QUALITY DISTRIBUTION INC
Form 10-Q/A
July 13, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(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, 2012

or

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

For the transition period from to

Commission File Number: 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

Florida	**59-3239073**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 3, 2012, the registrant had 26,974,990 shares of Common Stock, no par value, outstanding.

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EXPLANATORY NOTE

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

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

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

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (In 000 s)

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

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

Unaudited (In 000 s)

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

Total liabilities and shareholders deficit	$ 330,797	$ 302,395

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Deficit

For the Three Months Ended March 31, 2012 and 2011

Unaudited (In 000 s)

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

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Unaudited (In 000 s)

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

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

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Quality Distribution, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

Reclassification

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

New Accounting Pronouncements

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

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

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

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

Acquisition and Dispositions

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

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

2. Variable Interest Entities

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

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

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

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

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3. Fair Value of Financial Instruments

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

Level 1 Quoted prices for identical instruments in active markets;

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

Level 3 Instruments whose significant inputs are unobservable.

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

Fair Value Measurements on a Nonrecurring Basis

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

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

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

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

4. Goodwill and Intangible Assets

Goodwill

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

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

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

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

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Intangible Assets

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

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

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

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

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

5. Income Per Share

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

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

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

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

6. Stock-Based Compensation

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

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

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

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

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

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

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

	Three months ended March 31,

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

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

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

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

7. Employee Benefit Plans

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

We use a December 31st measurement date for both of our plans.

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

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

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

Multi-employer pension plans

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

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

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

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

8. Restructuring

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

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

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

9. Segment Reporting

Reportable Segments

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

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

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

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

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

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

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

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

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

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

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Geographic Segments

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

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

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

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

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

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

(1) Includes property and equipment.

10. Income Taxes

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

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

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

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

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

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

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11. Redeemable Noncontrolling Interest

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

12. Common Stock Offering

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

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

13. Commitments and Contingencies

Environmental Matters

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

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

Reserves

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

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

Property Contamination Liabilities

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

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

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Bridgeport, New Jersey

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

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

William Dick, Pennsylvania

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

Other Properties

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

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

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

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

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

Other Legal Matters

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

14. Guarantor Subsidiaries

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

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

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

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

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

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

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

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

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

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

Condensed Consolidating Statements of Operations

Three Months Ended March 31, 2012

Unaudited (In 000 s)

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