QUALITY DISTRIBUTION INC
Form 10-Q
May 09, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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)

Florida	**59-3239073**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
4041 Park Oaks Boulevard, Suite 200, Tampa, FL	**33610**
(Address of Principal Executive Offices)	**(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 x 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 x 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	x
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 x

As of May 5, 2014, the registrant had 27,400,558 shares of Common Stock, no par value, outstanding.

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONTENTS

PART I FINANCIAL INFORMATION	*1*
ITEM 1 FINANCIAL STATEMENTS	*1*
Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013 (Unaudited)	*1*
Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013 (Unaudited)	*2*
Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013 (Unaudited)	*3*
Consolidated Statements of Shareholders Deficit for the Three Months Ended March 31, 2014 and 2013 (Unaudited)	*4*
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 (Unaudited)	*5*
Notes to Consolidated Financial Statements	*6*
ITEM 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	*26*
ITEM 3 Quantitative and Qualitative Disclosures About Market Risk	*45*
ITEM 4 Controls and Procedures	*46*
PART II OTHER INFORMATION	*47*
ITEM 1 Legal Proceedings	*47*
ITEM 1A Risk Factors	*47*
ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds	*47*
ITEM 3 Defaults Upon Senior Securities	*47*
ITEM 4 Mine Safety Disclosures	*48*
ITEM 5 Other Information	*48*
ITEM 6 Exhibits	*49*
Signatures	*50*

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)

	Three months ended March 31,	
	2014	**2013**
OPERATING REVENUES:		
Transportation	$ 170,556	$ 163,994
Service revenue	32,187	33,454
Fuel surcharge	31,744	31,974
Total operating revenues	234,487	229,422
OPERATING EXPENSES:		
Purchased transportation	157,619	142,872
Compensation	21,255	26,470
Fuel, supplies and maintenance	23,130	27,129
Depreciation and amortization	5,495	6,693
Selling and administrative	7,258	7,479
Insurance costs	6,271	4,497
Taxes and licenses	936	832
Communication and utilities	932	1,095
Gain on disposal of property and equipment	(511)	(3,089)
Total operating expenses	222,385	213,978
Operating income	12,102	15,444
Interest expense	7,364	7,723
Interest income	(124)	(211)
Other expense (income)	157	(6,972)
Income before income taxes	4,705	14,904
Provision for income taxes	1,632	5,760
Net income	$ 3,073	$ 9,144
PER SHARE DATA:		
Net income per common share		

Basic	$ 0.11	$ 0.34
Diluted	$ 0.11	$ 0.34
Weighted-average number of shares		
Basic	27,090	26,625
Diluted	27,970	27,134

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)

	Three months ended March 31,	
	2014	**2013**
Net income	$ 3,073	$ 9,144
Other comprehensive income:		
Amortization of prior service costs and losses	316	386
Foreign currency translation adjustment	57	35
Total other comprehensive income	373	421
Comprehensive income	$ 3,446	$ 9,565

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

2

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Unaudited (In 000 s)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,864	$ 1,957
Accounts receivable, net	138,453	120,932
Prepaid expenses	15,424	13,401
Deferred tax asset, net	22,220	20,709
Other current assets	10,554	9,919
Total current assets	188,515	166,918
Property and equipment, net	165,964	170,114
Assets held-for-sale	3,379	1,129
Goodwill	32,955	32,955
Intangibles, net	15,792	16,149
Non-current deferred tax asset, net	28,255	31,401
Other assets	8,290	8,583
Total assets	$ 443,150	$ 427,249
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	$ 2,069	$ 8,692
Current maturities of capital lease obligations	678	1,888
Accounts payable	12,143	10,248
Independent affiliates and independent owner-operators payable	20,850	14,398
Accrued expenses	33,831	30,580
Environmental liabilities	3,449	3,818
Accrued loss and damage claims	9,541	8,532
Total current liabilities	82,561	78,156
Long-term indebtedness, less current maturities	379,529	369,730
Capital lease obligations, less current maturities	407	2,995
Environmental liabilities	4,479	4,479
Accrued loss and damage claims	11,263	10,747
Other non-current liabilities	16,158	17,393
Total liabilities	494,397	483,500

Commitments and contingencies Note 14

SHAREHOLDERS DEFICIT		
Common stock, no par value; 49,000 shares authorized; 29,009 issued and 27,401 outstanding at March 31, 2014 and 28,779 issued and 27,203 outstanding at December 31, 2013	443,882	441,877
Treasury stock, 1,608 shares at March 31, 2014 and 1,576 shares at December 31, 2013	(11,004)	(10,557)
Accumulated deficit	(267,432)	(270,505)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(27,104)	(27,477)
Total shareholders deficit	(51,247)	(56,251)
Total liabilities and shareholders deficit	$ 443,150	$ 427,249

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 30, 2014 and 2013

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, 2012	28,102	(879)	$ 437,192	$ (5,849)	$ (228,467)	$ (189,589)	$ (31,752)	$ 25	$ (18,440)
Net income					9,144				9,144
Issuance of restricted stock	242								
Forfeiture of restricted stock				(4)					(4)
Amortization of restricted stock			481						481
Amortization of stock options			526						526
Stock option exercises	67		181						181
Purchases of treasury stock		(483)		(3,428)					(3,428)
Amortization of prior service costs and losses (pension plans), net of tax							386		386
Foreign currency translation adjustments, net of tax							35		35
Balance, March 31, 2013	28,411	(1,362)	$ 438,380	$ (9,281)	$ (219,323)	$ (189,589)	$ (31,331)	$ 25	$ (11,119)

Balance, December 31, 2013	28,779	(1,576)	$ 441,877	$ (10,557)	$ (270,505)	$ (189,589)	$ (27,477)	$	$ (56,251)
Net income					3,073				3,073
Issuance of restricted stock	19								
Forfeiture of restricted stock		(32)		(447)					(447)
Amortization of restricted stock			390						390
Amortization of stock options			281						281
Stock option exercises	211		1,334						1,334
Amortization of prior service costs and losses (pension plans), net of tax							316		316
Foreign currency translation adjustments, net of tax							57		57
Balance, March 31, 2014	29,009	(1,608)	$ 443,882	$ (11,004)	$ (267,432)	$ (189,589)	$ (27,104)	$	$ (51,247)

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,	
	2014	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,073	$ 9,144
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:		
Deferred income tax expense	1,635	5,330
Depreciation and amortization	5,495	6,693
Bad debt recoveries	(104)	(106)
Gain on disposal of property and equipment	(511)	(3,089)
Stock-based compensation	671	1,007
Amortization of deferred financing costs	592	558
Amortization of bond discount	49	54
Contingent consideration adjustment		(7,050)
Changes in assets and liabilities:		
Accounts and other receivables	(16,323)	(10,456)
Prepaid expenses	(2,023)	(1,021)
Other assets	(1,400)	(251)
Accounts payable	(207)	1,143
Independent affiliates and independent owner-operators payable	6,452	2,302
Accrued expenses	3,320	4,783
Environmental liabilities	(369)	(540)
Accrued loss and damage claims	1,527	(182)
Other liabilities	(493)	(116)
Current income taxes	24	416
Net cash and cash equivalents provided by operating activities	1,408	8,619
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(10,456)	(7,413)
Trojan purchase price adjustment		(857)
Proceeds from sales of property and equipment	2,846	8,789
Net cash and cash equivalents (used in) provided by investing activities	(7,610)	519
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(1,074)	(1,206)
Principal payments on capital lease obligations	(249)	(648)
Proceeds from revolver	68,800	46,700

Payments on revolver	(64,600)	(54,600)
Payments on acquisition notes	(200)	(421)
Deferred financing costs	(4)	(21)
Change in book overdraft	2,102	2,802
Purchases of treasury stock		(3,428)
Proceeds from exercise of stock options	1,334	181
Net cash and cash equivalents provided by (used in) financing activities	6,109	(10,641)
Net decrease in cash and cash equivalents	(93)	(1,503)
Cash and cash equivalents, beginning of period	1,957	2,704
Cash and cash equivalents, end of period	$ 1,864	$ 1,201
Supplemental Disclosure of Cash Flow Information		
Cash paid (received) during the period for:		
Interest	$ 1,592	$ 1,725
Income Taxes	62	(43)

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

5

Table of Contents

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 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, (vi) the term QCER refers collectively to our wholly-owned subsidiary, QC Energy Resources, Inc., a Delaware corporation, and its wholly-owned subsidiaries, QC Energy Logistics, LLC, a Delaware limited liability company, QC Energy Resources, LLC, a Delaware limited liability company, QC Energy Resources Northwest, LLC, a Delaware limited liability company, and QC Energy Resources Texas, LLC, a Delaware limited liability company, as well as our wholly-owned subsidiary, QC Environmental Services, Inc., a North Dakota corporation, and (vii) the term CLC refers to our wholly-owned subsidiary, Chemical Leaman Corporation, a Pennsylvania corporation.

We operate the largest chemical bulk tank truck network in North America through QCI. We are the largest provider of intermodal ISO tank container and depot services in North America through Boasso. We provide logistics services to the unconventional oil and gas industry 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 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, 2013 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, 2013, including the consolidated financial statements and accompanying notes.

Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any future period.

New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued an accounting pronouncement related to income taxes. Under this standard, entities are required to recognize that an unrecognized tax benefit be presented in the consolidated financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward except as follows: To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the consolidated financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

Table of Contents

Acquisitions and Dispositions

During 2013 and the first three months of 2014, we did not complete any acquisitions or dispositions of businesses or independent affiliates.

2. Variable Interest Entities

At March 31 2014 and December 31, 2013, we have 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 contracts with the 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.

This VIE is an independent affiliate that is directly engaged in the dry bulk and chemical transportation business through the management of trucking terminals in the North East region of the U.S. We are involved with this 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 $3.1 million and $3.2 million at March 31, 2014 and December 31, 2013, respectively. These loans are secured by a second-priority lien on certain assets of the VIE.

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, 2014, the carrying value and fair value are as follows (in thousands):

Fair Value

	Carrying Value	
9.875% Second-Priority Senior Secured Notes due 2018 (2018 Notes)	$ 202,500	$ 220,978

The fair value of the revolving credit facility and term loan under our asset-based loan facility (the ABL Facility), which is variable rate debt, is estimated using a coupon rate on borrowings with similar maturities, current remaining average life to maturity, borrower credit quality, and current market conditions and approximates fair value. The fair value of the 2018 Notes is estimated using various techniques including recently executed transactions in securities of the issuer or comparable issuers, market price quotations (where observable), bond spreads, fundamental data relating to the issuer, and credit default swap spreads adjusted for any basis difference between cash and derivative instruments.

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.

We used a third-party appraisal for the fair value of our intangible assets. Refer to Note 4. Goodwill and Intangible Assets.

Table of Contents

4. Goodwill and Intangible Assets

Goodwill

We performed our annual impairment test in the second quarter of 2013 for all reporting units. For our chemical logistics reporting unit, we qualitatively assessed whether it was more likely than not that the respective fair value of this reporting unit was less than the carrying amount, including goodwill. We considered various qualitative factors, including macroeconomic conditions, relevant industry and market trends, cost factors, overall financial performance, other entity-specific events and events affecting the reporting unit that could indicate a potential change in the fair value of our reporting unit or the composition of its carrying values. We also considered the specific future outlook for the reporting unit based on our most recent forecasts. We determined that an impairment in our chemical logistics reporting unit was not likely and thus we were not required to perform a quantitative analysis. For the intermodal and energy logistics reporting units, we proceeded directly to the two-step quantitative impairment test. For the intermodal reporting unit, the calculated fair value substantially exceeded its carrying value. For the energy logistics reporting unit, the calculated fair value showed that the reporting unit s fair value was less than its carrying amount, indicating a potential impairment. Based on the second step of the quantitative impairment test, we concluded that the implied fair value of goodwill for the energy logistics reporting unit was less than its carrying amount, resulting in an impairment of goodwill of approximately $55.2 million recorded in the three months ending June 30, 2013. The remaining goodwill of the energy logistics reporting unit after the second quarter of 2013 impairment was approximately $17.6 million.

In the fourth quarter of fiscal 2013, we identified triggering events in our energy logistics reporting unit, which were the combination of the continued challenging market conditions, the recent financial performance, and decreases in the projected results as compared to prior periods, requiring an interim impairment test of goodwill. The decrease in recent financial performance and projected results was mainly due to poor performance and increased reorganizational costs. For the energy logistics reporting unit, the calculated fair value using the income approach and market approach, showed that the reporting unit s fair value was less than its carrying amount, indicating a potential impairment. Based on the second step of the impairment test, we concluded that the implied fair value of goodwill for the energy logistics reporting unit was less than its carrying amount, resulting in an impairment of goodwill of approximately $17.6 million in the three months ending December 31, 2013. There is no remaining goodwill for the energy logistics reporting unit after the fourth quarter 2013 impairment charge. We continue to evaluate indicators of impairment quarterly in accordance with FASB guidance. There were no indicators that a triggering event in our intermodal or chemical logistics reporting units had occurred as of the quarter ending March 31, 2014.

Goodwill within the intermodal and chemical logistics segments is as follows (in thousands):

	March 31, 2014	December 31, 2013
Intermodal	$ 31,410	$ 31,410
Chemical Logistics	1,545	1,545
Total	$ 32,955	$ 32,955

Intangible Assets

In 2013, our intangible assets included non-compete agreements, a service agreement, customer relationships and tradenames. We performed our annual impairment test in the second quarter of fiscal 2013 for the indefinite-lived intangible assets related to tradenames in the intermodal reporting unit and the energy logistics reporting unit. For the intermodal tradename of approximately $7.4 million as of June 30, 2013, the calculated fair value using the relief-from-royalty method of the income approach substantially exceeded its carrying value. During the second quarter of 2013, we recorded an impairment charge of approximately $0.5 million related to the definite-lived tradenames for the energy logistics reporting unit. This valuation was based on the discontinued use of the tradenames and lack of marketability, and resulted in a fully impaired tradename in the second quarter of 2013.

Similar to goodwill, in the fourth quarter of fiscal 2013, we identified the combination of the continued challenging market conditions, the recent financial performance, and decreases in the projected results as compared to prior periods as triggering events requiring an impairment test of the customer relationships and the service agreement related to our energy logistics reporting unit. For the energy logistics reporting unit, the calculated fair value using the income approach showed that the fair value of the customer relationships was substantially less than their carrying amount, indicating an impairment of approximately $17.1 million. The customer relationships and service agreement were fully impaired as a result of the fourth quarter of 2013 impairment test. We continue to evaluate indicators of impairment quarterly in accordance with FASB guidance. There were no indicators that a triggering event in any of our intermodal or energy logistics reporting units had occurred as of the quarter ended March 31, 2014.

Table of Contents

Intangible assets at March 31, 2014 are as follows (in thousands):

	Gross Book Value	Accumulated Amortization	Net Book Value	Average Lives (in years)
Tradename Intermodal	$ 7,400	$	$ 7,400	Indefinite
Customer relationships Intermodal	14,260	(6,673)	7,587	10-12
Non-compete agreements Intermodal and Energy Logistics	1,620	(815)	805	3-6
	$ 23,280	$ (7,488)	$ 15,792	

Of the net book value of intangibles of approximately $15.8 million at March 31, 2014, $15.1 million was allocated to our intermodal segment and approximately $0.7 million was allocated to our energy logistics segment.

Intangible assets at December 31, 2013 are as follows (in thousands):

	Gross Book Value January 1, 2013	2013 Additions(1)	Impairment	Accumulated Amortization	Net Book Value December 31, 2013	Average Lives (in years)
Tradename Intermodal	$ 7,400	$	$	$	$ 7,400	Indefinite
Tradename Energy Logistics	1,100		(521)	(579)		
Customer relationships (1)	33,410	1,000	(17,065)	(9,462)	7,883	10-12
Non-compete agreements	4,311			(3,445)	866	3-6
Service agreement	1,120		(942)	(178)		
	$ 47,341	$ 1,000	$ (18,528)	$ (13,664)	$ 16,149	

(1) Additions related to the on-boarding of a new independent affiliate.

Of the net book value of intangibles of approximately $16.1 million at December 31, 2013, $15.3 million was allocated to our intermodal segment and $0.8 million was allocated to our energy logistics segment.

Amortization expense for the three months ended March 31, 2014 and 2013 was $0.4 million and $1.1 million, respectively. Estimated amortization expense for intangible assets is as follows (in thousands):

2014 remaining	$ 1,063
2015	1,418
2016	1,413
2017	1,338

2018	1,218
2019 and thereafter	1,942
Total	$ 8,392

5. Long-term Indebtedness

Term Loan Facility

On June 14, 2013, our ABL Facility was amended to provide for a new $17.5 million senior secured term loan facility (Term Loan) which was fully funded on July 15, 2013. Borrowings under the Term Loan bear interest at a margin equal to 2.50% for base rate borrowings and 3.50% for LIBOR borrowings, with a potential step-down of 0.25% after 18 months if a senior secured leverage ratio is met. Obligations under the Term Loan mature on the earlier of June 14, 2016 or the date on which the ABL Facility terminates. Beginning no earlier than the 12-month anniversary of the Term Loan and no later than the 24-month anniversary of the Term Loan, we will be subject to mandatory repayment of the principal amount of the Term Loan in equal quarterly payments for the remainder of the maturity period. Borrowing availability under our ABL Facility was expanded to include additional eligible accounts receivable

and tractor and trailer equipment in conjunction with the new borrowing. We may voluntarily repay the outstanding amount under the Term Loan at any time without premium or penalty, other than customary breakage costs with respect to the LIBOR loans. As of March 31, 2014 and December 31, 2013, the balance of the Term Loan was $17.5 million. The interest rate on borrowings under the Term Loan at March 31, 2014 and December 31, 2013 was 3.7%.

We recorded $0.6 million in debt issuance costs relating to the Term Loan and are amortizing these costs over the term of the Term Loan.

July 2013 Notes Redemption

On July 15, 2013, we redeemed a portion of our 9.875% Second-Priority Senior Secured Notes due 2018 (2018 Notes) in the aggregate principal amount of $22.5 million. The redemption price for these 2018 Notes equaled 100% of the aggregate principal amount of $22.5 million, plus accrued but unpaid interest up to the redemption date, plus a 3.0% premium of $0.7 million. The redemption was funded with proceeds from the Term Loan together with borrowings under our ABL Facility. As of March 31, 2014, the balance of the 2018 Notes was $202.5 million. In the third quarter of 2013, $0.5 million of unamortized debt issuance costs related to this redemption were written off.

Table of Contents

6. Income Per Share

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

	Three months ended					
	March 31, 2014			March 31, 2013		
	Net income (numerator)	Shares (denominator)	Per-share amount	Net income (numerator)	Shares (denominator)	Per-share amount
Basic income available to common shareholders:	$ 3,073	27,090	$ 0.11	$ 9,144	26,625	$ 0.34
Effect of dilutive securities:						
Stock options		580			409	
Unvested restricted stock		122			91	
Unvested restricted stock units		178				
Stock warrants					9	
Diluted income available to common shareholders:	$ 3,073	27,970	$ 0.11	$ 9,144	27,134	$ 0.34

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

	Three months ended March 31,	
	2014	2013
Stock options	1,267	2,106
Unvested restricted stock	101	394
Unvested restricted stock units	388	

7. Stock-Based Compensation

On March 7, 2014, the Compensation Committee of the Board of Directors granted executives and certain employees 566,168 restricted stock units (RSUs) under our 2012 Equity Incentive Plan. Of these 566,168 RSUs, 375,584 RSUs are performance based and 190,584 are time-based RSUs. The performance RSUs are based on the achievement of multi-year financial objectives established by the Compensation Committee for a performance period from January 1, 2014 through December 31, 2016. The number of shares that may be earned from the performance RSUs is based upon a target number of shares, subject to minimum and maximum numbers of shares and certain performance criteria, with shares earned for performance between the minimum performance level and the maximum performance level calculated based on a linear interpolation. The time-based RSUs vest ratably on each anniversary of the grant date over a three-year period ending March 7, 2017.

Restricted stock and RSUs are measured at fair value at the time of issuance. Expense for restricted stock and time-based RSUs is recognized based on fair value on a straight-line basis over the vesting period. Expense for performance RSUs is recognized on a straight-line basis over the vesting period in an amount based upon our estimation of the probability that such fair value will be realized when performance criteria are satisfied.

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 vesting term of two to four years. 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.

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, 2014 (in thousands):

		Remaining years
Restricted stock units	$ 6,577	2.8
Stock options	1,696	2.2
Restricted stock	1,574	2.3
	$ 9,847	

These amounts do not include the cost of any additional awards, options or RSUs that may be granted in future periods or any changes in our forfeiture rate.

8. Employee Benefit Plans

We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover certain vested salaried participants and retirees (CLC Plan) and certain other vested participants and retirees under an expired 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 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 net periodic pension cost are estimated as follows (in thousands):

	Three months ended March 31,	
	2014	2013
Service cost	$ 42	$ 41
Interest cost	503	463
Amortization of prior service cost	24	24
Amortization of loss	292	362
Expected return on plan assets	(642)	(583)
Net periodic pension cost	$ 219	$ 307

We contributed $0.6 million to our pension plans during the three months ended March 31, 2014. We expect to contribute an additional $2.9 million during the remainder of 2014.

Multi-employer pension plans

At March 31, 2014, 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.

We do not currently intend to withdraw from the 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 $85.6 million, of which $79.8 million relates to the Central States Southeast and Southwest Areas Pension Plan.

Table of Contents

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.

9. Accumulated Other Comprehensive Loss

The components and changes to accumulated other comprehensive loss as of March 31 are as follows (in thousands):

	2014	2013
Foreign currency translation:		
Beginning balance	$ (1,061)	$ (1,180)
Net gain on foreign currency translation	57	35
Ending balance	$ (1,004)	$ (1,145)
Pension benefits:		
Beginning balance	$ (26,416)	$ (30,572)
Amortization of prior service cost (1)	24	24
Amortization of gain (1)	292	362
Ending balance	$ (26,100)	$ (30,186)
Total Accumulated Other Comprehensive Loss ending balance	$ (27,104)	$ (31,331)

(1) Prior service cost and actuarial gain are included as part of the Company s net periodic benefit cost. Refer to Note 8.

Reclasses out of Accumulated Other Comprehensive Loss were nominal.

10. 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. The restructuring plan consisted of various actions including termination of approximately 380 non-driver positions and the consolidation, closure or affiliation of underperforming company-operated 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 chemical logistics segment. As of March 31, 2014, we have approximately $1.5 million of restructuring charges included in accrued expenses on the Consolidated Balance Sheet which are expected to be paid through 2017.

In the three months ended March 31, 2014, we had the following activity in our restructuring accrual (in thousands):

	Balance at December 31, 2013	Payments	Balance at March 31, 2014
Restructuring costs	$ 1,582	$ (135)	$ 1,447

11. Segment Reporting

Reportable Segments

The Company has three reportable business segments for financial reporting purposes that are distinguished primarily on the basis of services offered. Historically, the Company included certain shared services and corporate expenses within its Chemical Logistics segment. As of March 31, 2014, the Company has allocated these items to Shared Services . The allocation represents a change in our segment measure as opposed to a change in operating or reportable segments. Shared Services consists of corporate and shared services overhead costs, including information technology, driver recruiting, accounting, stock-based compensation, pension, environmental and other corporate headquarters costs. Segment results for the 2013 quarterly periods were reclassified to conform to the current year presentation. Our segments are delineated as follows:

Chemical Logistics, which consists of the transportation of bulk chemicals primarily through our network that includes company-operated terminals and terminals operated by 27 independent affiliates, and equipment rental income;

Energy Logistics, which consists primarily of the transportation of fresh water, disposal water and crude oil for the unconventional oil and gas (UCO&G) market, through our network of company-operated terminals and terminals operated by 3 independent affiliates, and equipment rental income;

Table of Contents

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

Segment operating income reported in our segment tables excludes amounts such as depreciation and amortization, gains and losses on disposal of property and equipment, restructuring costs and impairment charges. Although these amounts are excluded from the reportable business segment operating income results, they are included in our reported Consolidated Statements of Operations. 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 data and a reconciliation to income before income taxes follow (in thousands):

	Three Months Ended March 31, 2014				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 114,623	$ 36,979	$ 18,954	$	$ 170,556
Service revenue	17,143	1,946	12,974	124	32,187
Fuel surcharge	27,052		4,692		31,744
Total operating revenues	158,818	38,925	36,620	124	234,487
Segment operating income (loss)	18,629	2,736	6,072	(10,351)	17,086
Depreciation and amortization	2,447	2,133	818	97	5,495
Other (income) expense	(948)	437			(511)
Operating income (loss)	17,130	166	5,254	(10,448)	12,102
Interest expense	1,688	4,150	1,513	13	7,364
Interest income	(118)	(6)			(124)
Other expense, net	157				157
Income (loss) before income taxes	$ 15,403	$ (3,978)	$ 3,741	$ (10,461)	$ 4,705

	Three Months Ended March 31, 2013				
	Chemical Logistics	Energy Logistics	Intermodal	Shared Services	Total
Operating Revenues:					
Transportation	$ 109,068	$ 36,930	$ 17,996	$	$ 163,994
Service revenue	16,374	3,921	13,140	19	33,454
Fuel surcharge	27,262	233	4,479		31,974
Total operating revenues	152,704	41,084	35,615	19	229,422

Segment operating income (loss)	20,411	2,714	6,668	(10,745)	19,048
Depreciation and amortization	2,762	3,001	808	122	6,693
Other (income) expense	(883)	220		(2,426)	(3,089)
Operating income (loss)	18,532	(507)	5,860	(8,441)	15,444
Interest expense	2,280	3,912	1,507	24	7,723
Interest income	(211)				(211)
Other income, net	(172)	(6,800)			(6,972)
Income (loss) before income taxes	$ 16,635	$ 2,381	$ 4,353	$ (8,465)	$ 14,904

Table of Contents

12. Income Taxes

At December 31, 2013, we had approximately $2.5 million of total gross unrecognized tax benefits. Of this total, $1.3 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, 2013 was $0.1 million related to tax positions for which it was 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, 2014, the net change to our total gross unrecognized tax benefit was a decrease of less than $0.1 million. Our total gross unrecognized tax benefit at March 31, 2014 was $2.4 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, 2013. The total amount accrued for interest and penalties at March 31, 2014 was $0.7 million.

We are subject to income tax in the U.S., Canada, and Mexico, as well as in multiple state jurisdictions. We believe we are no longer subject to U.S. federal income tax examinations for the years before 2007, to international examinations for years before 2008 and, with few exceptions, to state examinations before 2008.

The effective tax rates for the three months ended March 31, 2014 and 2013 were 34.7% and 38.6%, respectively. The effective tax rate for the three months ended March 31, 2014 differed from our statutory rate primarily due to the impact of a favorable state tax adjustment. The effective tax rate for the three months ended March 31, 2013 differed from our statutory rate primarily due to the impact of a favorable audit settlement.

13. Share Repurchase Program

On November 20, 2012, we announced a share repurchase program pursuant to which our Board of Directors authorized the repurchase of up to $15.0 million of our common stock in an open-ended repurchase program (the Repurchase Program). The Repurchase Program does not have an expiration date. Stock has been, and may in the future be, purchased pursuant to the Repurchase Program, from time to time, in the open market or through private transactions, subject to market conditions. Subject to applicable laws, repurchases under the Repurchase Program may be made at such times and in such amounts as we deem appropriate and may be made pursuant to Rule 10b5-1. We are not obligated to purchase any shares under the Repurchase Program and it can be discontinued at any time that we feel additional purchases are not warranted. As of March 31, 2014, we have repurchased approximately 1.2 million shares valued at $8.1 million under the Repurchase Program, with the authority to repurchase an additional $6.9 million of shares.

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 chemical logistics 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 current activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, wastewater from oil and gas wells and crude oil, which in many cases are classified as hazardous materials or hazardous substances. The energy logistics business operates disposal wells for non-conventional oil drilling wastewater. In addition, our former tank wash business (which was sold in 2009) and the remaining limited tank wash activities we continue to conduct, involve the generation, storage, discharge and disposal of wastes that may contain 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.

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: (1) assure that such obligations will not be incurred in the future, (2) predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or (3) 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. It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, we believe that our ultimate liability arising from such environmental matters, taking into account the reserves described below, should not be material to our business or financial condition. As of March 31, 2014 and December 31, 2013, we had reserves in the amount of approximately $7.9 million and $8.3 million, respectively, for all environmental matters, of which the most significant are presented and discussed below.

	Number of Sites		Reserves (in millions)	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Multi-party sites	17	17	$ 1.4	$ 2.1
Sole party major sites:				
Bridgeport, New Jersey	1	1	3.9	3.6
William Dick, Pennsylvania	1	1	0.7	0.7
Other Properties	7	7	1.9	1.9
Total	26	26	$ 7.9	$ 8.3

The following descriptions of environmental matters include estimates for future expenditures that we believe are probable and are reasonably estimable. The estimate of the range of reasonably possible costs is less certain than the estimates upon which the reserves are based, and the estimated high ends of the ranges do not represent our maximum theoretical liability.

Changes to the environmental reserves are reflected 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 March 31, 2014.

Multi-Party Sites

At 17 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 17 sites, we are 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 2 of the 17 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. At 4 of the 17 sites, we have received notices about our potential liability; however, we do not have enough information upon which to estimate our potential liability at this time, and as a result we have not established a reserve for these matters. At 10 of the 17 sites, 2 are in settlement discussion phases, 4 are in long-term operation and maintenance, and 4 are in various stages of remedial investigation or remedial investigation action work. We have estimated all future expenditures for these 17 multi-party environmental matters to be in the range of $1.4 million to $3.8 million. As of March 31, 2014, we have reserved $1.4 million.

Sole Party Major Sites

At 9 of the 26 sites, we are alleged to be the only responsible party and are in the process of conducting investigations and/or remediation projects. Six of these projects relate to operations conducted by CLC and its subsidiaries prior to our acquisition of CLC in 1998. These six sites are: (1) Bridgeport, New Jersey; (2) William Dick, Pennsylvania; (3) Tonawanda, New York; (4) Scary Creek, West Virginia; (5) Charleston, West Virginia; and (6) East Rutherford, New Jersey. 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 6 CLC sites is discussed in more detail below. We have estimated future expenditures for these 9 properties to be in the range of $6.5 million to $16.7 million. As of March 31, 2014, we have reserved $6.5 million.

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 long-term operations in July 2011 and is in the operations and maintenance phase. The plant appears to be performing in accordance with its design criteria and meeting permit requirements. Based on the second annual groundwater report, contamination does not appear to be completely delineated and a limited number of additional monitoring wells are expected to be installed. Wetlands contamination has been remediated with localized restoration completed. Monitoring of the restored wetlands is required by USEPA and is on-going. USEPA has requested additional monitoring through 2017. 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. In late 2012, USEPA concluded that our additional required site investigation work for delineation purposes was complete. We have finished the preliminary engineering design phase for the thermal treatment of contaminated soils, submitted responses to EPA comments on the 95% design report, which included limited groundwater extraction with treatment through the existing plant, and submitted the draft of the 100% design report to USEPA for their review. Comments from USEPA on the 100% design report have been received and a response is being prepared. We have estimated aggregate expenditures for the Bridgeport location to be in the range of $3.9 million to $8.5 million. As of March 31, 2014, we have reserved $3.9 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 in both shallow and deep soil subzones. Soil piles generated from previous isolated discrete removal actions were subsequently treated on-site. During 2013, we received notification from USEPA that this work is now complete. The treated soil was used as backfill at the site. The fieldwork for further limited soil remediation consisting of targeted in-situ chemical treatment of the deep soil subzones at the site has been concluded, and no further remediation work in the deep soil subzones is expected. Negotiations with USEPA continue over remediation objectives for the final shallow soil subzone work. Limited soil sampling will be implemented before a final remedial work plan is approved for the shallow soil subzone. We have estimated aggregate expenditures for the William Dick location to be in the range of $0.7 million to $3.4 million. As of March 31, 2014, we have reserved $0.7 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. The state issued a record of decision in 2006. The remedial design work plan has been approved by the NYSDEC, and the remedial action phase is expected to begin during the second half of 2014.

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.

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 requires us to perform additional sampling to close the site. The sampling work phase that was negotiated with the State of West Virginia has been completed at the site, and a report was submitted to the West Virginia Department of Environmental Protection (WVDEP) in which we requested confirmation from the WVDEP that no additional sampling work will be necessary. Comments have been received and a response is being prepared.

East Rutherford, NJ: CLC completed its remediation including groundwater monitoring of a diesel fuel release at this former truck terminal property, which was subsequently sold but New Jersey Department of Environmental Protection (NJDEP) did not grant closure. Additional soil sampling and groundwater monitoring work will be necessary to close the site under the State s licensed site remediation professional program.

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 program, 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 NJDEP. In accordance with the report findings and with the concurrence of the NJDEP, remedial efforts included limited soil excavation at the site, deed recordation, placement of clean fill and the designation of a classification exception area for the groundwater. No further field remediation work is expected, and this site has entered a long-term monitoring phase.

We have estimated aggregate future expenditures for Tonawanda, Scary Creek, Charleston, East Rutherford and ISRA New Jersey to be in the range of $1.9 million to $4.8 million. As of March 31, 2014, we have reserved $1.9 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.

15. Guarantees

In conjunction with certain third-party financing vendors, we have established a lease purchase program to enable certain independent owner-operators and independent affiliates to lease tractors from those third-party vendors. As part of this program, we have agreed with those third-party vendors to guarantee certain lease payment obligations of participating independent owner-operators and independent affiliates in certain circumstances. The guarantees expire at various dates beginning in 2015 through 2020 and are for an average outstanding loan amount per tractor of approximately $0.1 million.

Our estimated aggregate maximum exposure under these lease guarantees was approximately $25.2 million as of March 31, 2014, which represents the total amount of the remaining lease payments on all outstanding guaranteed

leases as of that date. However, upon a default, we are likely to take actions to reduce or recoup our expenditures, including purchasing the tractor and reselling it to recover all or a portion of the amounts paid, or facilitating an arrangement between the third-party vendor and another independent owner-operator to assume the lease. In addition, up to 50% of any realized losses related to independent owner-operators managed by independent affiliates could be recouped from those independent affiliates. Therefore, we believe our potential exposure is substantially less than $25.2 million. We did not incur any material levels of default under these leases during the three months ended March 31, 2014.

16. Guarantor Subsidiaries

At and during the three months ended March 31, 2014, there were outstanding 2018 Notes that were issued by our subsidiaries, QD LLC and QD Capital. 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 as further described below.

The 2018 Notes are the 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, including the Term Loan, and obligations under certain hedging agreements, 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 guaranteed on a second-priority senior secured basis, jointly and severally, by QDI, subsidiary guarantors, and certain of our future U.S. restricted subsidiaries. The guarantees of the subsidiary guarantors are full and unconditional subject to customary release provisions for sales of a subsidiary in compliance with other provisions of the indenture for the 2018 Notes (the Notes Indenture), foreclosures of a pledge of the equity interests of the subsidiary, the right to designate a subsidiary as unrestricted under the terms of the Notes Indenture, the discharge of the 2018 Notes or the defeasance of the Notes Indenture. The guarantee of QDI is full and unconditional.

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 the subsidiary guarantors and QD Capital are 100% owned by QDI. The subsidiary guarantors are 100%-owned subsidiaries of QD LLC. 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.

QDI has no significant restrictions on its ability to receive funds from its subsidiaries. The ABL Facility, including the Term Loan, and the Notes Indenture 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 Term Loan and the 2018 Notes. We do not believe that additional financial or narrative information about QDI, QD LLC, QD Capital or the subsidiary guarantors would be material to evaluating the guarantees.

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

Condensed consolidating balance sheets at March 31, 2014 and December 31, 2013 and condensed consolidating statements of operations for the three-month periods ended March 31, 2014 and 2013, respectively, and the condensed consolidating statements of cash flows for each of the three-month periods

ended March 31, 2014 and 2013.

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

and Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2014

Unaudited (In 000 s)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 170,556	$	$	$ 170,556
Service revenue			32,172	15		32,187
Fuel surcharge			31,744			31,744
Total operating revenues			234,472	15		234,487
Operating expenses:						
Purchased transportation			157,615	4		157,619
Compensation			21,255			21,255
Fuel, supplies and maintenance			23,128	2		23,130
Depreciation and amortization			5,495			5,495
Selling and administrative		2	7,250	6		7,258
Insurance costs			6,263	8		6,271
Taxes and licenses			936			936
Communication and utilities			932			932
Gain on disposal of property and equipment			(511)			(511)
Operating (loss) income		(2)	12,109	(5)		12,102
Interest expense, non-related party, net		6,893	347			7,240
Interest (income) expense, related party, net		(6,893)	6,972	(79)		
Other expense, net	2		95	60		157
(Loss) income before income taxes	(2)	(2)	4,695	14		4,705
(Benefit from) provision for income taxes	(118)		1,825	(75)		1,632
Equity in earnings of subsidiaries	2,957	2,959			(5,916)	
Net income	$ 3,073	$ 2,957	$ 2,870	$ 89	$ (5,916)	$ 3,073
Total other comprehensive income, net of tax	373	373	316	57	(746)	373

Comprehensive income	$ 3,446	$ 3,330	$ 3,186	$ 146	$ (6,662)	$ 3,446

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

and Statements of Comprehensive Income (Loss)

Three Months Ended March 31, 2013

Unaudited (In 000 s)

	QDI	QD LLC & QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenues:						
Transportation	$	$	$ 163,994	$	$	$ 163,994
Service revenue			33,361	93		33,454
Fuel surcharge			31,974			31,974
Total operating revenues			229,329	93		229,422
Operating expenses:						
Purchased transportation			142,872			142,872
Compensation			26,470			26,470
Fuel, supplies and maintenance			27,122	7		27,129
Depreciation and amortization			6,693			6,693
Selling and administrative		51	7,410	18		7,479
Insurance costs			4,489	8		4,497
Taxes and licenses			832			832
Communication and utilities			1,095			1,095
Gain on disposal of property and equipment			(3,089)			(3,089)
Operating (loss) income		(51)	15,435	60		15,444
Interest expense, non-related party, net		7,404	108			7,512
Interest (income) expense, related party, net		(7,404)	7,506	(102)		
Other (income) expense, net			(7,018)	46		(6,972)
(Loss) income before income taxes		(51)	14,839	116		14,904
(Benefit from) provision for income taxes	(14)		5,748	26		5,760
Equity in earnings of subsidiaries	9,130	9,181			(18,311)	
Net income	$ 9,144	$ 9,130	$ 9,091	$ 90	$ (18,311)	$ 9,144
	421	421	386	35	(842)	421

Total other comprehensive income, net of tax						
Comprehensive income	$ 9,565	$ 9,551	$ 9,477	$ 125	$ (19,153)	$ 9,565

Table of Contents

QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Balance Sheet

March 31, 2014

Unaudited (In 000 s)

(Continued)

	QDI	QD LLC and QD Capital	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$	$	$ 1,764	$ 100	$	$ 1,864
Accounts receivable, net			138,451	2		138,453
Prepaid expenses		33	15,377	14		15,424
Deferred tax asset, net			22,220			22,220
Intercompany			421,020	94	(421,114)	
Other	(18)		10,614	(42)		10,554
Total current assets	(18)	33	609,446	168	(421,114)	188,515
Property and equipment, net			165,964			165,964
Assets held-for-sale			3,379			3,379
Goodwill			32,955			32,955
Intangibles, net			15,792			15,792
Non-current deferred tax asset, net	(2,121)		30,376			28,255
Investment in subsidiaries	(120,460)	391,576			(271,116)	
Intercompany	147,053	208,328	364,058	12,392	(731,831)	
Other assets		7,093	1,197			8,290
Total assets	$ 24,454	$ 607,030	$ 1,223,167	$ 12,560	$ (1,424,061)	$ 443,150
LIABILITIES AND SHAREHOLDERS (DEFICIT) EQUITY						
Current liabilities:						
Current maturities of indebtedness	$	$	$ 2,069	$	$	$ 2,069
Current maturities of capital lease obligations			678			678
Accounts payable			12,143			12,143
Intercompany	75,701		345,413		(421,114)	
			20,850			20,850

Independent affiliates and independent owner-operators payable						
Accrued expenses		8,904	24,928	(1)		33,831
Environmental liabilities			3,449			3,449
Accrued loss and damage claims			9,541			9,541
Total current liabilities	75,701	8,904	419,071	(1)	(421,114)	82,561
Long-term indebtedness, less current maturities		359,293	20,236			379,529
Capital lease obligations, less current maturities			407			407
Environmental liabilities			4,479			4,479
Accrued loss and damage claims			11,263			11,263
Intercompany		359,293	367,773	4,765	(731,831)	
Other non-current liabilities			16,158			16,158
Total liabilities	75,701	727,490	839,387	4,764	(1,152,945)	494,397
Shareholders (deficit) equity:						
Common stock	443,882	354,963	390,760	3,578	(749,301)	443,882
Treasury stock	(11,004)					(11,004)
Accumulated (deficit) retained earnings	(267,432)	(259,202)	18,751	5,174	235,277	(267,432)
Stock recapitalization	(189,589)	(189,589)		(55)		