

QUALITY DISTRIBUTION INC
Form 10-Q
May 10, 2005
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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, 2005

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.)
3802 Corporex Park Drive, Tampa, FL (Address of Principal Executive Offices)	33619 (Zip Code)

813-630-5826

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE USERS:

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

<u>Class</u>	<u>Outstanding at May 1, 2005</u>
Common Stock (no par value per share)	19,051,062

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QUALITY DISTRIBUTION, INC.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1 FINANCIAL STATEMENTS****Quality Distribution, Inc. and Consolidated Subsidiaries****Consolidated Statements of Operations**

(Unaudited in 000 s, Except Per Share Amounts)

	March 31,	
	2005	2004
OPERATING REVENUES:		
Transportation	\$ 133,214	\$ 127,857
Other service revenue	16,854	18,413
Fuel surcharge	11,070	4,915
Total operating revenues	161,138	151,185
OPERATING EXPENSES:		
Purchased transportation	110,983	100,774
Compensation	14,575	15,153
Fuel, supplies and maintenance	7,157	8,797
Depreciation and amortization	4,453	6,020
Selling and administrative	6,271	3,872
Insurance claims	3,802	4,327
Taxes and licenses	617	896
Communication and utilities	2,056	1,881
Gain on disposal of property and equipment	(28)	(23)
PPI class action settlement and related expenses	509	3,242
Total operating expenses	150,395	144,939
Operating income	10,743	6,246
Interest expense, net	6,313	5,217
Write-off of debt issuance costs	1,110	
Other expense	33	28
Income before income taxes	3,287	1,001
Provision for income taxes	(371)	(39)
Net income	\$ 2,916	\$ 962
PER SHARE DATA:		
Net income per common share		
Basic	\$ 0.15	\$ 0.05

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Diluted	\$ 0.15	\$ 0.05
Weighted average number of shares		
Basic	18,929	18,892
Diluted	19,302	19,121

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

Table of Contents**Quality Distribution, Inc and Subsidiaries****Consolidated Balance Sheet****(Unaudited - In 000 s)**

	March 31,	December 31,
	2005	2004
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 991	\$ 2,700
Accounts receivable, net	106,803	100,836
Current maturities of notes receivable from affiliates	581	839
Prepaid expenses	8,051	4,845
Prepaid tires	7,752	7,498
Other	2,393	2,071
	<u> </u>	<u> </u>
Total current assets	126,571	118,789
Property and equipment, net	114,561	116,540
Assets held-for-sale	723	1,170
Goodwill, net	131,363	131,363
Intangibles, net	1,314	1,371
Notes receivable from affiliates	566	402
Other assets	10,899	9,663
	<u> </u>	<u> </u>
Total assets	<u>\$ 385,997</u>	<u>\$ 379,298</u>
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current maturities of indebtedness	\$ 1,400	\$ 1,400
Accounts payable	16,654	14,508
Affiliates and independent owner-operators payable	14,253	9,983
Accrued expenses	47,488	44,253
Accrued loss and damage claim	30,044	33,670
Income taxes payable	1,930	2,551
	<u> </u>	<u> </u>
Total current liabilities	111,769	106,365
Long-term indebtedness, less current maturities	274,851	275,150
Environmental liabilities	12,921	14,415
Other non-current liabilities	14,401	14,463
Deferred tax liability	1,165	1,172
	<u> </u>	<u> </u>
Total liabilities	<u>415,107</u>	<u>411,565</u>
Commitments and contingencies (Note 8)		
Minority interest in subsidiary	1,833	1,833
STOCKHOLDERS DEFICIT		
Common stock, no par value; 29,000 shares authorized; 19,152 issued at March 31, 2005 and 19,152 issued at December 31, 2004	357,911	357,777
Treasury stock, 114 and 114 shares at March 31, 2005 and December 31, 2004	(1,326)	(1,326)
Accumulated deficit	(177,355)	(180,271)

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Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(18,041)	(18,042)
Stock purchase warrants	73	73
Unearned compensation, restricted stock	(1,047)	(1,077)
Stock subscriptions receivable	(1,569)	(1,645)
	<u> </u>	<u> </u>
Total stockholders' deficit	(30,943)	(34,100)
	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders' deficit	\$ 385,997	\$ 379,298
	<u> </u>	<u> </u>

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)**

	March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,916	\$ 962
Adjustments to reconcile to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization	4,453	6,020
Bad debt expense	633	320
Foreign currency transaction loss	11	
(Gain)/loss on disposal of property and equipment	(28)	(23)
Amortization of bond discount	51	
Amortization of restricted stock	164	144
Amortization of deferred financing costs	445	343
Write-off of deferred financing costs	1,110	
Minority dividends	36	36
Changes in assets and liabilities:		
Accounts and other receivable	(6,600)	(9,135)
Notes receivable from affiliates	94	(295)
Prepaid expenses	(3,206)	(2,847)
Prepaid tires	(385)	(107)
Other assets	(353)	79
Accounts payable and accrued expenses	(206)	7,494
Accrued loss and damage claims	(3,626)	(4,508)
Affiliates and independent owner-operators payable	4,270	3,256
Other liabilities	(63)	723
Current income taxes	(628)	(245)
	<u>(10,703)</u>	<u>(5,585)</u>
Net change in assets and liabilities		
Net cash (used in) provided by operating activities	<u>(912)</u>	<u>2,217</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(2,623)	(2,308)
Proceeds from life insurance		137
Proceeds from sales of property and equipment	799	213
	<u>(1,824)</u>	<u>(1,958)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on revolver	(5,800)	(1,000)
Proceeds from issuance of long-term debt	83,300	
Principal payments on long-term debt and capital lease obligations	(77,850)	(414)
Deferred financing fees	(2,759)	
Increase (decrease) in book overdraft	4,093	932
Minority dividends	(36)	(36)
Other stock transactions	76	17

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Net cash provided by (used in) financing activities	1,024	(501)
Net increase (decrease) in cash and cash equivalents	(1,712)	(242)
Effect of exchange rate changes on cash	3	50
Cash, beginning of year	2,700	955
Cash, end of period	\$ 991	\$ 763

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

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Quality Distribution, Inc. and Subsidiaries

Notes to Condensed 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, 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 and (iii) the term QD Capital refers to our wholly owned subsidiary QD Capital Corporation, a Delaware corporation.

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

The accompanying unaudited condensed, consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation have been included. For further information, refer to our Annual Report on Form 10-K/A for the year ended December 31, 2004, including the consolidated financial statements and accompanying notes. Certain prior period amounts have been reclassified to conform to the current year presentation.

Operating results for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the entire fiscal year.

Goodwill and Intangible Assets

Intangible Assets

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Intangible assets consist of a \$1.0 million intangible pension plan asset and \$0.3 million of non-compete agreements. The non-compete agreements have lives ranging from 1 to 10 years. The customer lists and customer contracts acquired from a competitor have lives of 5 years. During 2003, \$2.2 million of intangible assets became fully amortized. Accumulated amortization of the remaining intangible assets was \$0.2 million and \$0.2 million at March 31, 2005 and December 31, 2004, respectively. The gross amount of intangible assets at March 31, 2005 and December 31, 2004 were \$1.7 million and \$1.7 million, respectively.

Amortization expense for the three months ended March 31, 2005 and 2004 was less than \$0.1 million and less than \$0.1 million, respectively. Remaining intangible assets, except the pension plan asset, will be amortized to expense for each full year as follows (in thousands):

2005	\$ 112
2006	105
2007	40
2008	40
2009 and after	

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Goodwill

Effective January 1, 2002, we adopted the provisions of SFAS 142, Goodwill and Other Intangible Assets. As a result of the adoption of SFAS 142, the amortization of goodwill ceased. Under SFAS 142, goodwill is subject to an annual impairment test as well as impairment assessments of certain triggering events. SFAS 142 requires us to compare the fair value of the reporting unit to its carrying amount to determine if there is a potential impairment. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill.

We selected the second quarter to perform our annual impairment test. We used a combination of discounted cash flows and EBITDA multiples to estimate the fair value of the reporting units. Projections for future cash flows were based on our recent operating trends. EBITDA multiples were derived from other comparable publicly traded companies. The discount rate used to discount cash flows was based on our weighted average cost of capital. No impairment was determined to have occurred as of June 30, 2004, since the calculated fair value exceeded the carrying amount. The factors used in deriving the estimate of the fair value included improving economic conditions, increasing revenues and operating income during 2004 and the knowledge that we were able to renegotiate our debt structure to extend the maturity.

Our goodwill assets as of March 31, 2005 and December 31, 2004 were \$131.4 million and \$131.4 million, respectively.

New Accounting Pronouncements

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. This legislation contains a number of changes to the Internal Revenue Code that may affect us. After a careful analysis of the law, we have determined that this Act will not have a material effect on our consolidated financial position and results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised in 2005), Share-Based Payments. SFAS No. 123(R) would require us to measure all employee stock-based compensation awards using a fair-value method and record such expense in our consolidated financial statements. The adoption of SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective the first fiscal year beginning after June 15, 2005. The effect of the adoption of SFAS No. 123(R) is expected to be comparable to the effect disclosed on a pro forma basis as a result of applying the current fair-value recognition provisions of SFAS No. 123 as shown in Note 4 herein.

Staff Accounting Bulletin 107 from the Securities and Exchange Commission was issued on March 29, 2005 and provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entity status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements, the classification of compensation expense, non-GAAP financial measures first-time adoption of Statement 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of Statement 123(R). We are in the process of analyzing this bulletin in order to determine its effects, if any, on our consolidated financial position and results of operations.

2. Comprehensive Income (Loss):

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Comprehensive income (loss) is as follows (in thousands):

	Three months ended	
	March 31,	
	2005	2004
Net income (loss)	\$ 2,916	\$ 962
Other comprehensive income:		
Foreign currency translation adjustments	1	34
Comprehensive income (loss)	\$ 2,917	\$ 996

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A reconciliation of the numerators and denominators of the basic and diluted earnings (loss) from continuing operations per earnings per share computations follows:

	March 31, 2005			March 31, 2004		
	Earnings (loss) from continuing operations	Shares	Per-share amount	Earnings (loss) from continuing operations	Shares	Per-share amount
(In 000 s except per share amounts)	(numerator)	(denominator)		(numerator)	(denominator)	
Basic income (loss) available to common shareholders:						
Net earnings (loss)	\$ 2,916	18,929	\$.15	\$ 962	18,892	\$.05
Effect of dilutive securities:						
Stock options		188				
Unvested restricted stock		14			6	
Stock warrants		171			223	
Diluted income (loss) available to common shareholders:						
Net earnings (loss)	\$ 2,916	19,302	\$.15	\$ 962	19,121	\$.05

The effect of our warrants, which represent the shares shown in the table below are included in the computation of diluted earnings per share for each of the three-month periods ended March 31, 2005 and 2004. Stock options representing the shares shown in the table below are included in the computation of diluted earnings per share for the three-month periods ended March 31, 2005 and 2004. Restricted stock representing the shares shown in the table below are included in the computation of diluted earnings per share for each of the three-month periods ended March 31, 2005 and 2004.

The following shares were not included in the calculation of diluted EPS because such inclusion would be anti-dilutive:

(In thousands)	For the three month period ended March 31,	
	2005	2004
Stock options	1,708	2,041

4. Stock-Based Compensation:

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

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The stock of QDI was not traded publicly prior to the IPO on November 13, 2003. The pro forma fair value of options granted during 2005, 2004 and 2003 (2002 is not applicable) are based upon the Black-Scholes option-pricing model using the following criteria:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Risk free rate	3.73%	3.62%	3.59%
Expected life	6 years	6 years	6 years
Volatility	64%	62%	28%
Expected dividend	nil	nil	nil

The pro forma fair value of stock options granted in 2005 was \$0.2 million, in 2004 was \$2.4 million and in 2003 it was \$8.2 million after adjusting for a change in the estimated forfeiture rate. This change in the forfeiture rate decreased the total amount of pro forma fair value of stock options issued in 2003 and 2004 by \$1.3 million and \$0.8 million, respectively, of which \$0.3 million is reflected as an increase to pro forma net income in 2005. No options were granted in 2002. At March 31, 2005, a total of 451,164 authorized shares remain available for granting under our 1998 and 2003 Stock Option Plans.

Had compensation cost been determined based upon the fair value at the grant date for awards under the option plans consistent with the method described in SFAS 123, our net income and net income per common share would have been as follows for the three months ended March 31:

	<u>Three months ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
Net income	\$ 2,916	\$ 962
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects of \$0 for all periods	(380)	(599)
Restricted stock compensation expense and stock option expense included in net income (loss) attributable to common stockholders as reported	164	144
Pro forma net income (loss) attributable to common stockholders	\$ 2,700	\$ 507
Income (loss) per common share:		
As reported basic	\$ 0.15	\$.05
Pro forma basic	\$ 0.14	\$.03
As reported diluted	\$ 0.15	\$.05
Pro forma diluted	\$ 0.14	\$.03

Due to the issuance of stock options representing 200,000 shares to an executive who started with us in fiscal year 2004, we recognized \$31,250 of compensation expense for the three-month period ending March 31, 2005 and will recognize approximately \$125,000 in compensation expense for each of the subsequent full three years.

5. Employee Benefit Plans

We maintain two noncontributory defined benefit plans resulting from a prior acquisition that cover certain full-time salaried employees and certain other employees under a collective bargaining agreement. 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. Assets of the plans are invested primarily in equity securities and fixed-income investments. Pension costs are funded in accordance with the provisions of the applicable law.

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

	Three months ended	
	March 31,	
	2005	2004
Service cost	\$ 68	\$ 69
Interest cost	670	686
Prior service cost	23	23
Amortization	256	171
Expected return on plan assets	(704)	(634)
Net periodic pension cost	\$ 313	\$ 315

We have contributed \$1.0 million during the three months ended March 31, 2005, and expect to pay \$3.5 million during the remainder of 2005.

6. 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, 2005 and 2004 is as follows (in thousands):

	Three Months Ended March 31, 2005			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	\$ 149,325	\$ 11,813	\$	\$ 161,138
Operating income	9,035	1,708		10,743
Depreciation and Amortization	4,097	356		4,453
Capital Expenditures	2,623			2,623
	As of March 31, 2005			
Identifiable Assets	362,841	23,156		385,997
	Three Months Ended March 31, 2004			
	U. S.	International	Eliminations	Consolidated
Total operating revenues	\$ 141,017	\$ 10,168	\$	\$ 151,185

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Operating income	5,162	1,084	6,246
Depreciation and Amortization	5,313	707	6,020
Capital Expenditures	2,296	12	2,308

As of December 31, 2004

Identifiable Assets	367,855	11,443	379,298
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7. Issuance of Senior Floating Rate Notes

On January 28, 2005, we consummated the private offering of \$85 million in new Senior Floating Rate Notes issued by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 98% of the face value of the notes due January 15, 2012, which will pay interest quarterly on January 15, April 15, July 15, and October 15. Interest will accrue at a floating rate per annum, reset quarterly, equal to LIBOR plus 4.5%. The net proceeds were used to repay approximately \$70 million of the term borrowings under our credit facility and a distribution to QDI, which in turn used such proceeds to redeem all outstanding \$7.5 million principal amount of outstanding Series B Floating Interest Rate Subordinated Term Securities due 2006 and the remaining balance was used for general corporate purposes, including the repayment of indebtedness under the revolving credit portion of our credit facility. The credit facility was amended to incorporate this reduction in the term loan portion of the facility and to modify the covenants.

In connection with the offering of the Notes, we incurred a pre-tax charge of approximately \$1.1 million resulting from the write-off of debt issuance costs associated with the term borrowings under the credit agreement to be prepaid with the net proceeds for the offering of the Notes.

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8. Commitments and Contingencies:

Environmental Matters

It is our policy and the policy of each of our subsidiaries to be in compliance 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.

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. Our tank wash and terminal operations engage in the creation, storage or discharge and proper disposal of wastewater that may contain hazardous substances, and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel and other petroleum 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 and Canadian federal and provincial 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.

Facility managers are responsible for environmental compliance at each operating location. Audits conducted by our staff assess operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities, and waste management. We may also, if circumstances warrant, contract with independent environmental consulting firms to conduct periodic, unscheduled, compliance assessments which focus on unsafe conditions with the potential to result in releases of hazardous substances or petroleum, and which also include screening for evidence of past spills or releases. Our staff includes environmental professionals who develop guidelines and procedures, including periodic audits of our terminals, tank cleaning facilities, and historical operations, in an effort to avoid circumstances that could lead to future environmental exposure.

As a handler of hazardous substances, we are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of such substances under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and Canadian laws. 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, nor predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, nor that such liabilities will not result in a material adverse effect on our financial condition, results of operations or our business reputation.

In addition, we may face liability for alleged personal injury or property damage due to exposure to chemicals and other hazardous substances at our facilities or as the result of accidents and spills. Although these types of claims have not historically had a material impact on our operations, a significant increase in these claims could materially adversely affect our business, financial condition, operating results or cash flow.

As the result of environmental studies conducted at our facilities or the third-party sites in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation.

We are currently responsible for remediating and investigating five properties under federal and state Superfund programs where we are the only responsible party. Each of these five remediation projects relates to operations conducted by CLC prior to our acquisition of and merger with CLC in 1998. The two most significant Superfund sites are:

Bridgeport, New Jersey

QDI is required under the terms of two federal consent decrees to perform remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with USEPA in May 1991 for the treatment of groundwater (operable unit or OU 1) and October 1998 for the removal of contamination in the wetlands (OU 3). In addition, we were required to assess the removal of contaminated soils (OU2).

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In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a 2 mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of groundwater contamination via chemical injection (in-situ treatment) and a local discharge. The treatment facility has been approved with construction to commence by the third quarter of 2005. The in-situ remedy is in the pilot stage and must go through the design phases before final approval is obtained. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate 7 acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004. However, due to the wet weather and problems with the equipment utilized, the project has been delayed. The existing remedial design lists already approved alternate clean-up methods that will be used may have to be modified to complete this work. Field work is expected to be re-started in May 2005. In regard to OU2, USEPA is now requiring a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the chemical injection (in-situ treatment) previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated expenditures to be in the range of \$11.2 million to \$16.2 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP (PADEP) and USEPA in October 1995 obligating it to provide a replacement water supply to area residents (OU1), treat contaminated groundwater (OU2) and perform remediation of contaminated soils (OU3) at this former wastewater disposal site. OU1 is complete. PADEP and USEPA had previously been unable to agree on the final interim remedy design for OU2; specifically the discharge location for the treated groundwater. We have projected an interim remedy, which involves the construction of a treatment facility and discharge locally. A preliminary engineering design, which includes a discharge to a local tributary, was submitted in August 2004 to USEPA and PADEP for their review and comment. Agency comments have been received and a pre-final design is now being prepared for submittal to the agency. Based on recent data showing reduction in site groundwater contamination due to natural attenuation and the more extensive handling and removal of contaminated soils, we believe that the groundwater project can be completed over the five-year term of this interim remedy. The agencies have approved an OU3 remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction (SVE). The OU3 remedy expanded in April 2004 to off-site shipment of contaminated soils because these soils were found to be incompatible with the thermal treatment unit, which started full-scale production in May 2004. We determined in June 2004 that we would incur increased expense due to the need to ship off-site additional contaminated soil that was found to be incompatible with the thermal treatment unit, the increased volume of soil subject to thermal treatment based on an increase in the lateral extent of contamination, and the discovery of buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third pond, which needed to be excavated and removed for disposal offsite. We also determined that the soils in pond three needed to be excavated to determine if they will be suitable for the originally planned SVE treatment. We are still in the process of excavating the pond three soils into discrete piles, analyzing and determining the best approach to treat these soil piles has been accomplished. Most of the soil piles can be treated on-site as originally planned. However, some modifications to the design will have to be made in order to treat a limited number of soil piles. We have estimated expenditures to be in the range of \$3.9 million to \$6.1 million.

Other Owned Property

Scary Creek, West Virginia: CLC received a clean up notice from the State authority in August 1994 requiring remediation of contaminated soils and groundwater at this former wastewater disposal facility. However, 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) and we are currently completing the originally planned remedial investigation. However, it appears that additional site investigation work will be required to completely delineate the extent of site contamination. Upon completion of the site investigation phase, a remedial feasibility study and design will be prepared to address contaminated soils, and, if applicable, groundwater. The expectation is that a remedy utilizing primarily in-situ treatment with limited soil removal will be conducted.

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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 are currently preparing a feasibility study with the expectation that we will conduct a remedy utilizing in-situ treatment, limited soil removal and monitored natural attenuation of the groundwater.

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Charleston, WV: CLC completed a remediation of a former drum disposal area in 1995 at its active truck terminal and tank wash site under the terms of a State hazardous waste permit. The State has required supplemental groundwater monitoring in connection with the same permit and we are performing the same and believe that no additional remediation will be required.

East Rutherford, NJ: CLC entered into a Memorandum of Agreement with the State of New Jersey on June 11, 1996 obligating it to perform a Remedial Investigation and Remedial Action with respect to a subsurface loss of an estimated 7,000 gallons of fuel oil at this active truck terminal and tank wash site. We have completed the recovery of free product and conducted groundwater monitoring and are awaiting final approval of a plan to terminate remedial action with contamination in place.

ISRA NJ 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 Industrial Sites Remediation Act, which requires such remediation following the sale of facilities after 1983. The former owner has agreed to take responsibility for one of the sites and the other two are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

UST Program: We have responsibility for ongoing remediation of former (closed) underground storage tanks (USTs) at current and former facilities. These projects typically involve removal of petroleum-contaminated soil and subsequent remediation of contaminated groundwater and groundwater monitoring. We do not expect to incur significant costs in connection with these projects.

We have estimated expenditures for these other owned properties to be in the range of \$3.0 million to \$7.0 million.

Other Environmental Matters

We have been named as a potentially responsible party (PRP) under CERCLA and similar state laws at 18 other multi-party sites.

We and our predecessors have been named in three civil actions seeking contribution for remediation at offsite treatment, storage and disposal facilities (TSDs) or privately owned properties. We have also received notices of potential liability at fifteen other TSDs and are negotiating with Federal, State and private parties on the scope of our obligations (if any) in connection with remedies at these sites. In addition, there are eight sites with respect to which we received information requests but have denied liability and there has been no demand for payment (considered inactive). Our financial projection is established with respect to those sites where a financial demand is made or an allocation of financial liability is reasonably ascertainable.

We have estimated expenditures for these other environmental matters to be in the range of \$2.0 million to \$4.1 million.

Recently, we were notified of potential liabilities involving the Lower Passaic River Study Area in New Jersey and the Malone Superfund Site in Texas. We will be participating in the studies of these two sites to determine site remediation objectives, goals and technologies. Since the overall liability cannot be estimated at this time, we have set reserves for only the remedial investigation phase at the two sites.

We were also recently notified of our potential liability for remedial measures to be undertaken by the EPA at the Mobile Tank Wash Facility Superfund Site in Mobile, Alabama. Liability cannot be estimated at this time. We have asserted claims against the site owner (currently in bankruptcy) and the owner's insurers.

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 are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. As of March 31, 2005 and December 31, 2004, we had reserves in the amount of \$24.0 million and \$25.6 million, respectively for all environmental matters discussed above.

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There can be no assurance that additional sites for which we are responsible will not be discovered, nor that violations by us of environmental laws or regulations will not be identified or occur in the future, or that environmental, health and safety laws and regulations will not change in a manner that could impose material costs on us.

The activity in the environmental liability reserves is as follows at March 31, 2005 (in thousands):

	<u>2005</u>
Reserve at beginning of year	\$ 25,598
Payments	(1,567)
Additions	
Reserve at end of period	<u>\$ 24,031</u>

The balances presented include both long term and current environmental reserves, of which \$11.1 million and \$11.2 million is included in accrued expenses in the Consolidated Balance Sheet at March 31, 2005 and December 31, 2004, respectively. We expect these environmental obligations to be paid over the next five to seven years.

*Legal Matters*PPI Settlement

On January 18, 2005, we signed Memoranda of Understanding to settle two shareholder class action lawsuits and a shareholder derivative demand stemming from our disclosure of irregularities at Power Purchasing, Inc. (PPI), a non-core subsidiary, on February 2, 2004.

The two previously-disclosed class action lawsuits, *Meigs v. Quality Distribution, Inc., et al.*, pending in the United States District Court for the Middle District of Florida, Tampa Division, and *Steamfitters Local 449 Pension & Retirement Security Funds v. Quality Distribution, Inc., et al.*, pending in the Circuit Court of the Thirteenth Judicial Circuit in and for Hillsborough County, Florida (the State Action), were each filed on behalf of a putative class of shareholders who allegedly purchased our common stock traceable to our November 6, 2003 initial public offering.

In exchange for broad releases from all claims that were or could have been asserted by shareholders in respect of QDI shares, and to eliminate the burden and expense of further litigation, we and our primary directors and officers liability insurer, on behalf of all defendants, have agreed to pay the class \$8,150,000, of which \$5,875,000 would be paid directly by the insurer and the balance of \$2,275,000 would be paid by us. We have also agreed to pay the State Action plaintiffs attorneys fees and expenses in an amount not to exceed \$600,000. We recorded a pre-tax charge of \$2.875 million in the fourth quarter of 2004 for these settlements. The \$8,150,000 and the \$600,000 are recorded in Accrued Expenses as the PPI class action settlement. The \$5,875,000 is recorded in Accounts Receivable as Insurance receivable PPI class action settlement.

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The settlements remain contingent on several factors, including completing and executing formal stipulations of settlement and approval by the state and federal courts. No aspect of the settlements constitutes an admission or finding of wrongful conduct, acts, or omissions. There can be no assurance that failure to approve the settlement will not have a material adverse effect on us.

Routine Legal Matters

Other than reported in this Note, in the Item 3 - Legal Proceedings of our Annual Report on Form 10-K/A for the year ended December 31, 2004 and in Note 20. Commitments and Contingencies to our audited consolidated financial statements contained in such Form 10-K/A, we are not currently a party to any material pending legal proceedings other than routine matters incidental to our business, and no material developments have occurred in any proceedings described in such Form 10-K/A.

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9. Guarantor Subsidiaries

The \$125 million of 9% Senior Subordinated Notes due 2010 issued by QD LLC and QD Capital and the \$85 million of Senior Floating Rate Notes due 2012 issued by QD LLC and QD Capital are fully and unconditionally guaranteed on a senior subordinated basis pursuant to guarantees by all of our direct and indirect domestic subsidiaries, (the Guarantors). In addition, we have fully and unconditionally guaranteed on a senior subordinated basis the 9% Senior Subordinated Notes and the Senior Floating Rate Notes. Each of our direct and indirect subsidiaries, including QD LLC, is 100% owned. All non-domestic subsidiaries including Levy Transport, Ltd. are non-guarantor subsidiaries. QD Capital has no material assets or operations. The Senior Floating Rate Notes are subordinate to the 9% Senior Subordinated Notes.

We conduct substantially all of our business through and derive virtually all of our income from our subsidiaries. Therefore, our ability to make required principal and interest payments with respect to our indebtedness depends on the earnings of subsidiaries and our ability to receive funds from our subsidiaries through dividend and other payments. The Guarantors are wholly owned subsidiaries of QD LLC and have fully and unconditionally guaranteed the 9% Senior Subordinated Notes and the Senior Floating Rate Notes on a joint and several basis.

We have not presented separate financial statements and other disclosures concerning the 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 the parent company, QD LLC, QD Capital, non-guarantor subsidiaries and combined guarantor subsidiaries presents:

Condensed consolidating balance sheets at March 31, 2005 and December 31, 2004 and condensed consolidating statements of operations and of cash flows for each of the three month periods ended March 31, 2005 and 2004, respectively.

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

Table of Contents**Consolidating Statements of Operations****Three Months Ended March 31, 2005****Unaudited - (In 000 s)**

	<u>QDI</u>	<u>QD LLC & QD Capital</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues:						
Transportation	\$	\$	\$ 132,815	\$ 399	\$	\$ 133,214
Other service revenue			16,629	225		16,854
Fuel surcharge			11,020	50		11,070
Total operating revenues			160,464	674		161,138
Operating expenses:						
Purchased transportation			110,952	31		110,983
Compensation			14,406	169		14,575
Fuel, supplies and maintenance			6,936	221		7,157
Depreciation and amortization			4,283	170		4,453
Selling and administrative			6,234	37		6,271
Insurance claims			3,802			3,802
Taxes and Licenses			605	12		617
Communication and utilities			2,056			2,056
PPI class action settlement and related expenses			509			509
(Gain)/loss on disposal of property and equipment			(28)			(28)
Operating income (loss)			10,709	34		10,743
Interest expense, net	(7)	6,475		(155)		6,313
Write-off of debt issuance costs			1,110			1,110
Other (income) expense			20	13		33
Income (loss) before taxes	7	(6,475)	9,579	176		3,287
Income tax (provision) benefit		481	(718)	(134)		(371)
Equity in earnings (loss) of subsidiaries	2,909	8,903			(11,812)	
Net income (loss)	\$ 2,916	\$ 2,909	\$ 8,861	\$ 42	\$ (11,812)	\$ 2,916

Table of Contents**Consolidating Statements of Operations****Three Months Ended March 31, 2004****Unaudited - (In 000 s)**

	<u>QDI</u>	<u>QD LLC & QD Capital</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues:						
Transportation	\$	\$	\$ 126,480	\$ 1,377	\$	\$ 127,857
Other service revenue			18,199	214		18,413
Fuel surcharge			4,832	83		4,915
Total operating revenues			149,511	1,674		151,185
Operating expenses:						
Purchased transportation			100,540	234		100,774
Compensation			14,603	550		15,153
Fuel, supplies and maintenance			8,320	477		8,797
Depreciation and amortization			5,664	356		6,020
Selling and administrative			3,818	54		3,872
Insurance claims			4,277	50		4,327
Taxes and licenses			843	53		896
Communication and utilities			1,856	25		1,881
PPI class action settlement and related expenses			3,242			3,242
(Gain)/loss on disposal of property and equipment			(23)			(23)
Operating income (loss)			6,371	(125)		6,246
Interest expense, net		5,167		50		5,217
Other (income) expense			20	8		28
Income (loss) before taxes		(5,167)	6,351	(183)		1,001
Income tax (provision) benefit		2,597	(2,604)	(32)		(39)
Equity in earnings (loss) of subsidiaries	962	3,532			(4,494)	
Net income (loss)	\$ 962	\$ 962	\$ 3,747	\$ (215)	\$ (4,494)	\$ 962

Table of Contents**CONSOLIDATING BALANCE SHEET**

March 31, 2005

(Unaudited - In 000 s)

	<u>QDI</u>	<u>QDI LLC & QD Capital</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 603	\$ 388	\$	\$ 991
Accounts receivable, net			106,608	195		106,803
Current maturities of notes receivable from affiliates			581			581
Prepaid expenses			8,029	22		8,051
Prepaid tires			7,700	52		7,752
Other			2,393			2,393
Total current assets			125,914	657		126,571
Property and equipment, net			112,318	2,243		114,561
Assets held-for-sale			723			723
Goodwill, net			131,363			131,363
Intangibles, net			1,314			1,314
Notes receivable from affiliates			566			566
Investment in subsidiaries	(15,598)	144,462			(128,864)	
Other assets		100,000	10,899		(100,000)	10,899
Total assets	\$ (15,598)	\$ 244,462	\$ 383,097	\$ 2,900	\$ (228,864)	\$ 385,997
LIABILITIES, MINORITY INTEREST, STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	\$	\$ 1,400	\$	\$	\$	\$ 1,400
Accounts payable			16,661	(7)		16,654
Intercompany	15,345	(16,191)	5,027	(4,181)		
Affiliates and independent owner-operators payable			14,254	(1)		14,253
Accrued expenses			47,330	158		47,488
Accrued loss and damage claims			30,044			30,044
Income taxes payable			476	1,454		1,930
Total current liabilities	15,345	(14,791)	113,792	(2,577)		111,769
Long-term indebtedness, less current maturities		274,851				274,851
Environmental liabilities			12,921			12,921
Other non-current liabilities			114,401		(100,000)	14,401
Deferred tax liability				1,165		1,165
Total liabilities	15,345	260,060	241,114	(1,412)	(100,000)	415,107

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Minority interest in subsidiary			1,833			1,833
Stockholders' equity (deficit):						
Common stock	357,911	176,041	102,136	7,629	(285,806)	357,911
Treasury stock	(1,326)					(1,326)
(Accumulated deficit)/retained earnings	(177,355)	15,989	55,914	(3,124)	(68,779)	(177,355)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(18,041)	(18,039)	(17,900)	(138)	36,077	(18,041)
Stock purchase warrants	73					73
Unearned compensation, restricted stock	(1,047)					(1,047)
Stock subscription receivable	(1,569)					(1,569)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity (deficit)	(30,943)	(15,598)	140,150	4,312	(128,864)	(30,943)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders' equity (deficit)	\$ (15,598)	\$ 244,462	\$ 383,097	\$ 2,900	\$ (228,864)	\$ 385,997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**CONSOLIDATING BALANCE SHEET**

December 31, 2004

(In 000 s)

	<u>QDI</u>	<u>QDI LLC & QD Capital</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$	\$	\$ 730	\$ 1,970	\$	\$ 2,700
Accounts receivable, net			100,755	81		100,836
Current maturities of notes receivable from affiliates			839			839
Prepaid expenses			4,845			4,845
Prepaid tires			7,446	52		7,498
Other			2,071			2,071
Total current assets			116,686	2,103		118,789
Property and equipment, net			114,120	2,420		116,540
Assets held-for-sale			1,170			1,170
Goodwill, net			131,363			131,363
Intangibles, net			1,371			1,371
Notes receivable from affiliates			402			402
Investment in subsidiaries	(18,539)	141,820			(123,281)	
Other assets		100,000	9,663		(100,000)	9,663
Total assets	\$ (18,539)	\$ 241,820	\$ 374,775	\$ 4,523	\$ (223,281)	\$ 379,298
LIABILITIES, MINORITY INTEREST, STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Current maturities of indebtedness	\$	\$ 1,400	\$	\$	\$	\$ 1,400
Accounts payable			14,504	4		14,508
Intercompany	15,561	(16,191)	3,090	(2,460)		
Affiliates and independent owner-operators payable			9,985	(2)		9,983
Accrued expenses			44,114	139		44,253
Accrued loss and damage claims			33,670			33,670
Income taxes payable			1,158	1,393		2,551
Total current liabilities	15,561	(14,791)	106,521	(926)		106,365
Long-term indebtedness, less current maturities		275,150				275,150
Environmental liabilities			14,415			14,415
Other non-current liabilities			114,463		(100,000)	14,463
Deferred tax liability				1,172		1,172
Total liabilities	15,561	260,359	235,399	246	(100,000)	411,565
Minority interest in subsidiary			1,833			1,833
Stockholders equity (deficit):						

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Common stock	357,777	176,012	108,394	7,629	(292,035)	357,777
Treasury stock	(1,326)					(1,326)
(Accumulated deficit)/retained earnings	(180,271)	13,080	47,053	(3,159)	(56,974)	(180,271)
Stock recapitalization	(189,589)	(189,589)		(55)	189,644	(189,589)
Accumulated other comprehensive loss	(18,042)	(18,042)	(17,904)	(138)	36,084	(18,042)
Stock purchase warrants	73					73
Unearned compensation, restricted stock	(1,077)					(1,077)
Stock subscription receivable	(1,645)					(1,645)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total stockholders' equity (deficit)	(34,100)	(18,539)	137,543	4,277	(123,281)	(34,100)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders' equity (deficit)	\$ (18,539)	\$ 241,820	\$ 374,775	\$ 4,523	\$ (223,281)	\$ 379,298
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2005****Unaudited - (In 000 s)**

	<u>QDI</u>	<u>QD LLC</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:						
Net income (loss)	\$ 2,916	\$ 2,909	\$ 8,861	\$ 42	\$ (11,812)	\$ 2,916
Adjustments for non-cash charges	(2,700)	200	(2,607)	170	11,812	6,875
Net Changes in assets and liabilities			(10,630)	(73)		(10,703)
Net cash provided by (used in) operating activities	216	3,109	(4,376)	139		(912)
Cash flows from investing activities:						
Capital expenditures			(2,623)			(2,623)
Proceeds from sales of property and equipment			799			799
Other						
Net cash used in investing activities			(1,824)			(1,824)
Cash flows from financing activities:						
Net proceeds (payments) on revolver		(5,800)				(5,800)
Proceeds from issuance of long-term debt		83,300				83,300
Principal payments of long-term debt and capital lease obligations		(77,850)				(77,850)
Deferred financing fees		(2,759)				(2,759)
Other			4,133			4,133
Net change in intercompany balances	(216)		1,937	(1,721)		
Net cash provided by (used in) financing activities	(216)	(3,109)	6,070	(1,721)		1,024
Net increase in cash and cash equivalents			(130)	(1,582)		(1,712)
Effect of exchange rate changes on cash			3			3
Cash, beginning of period			730	1,970		2,700
Cash, end of period	\$	\$	\$ 603	\$ 388	\$	\$ 991

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2004****Unaudited - (In 000 s)**

	<u>QDI</u>	<u>QD LLC</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:						
Net income (loss)	\$ 962	\$ 962	\$ 3,747	\$ (215)	\$ (4,494)	\$ 962
Adjustments for non-cash charges	(5,941)	452	7,479	356	4,494	6,840
Net Changes in assets and liabilities			(5,161)	(424)		(5,585)
Net cash provided by (used in) operating activities	(4,979)	1,414	6,065	(283)		2,217
Cash flows from investing activities:						
Capital expenditures			(2,296)	(12)		(2,308)
Proceeds from sales of property and equipment			213			213
Other			137			137
Net cash used in investing activities			(1,946)	(12)		(1,958)
Cash flows from financing activities:						
Net proceeds (payments) on revolver		(1,000)				(1,000)
Payment of debt obligations		(414)				(414)
Deferred financing fees						
Other			913			913
Net change in intercompany balances	4,979		(5,164)	185		
Net cash provided by (used in) financing activities	4,979	(1,414)	(4,251)	185		(501)
Net increase in cash and cash equivalents			(132)	(110)		(242)
Effect of exchange rate changes on cash			(58)	108		50
Cash, beginning of period			705	250		955
Cash, end of period	\$	\$	\$ 515	\$ 248	\$	\$ 763

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

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ from results discussed in the forward-looking statements, see Forward-Looking Statements and Certain Considerations contained in this Item 2.

Overview

We operate the largest dedicated bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenues of our closest competitor in our primary chemical bulk transport market in the U.S. The bulk tank truck market in North America includes all items shipped by bulk tank truck carriers and consists primarily of the shipping of chemicals, gasoline and food-grade products. We transport a broad range of chemical products and provide our customers with value-added services, including intermodal, transloading, tank cleaning, dry-bulk hauling, leasing and other logistic services. We extensively utilize third-party affiliate terminals and owner-operator drivers in our core bulk service network. Our light-asset-based operations enable us to minimize our capital investments and increase the flexibility of our cost structure, while providing superior localized customer service. We are a core carrier for many of the Fortune 500 companies engaged in chemical processing, including the Dow Chemical Company, Procter & Gamble Company, E.I. Dupont and PPG Industries, and we provide services to most of the top 100 chemical producers in the world with U.S. operations. We expect to grow as our customers continue to outsource more of their logistics needs to full-service carriers.

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, our market share, and the amount spent on tank truck transportation as opposed to other modes of transportation such as rail. The volume of shipments of chemical products are, in turn, affected by many other industries, including consumer and industrial products, automotive, paint and coatings, and paper, and tend to vary with changing economic conditions. Additionally, we also provide leasing, tank cleaning, transloading and warehousing, which are presented as other service revenue. We also broker insurance products for drivers and affiliates through an independent third party.

The principal components of our operating costs include purchased transportation, salaries, wages, benefits, annual tractor and trailer maintenance costs, insurance, technology infrastructure and fuel costs. We believe our use of affiliates and owner-operators provides a more flexible cost structure, increases our asset utilization and increases our return on invested capital. The expanded use of affiliates and owner-operator drivers results in a more variable operating cost business since affiliates and owner-operators are paid fixed, contracted percentages of revenue, which affords us some protection against a business decline and lower pricing. We believe that the entrepreneurial nature of our affiliate and owner-operator model enables us to achieve higher productivity and better cost control on an overall basis when compared to company-owned operations.

We have historically focused on maximizing cash flow and return on invested capital. Our affiliate program has greatly reduced the amount of capital that we need to maintain and grow our terminal network. In addition, the extensive use of owner-operators reduces the amount of capital needed to operate our fleet of tractors, which have shorter economic lives than trailers.

We believe the most significant factors to achieving future business growth are the ability to (a) recruit and retain drivers, especially given the new hours-of-service regulations that became effective in 2004, (b) add new affiliates, and (c) further expand our existing network by adding new customers and obtaining additional business from existing customers. Since March 31, 2004, seven affiliates have added 11 terminals to our network. These affiliates provided incremental revenues of \$5.1 million for the three months ended March 31, 2005.

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On July 13, 2004, we sold certain assets of Power Purchasing Inc. (PPI) including accounts, customer lists and insurance contracts. These assets were related to the business of offering insurance to individuals who are not owner-operators, affiliates and fleet owners doing business regularly with us (QDI Persons).

For the retained business, which encompasses the on-going transactions with QDI Persons, we entered into a three-year outsourcing agreement whereby a third party insurance brokerage company performs the administrative responsibilities for insurance-related services offered to QDI Persons. We receive a percentage of certain commissions, underwriting profits, administrative and other defined revenues related to the outsourced administrative responsibilities for insurance-related services. We are retaining certain assets and liabilities of PPI including the reserves established on the uninsured policies identified during the investigation of irregularities at PPI.

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Operating results for the three-month period ended March 31, 2004 include our orange juice transportation operations, which were sold in August 2004. The orange juice transportation operations generated \$2.4 million of revenues in the first quarter of 2004 and we also incurred \$1.2 million of start-up costs and initial operating losses related to our entry into this business. We also sold certain assets, primarily tractors and trailers related to the glass transportation business of Levy Transport, Ltd., in August of 2004. These operations were not material to our 2004 operating results.

Critical Accounting Policies and Estimates

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

Property and Equipment - Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value. Annual depreciable lives are 10-25 years for buildings and improvements, 5-15 years for tractors and trailers, 7 years for terminal equipment, 3-5 years for furniture and fixtures, and 3-10 years for other equipment. Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 5 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service, and any changes in the actual lives could result in material changes in the net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales or disposals, and any changes in the actual salvage values could also affect the net book value of these assets.

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

Goodwill - Goodwill is reviewed for impairment annually and whenever events or circumstances indicate that the book value of the asset may not be recoverable. We periodically evaluate whether events or circumstances indicate possible impairment. We identified three reporting units: transportation operations, insurance operations and Mexican operations. We allocated goodwill to the transportation operation as it principally resulted from the acquisition of Chemical Lehman Corporation (CLC) in 1998. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill. We performed our annual assessment during the second quarter of 2004. We used a combination of discounted cash flows and valuation of our capital structure to estimate the fair value. Projections for future cash flows were based on our recent operating trends. If actual cash flows turn out to be significantly less than projections, then the impairment analysis could change, possibly resulting in future impairment charges.

Deferred tax assets - We use the liability method of accounting for income taxes. If, on the basis of available evidence, it is more likely than not that all or a portion of the deferred tax asset will not be realized, the asset must be reduced by a valuation allowance. Since realization is not assured as of March 31, 2005, management has deemed it appropriate to establish a valuation allowance against the net deferred tax assets. Any change in the actual future results of operations could impact the valuation of the net deferred tax asset.

Environmental liabilities - We have reserved for potential environmental liabilities based on the best estimates of potential clean-up and remediation estimates for known environmental sites. We employ a staff of environmental professionals to administer all phases of our environmental programs and use outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. These cost projections are determined through previous experiences with other sites and through bids from third-party contractors. Management believes current reserves are reasonable based on current information.

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Accident claims reserves - We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, owner-operators and affiliates, and workers' compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of \$5 million per incident for property damage and \$1 million for workers' compensation for periods after September 15, 2002. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease, for cargo losses, and for pollution legal liability. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own safety department personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

Revenue recognition - Transportation revenues, including fuel surcharges, and related costs are recognized on the date the freight is delivered. Other service revenues, consisting primarily of lease revenues from affiliates, owner-operators and third parties, are recognized ratably over the lease period. Tank wash revenues are recognized when the wash is performed. Insurance brokerage revenues are recorded as a contractual percentage of premiums received ratably over the period that the insurance covers. We have recognized all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted by our customers.

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

Pension Plans - We maintain two noncontributory defined-benefit plans resulting from a prior acquisition that cover certain full-time salaried employees and certain other employees under a collective bargaining agreement. Both plans are frozen and, as such, no future benefits accrue. We record annual amounts relating to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions such as discount rates (5.5%) and assumed rates of return (7.50%). Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

The discount rate is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current investment policy target asset allocation is 60% equities and 40% bonds, and the current inflation assumption is 2.5%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. As required by GAAP in the United States, the effects of the modifications are amortized over future periods. Based on the information provided by our independent actuaries and other relevant sources, we believe that the assumptions used are reasonable.

Assumed discount rates and expected return on plan assets have a significant effect on the amounts reported for the pension plan. At December 31, 2004, our projected benefit obligation (PBO) was \$50.3 million. Our projected 2005 net periodic pension expense is \$1.2 million. A 1.0% decrease in our assumed discount rate to 4.5% would increase our PBO to \$56.2 million and increase our 2005 net periodic pension expense to \$1.5 million. A 1.0% increase in our assumed discount rate to 6.5% would decrease our PBO to \$45.2 million and decrease our 2005 net periodic pension expense to \$1.0 million. A 1.0% decrease in our assumed rate of return to 6.5% would not change our PBO and would increase our 2005 net periodic pension expense to \$1.6 million. A 1.0% increase in our assumed rate of return to 8.5% would not change our PBO and would decrease our 2005 net periodic pension expense to \$0.9 million.

New Accounting Pronouncements

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. This legislation contains a number of changes to the Internal Revenue Code that may affect us. After a careful analysis of the law, we have determined that this Act will not have a material effect on our consolidated financial position and results of operations.

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In December 2004, the FASB issued SFAS No. 123 (revised in 2005), Share-Based Payments. SFAS No. 123(R) would require the Company to measure all employee stock-based compensation awards using a fair-value method and record such expense in its consolidated financial statements. The adoption of SFAS No. 123(R) will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. SFAS No. 123(R) is effective the first fiscal year beginning after June 15, 2005. The effect of the adoption of SFAS No. 123(R) is expected to be comparable to the effect disclosed on a pro forma basis as a result of applying the current fair-value recognition provisions of SFAS No. 123 as shown in Note 4 to the unaudited financial statements herein.

Staff Accounting Bulletin 107 from the Securities and Exchange Commission was issued on March 29, 2005 and provides guidance related to share-based payment transactions with nonemployees, the transition from nonpublic to public entry status, valuation methods (including assumptions such as expected volatility and expected term), the accounting for certain redeemable financial instruments issued under share-based payment arrangements the classification of compensation expense non-GAAP financial measures, first-time adoption of Statement 123(R) in an interim period, capitalization of compensation cost related to share-based payment arrangements, the accounting for income tax effects of share-based payment arrangements upon adoption of Statement 123(R), the modification of employee share options prior to adoption of Statement 123(R) and disclosures in Management's Discussion and Analysis subsequent to adoption of Statement 123(R). We are in the process of analyzing this bulletin in order to determine its effects, if any, on our consolidated financial position and results of operations.

Results of Operations

The following table presents certain condensed consolidated financial information, as a percentage of revenue, for the three months ended March 31, 2005 and March 31, 2004:

	Three Months Ended March 31,	
	2005	2004
OPERATING REVENUES:		
Transportation	82.67%	84.57%
Other service revenue	10.46%	12.18%
Fuel surcharge	6.87%	3.25%
Total operating revenues	100.00%	100.00%
OPERATING EXPENSES:		
Purchased transportation	68.87%	66.66%
Compensation	9.05%	10.02%
Fuel, supplies and maintenance	4.44%	5.82%
Depreciation and amortization	2.76%	3.98%
Selling and administrative	3.89%	2.56%
Insurance claims	2.36%	2.86%
Taxes and licenses	0.38%	0.59%
Communication and utilities	1.28%	1.25%
(Gain) loss on disposal of property and equipment	-0.02%	-0.01%
PPI class action settlement and related expenses	0.32%	2.14%
Total operating expenses	93.33%	95.87%

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Operating income	6.67%	4.13%
Interest expense, net	3.92%	3.45%
Write-off of debt issuance costs	0.69%	0.00%
Other expense	0.02%	0.02%
Income before income taxes	2.04%	0.66%
(Provision) benefit for income taxes	-0.23%	-0.02%
Income from continuing operations	1.81%	0.64%

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Revenues. For the quarter ended March 31, 2005, revenues totaled \$161.1 million, an increase of \$10.0 million, or 6.6%, from revenues of \$151.2 million for the same period in 2004. Transportation revenue increased \$5.4 million, or 4.2%. Since March 31, 2004, seven affiliates added eleven new terminals providing us with approximately \$5.1 million of incremental revenue in the first quarter of 2005. The remainder of the increase is primarily attributable to rate increases offset by decreases in revenues associated with a reduction in the number of our loads delivered and a reduction in the number of miles driven. This increase was also offset by a \$1.0 million decrease in our transportation revenue from our Canadian subsidiary resulting from the sale of their glass and mining operations and \$2.4 million of revenue from the orange juice transportation business that was a part of our operations in the 2004 period but not the 2005 period.

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Other service revenues decreased \$1.6 million, or 8.5%. This reduction was primarily due to a \$1.2 million decrease in revenues at our PPI subsidiary resulting from lower premium revenues after the sale of certain assets of PPI. The fuel surcharge increased by \$6.2 million or 125.2% as a result of higher fuel prices.

Operating expenses. Purchased transportation increased by \$10.2 million or 10.1% due to higher revenues and the impact of several conversions of company terminals to affiliates during 2004. As terminals are converted, we reduce overhead expense as well as fuel, supplies and maintenance expense and increase purchased transportation expense, representing the affiliates' percentage split of revenues.

Compensation expense decreased \$0.6 million, or 3.8% primarily due to the sale of certain assets of PPI and the Levy glass division during the third quarter of 2004. Fuel, supplies and maintenance decreased \$1.6 million or 18.6% due to the conversion of company owned terminals to affiliates. Depreciation expense decreased \$1.6 million, or 26.0%, due primarily to certain trailers being transferred to held-for-sale, which halts depreciation on those items as well as a number of assets became fully depreciated at the end of 2004.

Selling and administrative expenses increased \$2.4 million, or 62.0%. This increase is attributable to a \$1.6 million increase in professional and other fees related to our annual audit and the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 and legal costs incurred in defending against various legal proceedings other than PPI and a \$0.5 million increase in our bad debt expenses.

Insurance expense decreased \$0.5 million, or 12.1%, due to the sale of the PPI assets and the outsourcing of the insurance-related services offered to QDI's affiliates, owner-operators, and fleet owners. PPI professional fees decreased \$2.7 million in the first quarter of 2005 since we are in the process of settling much of the litigation surrounding PPI, subject to state and federal court approval.

Operating income and margin. For the quarter ended March 31, 2005, operating income totaled \$10.7 million, an increase of \$4.5 million, or 72.0%, compared to operating income of \$6.2 million for the same period in 2004. The operating margin for the quarter ended March 31, 2005, was 6.7% compared to 4.1% for the same period in 2004 as a result of the above items.

Interest expense net. Interest expense increased by \$1.1 million or 21.0% in the first quarter of 2005 compared to the same period in 2004 as a result of the issuance of new debt with higher overall interest rates (which includes debt issuance costs as a component of interest expense) but with longer maturity dates.

Write-off of Debt Issuance Costs. We wrote off \$1.1 million of debt issuance costs associated with the \$70 million repayment of the term loan.

Income taxes. The provision for income taxes increased by \$0.3 million in the first quarter of 2005 compared to the same period in 2004 primarily due to state franchise taxes, foreign taxes and alternative minimum taxes.

Net income. For the quarter ended March 31, 2005, our net income was \$2.9 million compared to net income of \$1.0 million for the same period last year.

Liquidity and Capital Resources

The following summarizes our cash flows for the three months ended 2005 and 2004 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(In Thousands)	Three Months Ended	
	March 31,	
	2005	2004
Net cash (used) in / provided by operating activities	\$ (912)	\$ 2,217
Net cash used in investing activities	(1,824)	(1,958)
Net cash provided by / (used) in financing activities	1,024	(501)
Net increase/(decrease) in cash	(1,712)	(242)
Effect of exchange rate changes on cash	3	50
Cash at beginning of period	2,700	955
Cash at end of period	\$ 991	\$ 763

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Historically, our primary source of liquidity has been cash flow from operations and borrowing availability under our credit agreement. Our revolving credit agreement is due in November of 2008. Our primary cash needs consist of capital expenditures and debt service including our variable term loan due in 2009, our 9% senior subordinated notes due 2010 (Senior Subordinated Notes) and our Senior Floating Rate Notes due 2012 (Senior Floating Rate Notes) (which were issued in January 2005 and were used to pay off borrowings under our revolving credit facility, our Series B floating interest rate notes and to pay down our term loan). We incur capital expenditures for the purpose of replacing older tractors and trailers, purchasing new tractors and trailers, and maintaining and improving infrastructure. We have accrued \$24.0 million for environmental claims and \$39.2 million for loss and damage claims and the timing of the cash payment for such claims is uncertain. If our net cash provided by operating activities is insufficient to cover the payment of such claims then it may be necessary to use our revolving credit facility.

We used \$0.9 million from operating activities for the three month period ended March 31, 2005 compared to generating \$2.2 million for the comparable 2004 period. The \$3.0 million decrease in cash used in operating activities was primarily due to the utilization of cash for accounts payable offset in part by increased profitability.

Cash used in investing activities totaled \$1.8 million for the three month period ended March 31, 2005, compared to \$2.0 million used for the comparable 2004 period. The decrease of \$0.1 million is mainly the result of an increase in capital expenditures of \$0.3 million in 2005 versus 2004, the non-recurrence of \$0.1 million of life insurance proceeds in 2004 offset by an increase in 2005 of \$0.6 million in proceeds from asset dispositions.

Cash provided by financing activities increased to \$1.0 million during the three months ended March 31, 2005, compared to a net use of \$0.5 million for the same period in 2004 due primarily to the increase in book overdrafts offset by the cost of issuing our Senior Floating Rate Notes.

Off-Balance Sheet Arrangements

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

Contractual Obligations and Commitments

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at March 31, 2005, over the periods we expect them to be paid (dollars in thousands):