011 and December 31, 2010, we had reserves in the amount of \$11.2 million and \$10.9 million, respectively, for all environmental matters of which the most significant are discussed below.

The balances presented include both long term and current environmental reserves. We expect the estimated environmental obligations to be paid over the next five years. Additions to the environmental liability 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 25 sites. At 18 of the 25 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 2 of the 18 sites, we will be participating in the initial studies 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 7 of the 25 sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Four of these projects relate to operations conducted by our subsidiary, CLC, and its subsidiaries prior to our acquisition of CLC in 1998. These four sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; and (4) Scary Creek, 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 seven properties to be in the range of \$9.0 million to \$16.7 million.

Bridgeport, New Jersey

QDI is required under the terms of three federal consent decrees to perform remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with the U.S. Environmental Protection Agency (USEPA) in May 1991 for the treatment of groundwater and in October 1998 for the removal of contamination in the wetlands. In addition, we recently entered into a third federal consent decree to assess and remediate contaminated soils at the site.

The groundwater treatment remedy negotiated with USEPA calls for a treatment facility for in-place treatment of groundwater contamination and a local discharge. Treatment facility construction 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 the operation was suspended in July 2010. After the engineering re-design process including an effective pilot treatability study, the plant is being modified to address the treatment of the vapor phase emissions. The plant is expected to resume operations in July 2011. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is continuing until June 2011, when a five year review will be conducted by USEPA. 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 a consent order with USEPA in 2010 to perform the remediation work, which will consist of in-place thermal treatment. This work is currently in the remedial design phase. We have estimated expenditures over the next five years to be in the range of \$6.3 million to \$8.5 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania Department of Environmental Protection and USEPA in October 1995 obligating it 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 treatment facility with local discharge for groundwater treatment in the fourth quarter of 2007. Plant start-up issues have been resolved and the treatment facility began

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operations in June 2010. The plant experienced issues with the liquid phase carbon treatment process and the operation was suspended in August 2010. After some modification work, the plant was restarted at the end of 2010 and continues to operate in start-up mode. The agencies approved a contaminated soils remedy, which required both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction. The remedy expanded to include off-site shipment of contaminated soils. Soil treatment was completed in September 2007. Site sampling has been conducted and the results indicate that the soil clean-up objectives have not been fully achieved. Negotiations are on-going with USEPA over further remedial actions that may be needed at the site. We have estimated expenditures over the next five years to be in the range of \$0.9 million to \$3.4 million.

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Other Properties

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 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 May 2006. The site is currently in remedial design phase.

Scary Creek, West Virginia: CLC received a cleanup notice from the state environmental authority in August 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.

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. These sites are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

We have estimated aggregate future expenditures for Tonawanda, Scary Creek and ISRA to be in the range of \$1.8 million to \$4.8 million.

15. Guarantor Subsidiaries

At and during the three months ended March 31, 2011, there were outstanding our 9.875% Second-Priority Senior Secured Notes due 2018 (the 2018 Notes) and our 11.75% Senior Subordinated PIK Notes due 2013 (the 2013 PIK Notes), which were issued by our subsidiaries, QD LLC and QD Capital. The payment obligations of QD LLC and QD Capital under all of these notes are, or were during the period outstanding, guaranteed by QDI and by all of its domestic subsidiaries other than immaterial subsidiaries as further described below.

The 2018 Notes are our subsidiaries', QD LLC and QD Capital, senior obligations 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 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 2013 PIK Notes are our subsidiaries', QD LLC and QD Capital, unsecured and senior subordinated obligations and are fully and unconditionally guaranteed on an unsecured and senior subordinated 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 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.

QDI has no significant restrictions on its ability to receive funds from its subsidiaries. The ABL Facility and the indentures governing our 2018 Notes and our 2013 PIK 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, the 2018 Notes and the 2013 PIK Notes.

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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, QD Capital, which has no assets or operations, non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Condensed consolidating balance sheets at March 31, 2011 and December 31, 2010 and condensed consolidating statements of operations for the three month periods ended March 31, 2011 and 2010 and the condensed consolidating statements of cash flows for each of the three month periods ended March 31, 2011 and 2010.

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

Table of Contents**Consolidating Statements of Operations****Three Months Ended March 31, 2011****Unaudited - (In 000 s)**

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	\$	\$	\$ 124,681	\$	\$	\$ 124,681
Service revenue			26,604	134		26,738
Fuel surcharge			26,491			26,491
Total operating revenues			177,776	134		177,910
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
Loss on disposal of property and equipment			(240)			(240)
Operating (loss) income		(12)	12,096	109		12,193
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)
Income (loss) before income taxes	14	(1,800)	4,295	262		2,771
Provision for (benefit from) income taxes			229	(180)		49
Equity in earnings of subsidiaries	2,708	4,508			(7,216)	
Net income	\$ 2,722	\$ 2,708	\$ 4,066	\$ 442	\$ (7,216)	\$ 2,722

Table of Contents**Consolidating Statements of Operations****Three Months Ended March 31, 2010****Unaudited - (In 000 s)**

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	\$	\$	\$ 118,917	\$	\$	\$ 118,917
Service revenue			24,753	153		24,906
Fuel surcharge			17,510			17,510
Total operating revenues			161,180	153		161,333
Operating expenses:						
Purchased transportation			109,824			109,824
Compensation			13,892			13,892
Fuel, supplies and maintenance			13,368			13,368
Depreciation and amortization			4,243			4,243
Selling and administrative		23	4,735	20		4,778
Insurance costs			3,332	5		3,337
Taxes and licenses			596			596
Communication and utilities			1,046			1,046
Loss on disposal of property and equipment	&nb					